FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING JUNE 30, 2017

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 manufacturing food, beverages, flavors and fragrances, pharma/nutraceuticals, cosmetics and personal care products. As of the date of this report, Frutarom operates 63 production sites, 78 research and development laboratories, and 100 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and markets and sells over 60,000 products to more than 30,000 customers in more than 150 countries and employs about 5,000 people throughout the world.

Frutarom operates in the framework of two main activities which comprise 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. In accordance with Company strategy, Frutarom's flavor activity has grown rapidly and profitably by combining organic growth and acquisitions, accounting in 2016 for approx. 79% of the Company's total core business and 74% 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 for food, natural antioxidants that help in providing solutions in the field of food protection, essential oils, specialty citrus products and aromatic chemicals. 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 an edge over its competitors. Most of the specialty fine ingredients in the fields of taste and health are natural products which enjoy a higher average rate of growth in demand than non-natural products. Frutarom in focused in recent years on continuing to expand the portfolio of natural products offered to customers, with particular emphasis on the field of natural, healthy and functional foods. Specialty Fine Ingredients activity accounted for 21% of the core business activity in 2016 and 19% of its overall sales.

- **Trade & Marketing** – in addition to its core businesses, 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 businesses by leveraging its global sales organization, supply chain, purchasing system and 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, Montana Food in 2014 and Piasa at the end of 2016, centers mainly on Central and Eastern Europe, Latin America and Israel. Sales from this activity accounted for 7% of total Frutarom turnover in 2016.

RAPID GROWTH STRATEGY – COMBINING RAPID AND PROFITABLE INTERNAL GROWTH WITH STRATEGIC ACQUISITIONS

Frutarom has adopted a strategy combining rapid and profitable internal growth by strengthening the R&D and innovation, supply chain and production, and sales and marketing platforms along with continuing to make strategic acquisitions and leveraging the many resulting synergies. In the framework of this strategy, Frutarom has focused in recent years on the following objectives:

- **Increasing the Share of the Flavors Activity** – The successful implementation of Frutarom's rapid and profitable growth strategy has allowed Frutarom to significantly increase the share of its Flavors activity, the more profitable of its activities, achieving a higher growth rate than that of the markets in which it operates. As part of the expansion of its Flavors activity, about 10 years ago Frutarom began a strategic campaign to gain market leadership as well in the field of savory taste solutions which is growing due to the rising standard of living along with changing lifestyles and consumer habits resulting in growing demand for processed and convenience foods. This is also being done through the acquisition of leading companies in their fields with unique solutions and strong positioning in strategic target markets. Since 2000 Frutarom's Flavors activity has grown at an average annual rate (CAGR) of 24%. In 2016 sales in the field of Flavors constituted about 74% of total Frutarom sales (as compared to 33% of total sales in 2000). The Company expects that the trend of internal growth of its Flavors activity will continue also by the addition of products and the offer of comprehensive solutions to the Company's customers that combine flavors with health solutions, natural colors and natural solutions for food protection along with the continued implementation of further strategic acquisitions and exploiting the abundant synergies inherent in them, including extensive cross-selling opportunities.

- **Developing New Products and Solutions Combining Taste and Health** – Frutarom's growth strategy is based on identifying the future trends in consumer preferences and in the food and beverage markets, and adjusting its activity accordingly to quickly provide its customers comprehensive solutions that address consumer demand and preferences. Recent years have seen a rapid shift by food and beverage companies to the use of natural flavors, ingredients and colors, with particular focus on functional foods and on reduced fat, sodium and sugar products, as well as clean-label products, that are viewed as having healthier and more nourishing and environmentally friendly qualities. Preferences of the billions of consumers throughout the world combined with the evolving of regulatory standards in many countries around the world limiting the use of certain materials and leading to improved nutritional properties in foods and beverages that result in manufacturers needing to employ innovative technologies and solutions based on natural products which Frutarom develops and produces contributes to growth. Consumer awareness towards proper and healthy nutrition has not compromised demand that products remain tasty despite less sugar and salt being used and the addition of healthy ingredients that often leave an aftertaste. Another notable trend in recent years has been an increase in the number of hours consumers spend outside the home and the resulting rise in demand for convenience foods and ready-made meals that are easy to prepare but also healthy and tasty. This trend is supported by the rise in the scope of disposable income for consumers and their willingness to increase their spending on processed foods and convenience products, and on products perceived as healthier. A continuing trend of demand by consumers for healthier and more natural food can be seen in developed markets, and increasingly in emerging markets as well. Frutarom has identified these trends and uniquely positioned itself as a supplier of comprehensive solutions combining taste and health. Maximizing the synergies between its varied activities enables Frutarom to offer its customers excellent scientifically-based taste solutions along with added health qualities, with emphasis on the use of natural ingredients. The combination of its various activities also allows Frutarom to provide its customers with solutions for improving texture and prolonging the shelf life of their products (important qualities for processed food manufacturers in the production of convenience food) based on the inclusion of innovative, natural ingredients which in many cases replace chemicals and substances that are considered less healthy. Most of these new products carry higher margins and therefore contribute both to sales growth and also towards improvement in the product mix and profitability.

- **Focus on Natural Products** – Frutarom is working towards developing and expanding its portfolio of natural products in response to consumer demand and to major trends in the global food market for healthier and more natural foods. This field is growing at a rapid pace and Frutarom's unique capabilities give it a competitive edge. In line with this strategy, Frutarom continues to expand the portfolio of specialty natural products that it offers its customers through internal R&D, through collaborations with universities, research institutes and startups, and through acquisitions. As part of the strategy of focusing on natural products with health-promoting attributes, in 2016 Grow, Nardi and Extrakt-Chemie were acquired and in 2015 Nutrafur and Vitiva were acquired. Frutarom further expanded its activity in natural products in recent years by also entering the natural food colors field (by acquiring Montana Food, Vitiva, and Ingrenat) and by substantially increasing its activity in the area of natural antioxidants that promote Food Protection. In addition, Frutarom added to and strengthened its activity in the field of specialty citrus products, an important natural raw material in the development and production of flavors and many food and beverage products, and established a citrus excellence center in Florida, one of the world centers for citrus (through its acquisitions of CitraSource and the activity of Scandia). Frutarom also increased its activity in the field of innovative natural 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 the Specialty Fine Ingredients Product Mix** – In recent years Frutarom has been taking steps to improve the product mix in its Specialty Fine Ingredients activity. Frutarom's R&D platform is successful in developing specialty innovative natural products targeting both the area of flavors and the area of health, and this contributes to growth in sales and improved profitability. The continued trend of acquiring companies in this field of activity is expected to contribute towards the continuing trend of growth in this activity. Frutarom continues to carry out its strategic plan of strengthening its diverse and innovative global infrastructures in natural ingredients extracts alongside a substantial increase in its production capacity.

- **Strategic Change in the Geographic Mix** – In recent years Frutarom has been implementing a strategy of geographic expansion in North America and emerging markets (Asia, Africa and South America) having higher rates of growth. As a result, while Frutarom sales have grown since 2010 by a factor of 2.9, sales at the same time in emerging markets grew by a factor of 4.6 such that sales in emerging markets made up about 43% of Frutarom sales[1] in the past year[2] compared with 27% in 2010. Over the same period of time sales in North America rose by a factor of 4.3, with flavors activity in North America notably increasing by a factor of 9.3 in the past six years. Sales in North America accounted for about 14% of overall sales in the past year compared with approx. 9% in 2010.

  The rapid growth of activity outside of Western Europe has led to sales in Western Europe in the past year (up by 85% since 2010) now constituting 37% of Frutarom's total sales compared with 51% in 2010.

  Frutarom’s acquisitions in emerging markets in 2016, including Wiberg which maintains activity in many emerging markets, AMCO in Poland, Nardi in Brazil, Piasa in Mexico, and the acquisition of Unique in South Africa, the signing of an agreement to purchase WFF in Vietnam at the beginning of 2017 and the acquisition of SDFLC in Brazil at the end of June 2017, have also contributed and will continue to contribute towards Frutarom’s accelerated growth and increase in sales and market share in these growing markets.

  Also contributing towards the accelerated growth in emerging markets were two acquisitions made in 2015, of Sonarome in India with activity also in Africa, and Inventive of Hong Kong with activity mainly in China and other East Asian countries,

1 On a pro-forma basis.
2 In the 12-month period ending June 30, 2017.

along with four acquisitions carried out in 2013 and 2014 (JannDeRee in South Africa, PTI in Russia, Aroma in Guatemala and Montana Food in Peru and Chile).

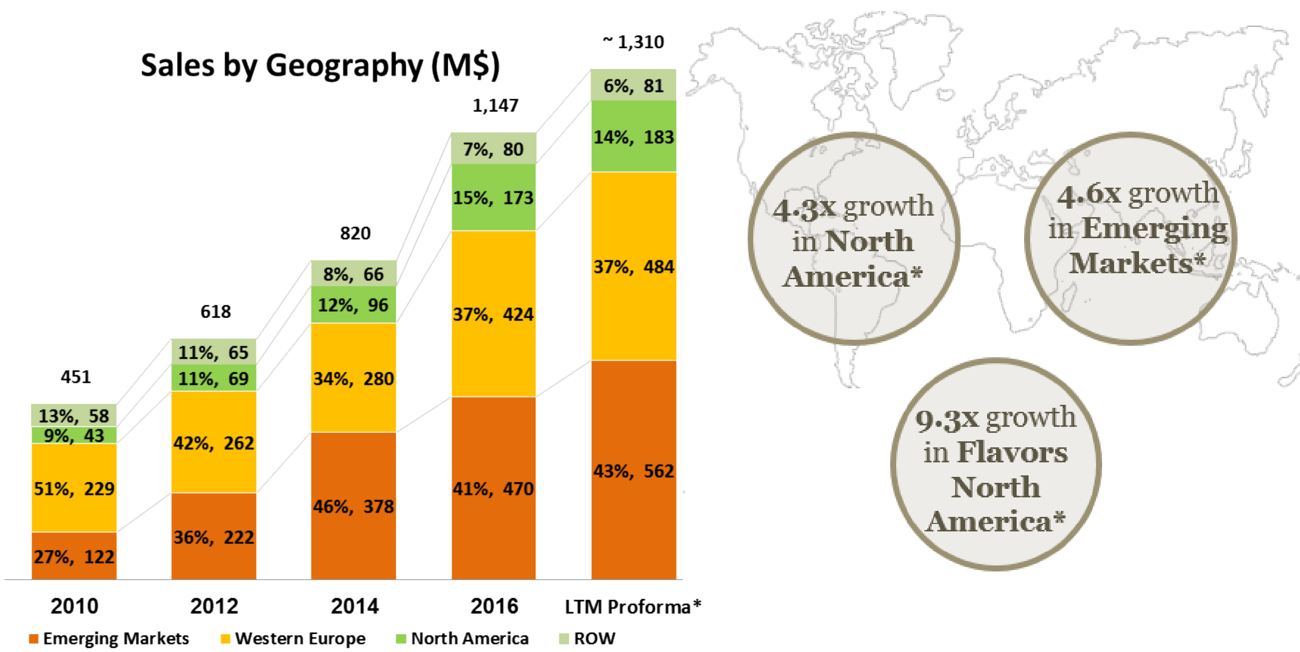
In the first quarter of 2016 Frutarom inaugurated its modern plant in South Africa which enables it to significantly strengthen and increase its activity in the sub-Saharan countries and provide its customers in the region with advanced R&D and applications services along with the benefits of efficient cutting edge means of production. Frutarom is working on merging and combining the activity of Unique, which was acquired at the beginning of 2017, with its activity in Africa.

As part of the growth strategy in East Asia, in 2016 Frutarom built a new state-of-the-art plant for flavors in China which features sophisticated laboratories for research, development and applications and which also provides Frutarom the ability it previously lacked to develop and produce savory flavors locally.

Frutarom's acquisitions in North America which include Hagelin, with sales also in Africa and Latin America, and CitraSource in 2013-2014, BSA, F&J and Scandia in 2015, and Wiberg, with its activity in the US and Canada, and Grow in 2016, strengthened Frutarom's position in North America and increased its sales in the region.

Frutarom is continuing to develop and expand 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. Frutarom will also continue, develop and expand its activity in the Western European markets, leveraging its broad product portfolio and continuing to capitalize on its many cross-selling opportunities and the continued execution of further strategic acquisitions.

<u>Progression of Sales Distribution by Geographic Region</u>:



* Sales in the 12 months ending June 30, 2017 assuming the acquisitions performed and completed since 2016 (including F&E) had been consolidated into the reports from July 1, 2016.

- **<u>Focus on Providing Quality Service and Product Development to Large Multinational Customers and Medium sized Local Customers</u>** – Frutarom continues to expand the services it provides its customers as well as its portfolio of products and solutions, for both large multinational customers and mid-size local customers, with special emphasis on the fast growing private label market.
    - In the market segment consisting of large multinational food and beverage manufacturers, Frutarom will continue to focus on providing innovative specialty products and on expanding its portfolio of natural taste and health solutions.
    - In the mid-size and local market segment, which makes up the greater part (about 60%)[3] of the food manufacturers market and includes the private label manufacturers, Frutarom offers the same high level of service as generally provided to large multi-national customers, with products and solutions tailored to the customer's specific requirements. Frutarom also offers mid-size and local customers as well as its private label customers, usually with more limited resources than large and multinational customers, assistance in the development of their products while providing marketing support and flexibility on minimum order quantities and delivery dates.

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

  From 2011 until the date of publication of this report Frutarom has made 38 strategic acquisitions, including 24 since the beginning of 2015, eight acquisitions in 2016 and five acquisitions since the beginning of 2017 which are integrated with its global operations and contribute and will contribute to the continued growth in sales and improvement in profits and margins through maximal utilization of the synergies they bring. Frutarom's acquisition strategy focuses on: (1) expanding its sales and market share in North America and 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, as specified above.

  Frutarom is working on the successful and fullest integration of the 24 acquisitions performed since the beginning of 2015 while 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

3 Datamonitor, Euromonitor , January 2016 and Frutarom's estimations

local management in each geographic area or of the relevant business activity assume the leading role in the merger processes. In addition, Frutarom has developed advanced dedicated computer systems that support the quick integration of acquired activities and their monitoring while realizing synergies in the areas of R&D, sales and marketing, purchasing, production and logistics.

Frutarom sees 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, part of which are already emerging and part expected to be reflected in its results in upcoming quarters.[4]

Following are brief summaries of the acquisitions performed since the beginning of 2017 until the date of 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 made since the beginning of 2017:

- **Exercise of an acquisition option in PTI** – On February 1, 2017 an option to purchase the approximately 25% balance of the share capital of Vantodio Holdings Limited ("**Vantodio**"), owner of the Russian group Protein Technologies Ingredients ("**PTI**") and that as of the same date the Company owns (indirectly) the entirety of Vantodio's issued and paid-up capital. The option was exercised in exchange for the overall sum of approximately US$ 40 million which was financed through bank credit. The acquisition of approximately 75% of Vantodio's capital was completed in November 2013 in exchange for a cash payment of US$ 50.3 million (which reflected a company value of US$ 67 million).

  Founded in 1996, PTI engages is the development, production and marketing of unique and innovative savory taste solutions, including flavor extracts, seasoning blends and functional ingredients for the food industry (including specialty protein-based ingredients which it manufactures itself using advanced technology), with special emphasis on processed meats and convenience foods. PTI also engages in trading and marketing activity under which, as part of its service and providing of overall solutions to its customers, it supplies ingredients that it does not itself manufacture. PTI has two production sites near Moscow and an R&D and marketing center in Moscow which includes development and applications labs, and about 20 distribution centers throughout Russia and other countries in the area.

4 The assessments stated in this section above, including on the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings constitute forward-looking statements as defined in the Securities Law, resting upon estimates by Company management, as of the date of this report, based on the potential synergies between the Company's activities and the acquired activities. Such assessments could fail to materialize, in full or in part, or materialize in a different manner, including materially different, than expected, as a result of unexpected developments that are not necessarily under the Company's control in the merging of activity connected with the human resources, R&D, salesforce, operations (including closure of manufacturing facilities and/or transfer of production between different facilities), logistics, technology, procurement, systems and the services of the merged activities and/or resulting from the realization of any of the risk factors as outlined in section 41 of Chapter A of the annual report. In addition, Frutarom could fail to capitalize on the expected synergies (including those whose purpose is cost savings) that are inherent in the acquisitions.

Following the acquisition, Frutarom became the leading manufacturer in Russia and the countries of the region of unique savory solutions and with one of the largest and most leading R&D, sales and marketing and distribution platforms in its field. Frutarom's advantage as a global company with an advanced R&D platform and broad and innovative product portfolio and local production has and does allow it to increase its market share with maximal capitalization on the trend among Russian customers to switch as much as possible to locally made products and the purchase of local raw materials. In addition, and according to its plan, since the acquisition the Company has integrated its activity with the activity of PTI in countries where both companies operate while exploiting the synergies between the activities, accelerating growth with the support of this ability to expand the supply of its products and capitalize on substantial cross-selling opportunities, both by expanding the customer base and expanding the product portfolio, improvement in service and delivery times to customers, along with the achievement operational savings. As a result, in the three years that have passed since the acquisition, PTI has exhibited impressive growth rates with substantial improvement in its profit margins.

For further information on the exercise of the acquisition option in PTI, see the Company's immediate report from February 1, 2017.

- **<u>Acquisition of Unique</u>** – On February 8, 2017 Frutarom purchased 100% of the shares in the South African companies Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited (collectively: "**Unique**") in exchange for approximately US$ 6.4 million (ZAR 90 million). The purchase agreement includes a mechanism for future consideration contingent on Unique's future business performance. The transaction was financed through bank debt.

  Unique, which was founded in 2001, engages in the development, production and marketing of flavors, with emphasis on savory flavors and on sweet taste solutions. Unique, which has grown in recent years at a rapid pace, has an R&D, production and marketing site in Pretoria, South Africa, near Frutarom's new South African site, and a wide customer base in South Africa and other important emerging markets of the Sub-Saharan region like Ghana, Malawi, Zimbabwe and Mozambique. Unique has a workforce of 64 people and its activity is synergetic to Frutarom's flavors activity in Africa. Frutarom is working towards merging the activities while exploiting the synergies, accelerating the growth with the support of its ability to expand the supply of its products and realize cross-selling opportunities, both by expanding the customer base and by expanding the product portfolio, while achieving operational savings. The merger is progressing successfully and according to plan.

  Unique's sales volume in the 12 months ending January 31, 2017 amounted to approximately US$ 9 million (approx. ZAR 131 million).

  For further information on the acquisition of Unique, see the Company's immediate report from February 9, 2017.

- **<u>Acquisition of René Laurent</u>** – On April 3, 2017 Frutarom purchased 100% of the share capital of the French company René Laurent ("**René Laurent**") in exchange for approximately US$ 21 million (€ 20 million). The transaction was financed through bank debt.

Founded in 1885 and with a very longstanding reputation as one of the world's oldest companies in flavors and specialty fine natural ingredients, René Laurent engages in the development, production and marketing of flavors and natural extracts. René Laurent has two production sites (one focusing on sweet flavors and the other on savory flavors), and an R&D center near Cannes, in Grasse, France, an area at the heart of the French flavors industry, plus a production site near Casablanca, Morocco, where natural herbal extracts activity is carried out mainly for the field of natural flavors and also the field of antioxidants for food protection. René Laurent has approximately 100 employees and its activity is synergetic with Frutarom's activity in the field of flavors as well as with Frutarom's activity in natural botanical extracts. Frutarom is working towards merging the activities while capitalizing on synergies and accelerating growth with the support of its ability to expand its supply of products and realize cross-selling opportunities, both by broadening the customer base and by expanding the product portfolio.

René Laurent's sales volume in the 12 months ending March 2017 is estimated at US$ 13.2 million (approx. € 12 million).

For further information on the acquisition of René Laurent, see the Company's immediate report from April 4, 2017.

- **Signing of an agreement for the purchase of a controlling share in WFF** – On April 5, 2017 Frutarom signed an agreement for the purchase of 60% of the share capital of the Vietnamese company Western Flavors Fragrances Production Joint Stock ("**WFF**") in exchange for approximately US$ 1.3 million (approximately VND 28.7 billion). The purchase agreement includes an option for purchasing the balance of WFF shares beginning four years from completion of the transaction at a price based on the future business performance of WFF during that period. The transaction is expected to be completed within the upcoming weeks and will be financed by independent means.

  WFF was founded in 2003, has 44 employees and engages in the development, production and marketing of flavors, mostly in the field of sweet flavors and with emphasis on the dairy, beverages, confectionery and baked goods segments. The company has a broad portfolio of products and around 300 customers from among the leaders in their fields in Vietnam. WFF has a plant and laboratory in southern Vietnam in Ho Chi Minh City and a sales and marketing office in Hanoi, in the country's northern region, and is one of a handful of flavors producers in the Vietnamese market with local R&D, applications, production and sales and marketing facilities. Frutarom intends to build a modern flavors plant in Ho Chi Minh City which will enable it to significantly expand its activity in the Vietnamese market and in the growing countries of the region[5].

  WFF's sales volume in the 12 months ending February 2017 totaled US$ 1.5 million (approx. VND 34 billion).

5 See footnote 2 above on forward looking statements.

For further information on the acquisition of WFF, see the Company's immediate report from April 6, 2017.

- **<u>Completion of acquisition of 100% of the shares in Nutrafur</u>** – On June 12, 2017 Frutarom purchased 20.92% of the share capital in the Spanish company Nutrafur S.A. ("**Nutrafur**") for approximately US$ 2.4 million (approx. € 2.1 million), thereby completing the acquisition of 100% of the shares in Nutrafur further to its purchase of approximately 79% of Nutrafur's share capital on September 3, 2015.

  Nutrafur specializes in the research and development, manufacture, and sales and marketing of specialty natural plant extracts bearing antioxidant properties or scientifically proven healthy qualities and supported by clinical studies for the food, pharma, nutraceutical and cosmetics markets. Nutrafur products have blended in well with Frutarom's portfolio of natural ingredient solutions and are helping Frutarom expand its lineup of natural products for both food and health products.

  Nutrafur's activity in the field of antioxidants, particularly for food preservation and the extension of shelf life based on natural components, has further established Frutarom's portfolio of solutions in this field which was substantially strengthened following the acquisitions in 2015 of Vitiva and Ingrenat which also have activity in this growing field. For further information on the acquisitions of these companies, see the Company's immediate reports from February 3 and April 26, 2015.

  For further information on the completing of the acquisition of 100% of Nutrafur's shares, see the Company's immediate report from June 13, 2017.

- **<u>Acquisition of control in SDFLC</u>** – On June 22, 2017 Frutarom purchased 80% of the share capital of the Brazilian company SDFLC Brasil Indústria E Comércio Ltda. ("**SDFLC**") in exchange for approximately US$ 29.5 million (approx. BRL 103 million) plus future consideration based on SDFLC's future business performance. Frutarom has the option to purchase the balance of SDFLC's shares beginning about two and a half years after the date of completion of the transaction at a price based on SDFLC's business performance during that period. The transaction was financed with bank debt.

  SDFLC was founded in 2001 in the city of Sete Lagoas in the Brazilian state of Minas Gerais and has a leading position in the market for taste solutions for ice creams and desserts in Brazil based on longstanding Italian tradition and technological specialization. SDFLC provides its customers support in product R&D built on a full and high quality portfolio of solutions for ice creams and desserts based on natural ingredients and includes: diverse taste solutions, texture solutions, coatings and glazing, as well as a unique diversity of innovative functional solutions (low sugar, low fat, low calorie and non-allergenic).

  SDFLC employs about 90 workers and serves around 2,250 customers in Brazil in the field of ice cream and desserts, including independent artisan ice cream makers, multinationals, food processing companies and leading dining chains, and this is by means of a sales and marketing network with wide-ranging professional knowledge and broad nationwide deployment. SDFLC has advanced and innovative R&D capabilities and proven abilities in developing innovative taste solutions for ice creams adapted to consumer demand and Brazilian tastes. The managers and founders of SDFLC continue serving in their roles along with continuing being SDFLC shareholders.

SDFLC is working on building a new production site which will include laboratories and automatic production facilities, enabling it to double production output, at an investment of approximately US$ 6 million. Construction of this production site is expected to be completed in 2018.

SDFLC's sales turnover in the 12 months ending May 2017 totaled approximately US$ 22 million (approx. BRL 72 million).

For further information on the acquisition of control in SDFLC, see the Company's immediate report from June 25, 2017.

Acquisitions made subsequent to the date of the financial report:

- **Exercise of an acquisition option in BSA** – On July 5, 2017 Frutarom purchased the approximately 5% balance of the share capital of the Canadian company Les Ingredients Alimentaires BSA Inc. ("**BSA**") for approximately US$ 2 million (approx. CAD 2.75 million) and thereby completed its acquisition of 100% of the shares in BSA, and this is further to the purchase of 95% of BSA's share capital on May 15, 2015.

  BSA was founded in 1989 and its main activity is the development, production and marketing of unique and innovative savory taste solutions that include seasoning blends and functional ingredients for the food industry, with particular focus on processed meats and convenience foods. BSA has a large and efficient production site in Montreal and around 150 employees. The acquisition of BSA, which has grown at a double-digit pace since being acquired while significantly improving its profit margins, has strengthened Frutarom's position in the field of savory in North America.

  For further information on the exercise of the acquisition option in BSA, see the Company's immediate report from July 6, 2017.

- **Acquisition of F&E** – On August 14, 2017 Frutarom signed an agreement for the purchase of 100% of the shares in the UK company Flavours and Essences UK Ltd. ("**F&E**"), for the sum of approximately US$ 19.5 million (£ 15 million) and a mechanism for future consideration based on F&E's future business performance over the period of three years from the purchase date. The transaction was completed upon signing and financed through bank debt.

  F&E, which was founded in 1998, engages in the development, production and marketing of flavors and natural colors. F&E operates a production site and R&D center in Blackburn, England, employs 41 people, and has a broad customer base in Europe, particularly in the UK and Ireland. F&E's activity is synergetic with Frutarom's activity in the field of flavors, activity which has grown in recent years by rates considerably higher than the market rate of growth, as well as with Frutarom's developing activity in the field of natural food colors.

F&E's founding owners and managers will continue contributing from their rich experience towards continued rapid and profitable growth of the activity.

Frutarom will drive at exploiting to the utmost the cross-selling opportunities inherent in this acquisition and will work towards expanding the product portfolio to F&E's existing customer base. In addition, Frutarom will take measures to achieve maximum commercial and operational efficiency from merging F&E's activity with its own activity in the UK.

According to F&E management reports, its sales turnover for the 12 months ending in July 2017 totaled approx. US$ 17.4 million (approx. £ 13.7 million) and it registered an average annual rate of growth for the past five years of over 20%.

For further information on the on the acquisition of F&E, see the Company's immediate report from August 15, 2017.

Frutarom is well positioned business-wise and competitively to continue implementing its rapid and profitable growth strategy also by executing further strategic acquisitions in its core business fields and main target markets. Frutarom's proven track record in successfully executing and integrating its acquisitions while tapping their inherent cross-selling opportunities and synergies, together with a strong acquisition pipeline, will allow the Company to continue meeting its strategic goals[6].

The consolidation trend in the industry where Frutarom operates is continuing. Frutarom continues to be among the market's leading and most active companies in performing acquisitions. Frutarom will continue investing substantial resources in locating and pursuing additional acquisitions which suit its strategy of rapid and profitable growth.

The Company believes that its robust equity structure, the strong cash flow it generates and the backing it enjoys from leading financial institutions will enable it to continue implementing its acquisitions strategy.

- **Increase in Profit and Profit Margins** – In recent years Frutarom has succeeded in attaining, along with revenue growth, a significant rise in profits and in gross and operating profits and margins. Frutarom strives and will continue to strive to strengthen its competitive abilities while raising its profits and margins by focusing mainly on the following objectives:

  - **Successful integration of acquisitions while maximizing synergies** – 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 acquisitions contribute and will keep contributing towards continued growth in Frutarom's sales and profits this year and in the coming years. The successful integration of the 24 acquisitions performed since the beginning of 2015 will also contribute towards the continuing trend of improvement in Frutarom's

6, 7 See footnote 2 above on forward looking statements.

results[7]. Following are highlights of the progress being made in the merging of companies recently acquired by Frutarom:

- The overall move to expand activity and production capacity through optimization and operational streamlining in the natural plant extracts platform of the Specialty Fine Ingredients division is progressing successfully and according to plan – a significant increase in production capacity of natural plant extracts following the acquisitions of Vitiva, Ingrenat and Nutrafur has provided for substantial streamlining, including the closure and sale of the Frutarom plant at North Bergen, New Jersey 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 manufacturing plants and for optimizing production between the various sites according to their varying technological extracting specializations while significantly boosting their operational efficiency. This has been joined by the acquisition of Extrakt-Chemie with significantly greater production capacity than utilized, for GMP pharma products as well. These actions, which will contribute to significant improvement in cost structure and competitive ability in the field of natural plant extracts, which is at the heart of Frutarom's growth strategy, are expected to bring about savings estimated at over US$ 6 million (on an annual basis) which will begin to emerge toward the end of this year[8].
- Following the acquisition of Wiberg, Frutarom has combined and streamlined its management, R&D, marketing, sales, procurement and production platforms in Germany and various countries to strengthen its market leadership position and achieve maximum operational efficiencies and savings which are estimated at over US$ 12 million (on an annual basis)[9] which already partly emerged in the first half of 2017 with the balance to gradually emerge during the second half of the year. The merger plan is progressing successfully, with focusing on retention of customers and key personnel in the merged activity. According to the merger plan framework, Frutarom's savory management in Germany, Austria, and other countries has been combined with Wiberg's, and all aspects of head office activity are being run from Wiberg's site in Salzburg, Austria. In addition, the closure and transfer of the activity of Frutarom's main production plant for savory products at Stuttgart, Germany to Wiberg's efficient plant in Germany has been completed. The merging of activities of the R&D, sales, marketing, IT, logistics and raw material purchasing platforms in the various plants and countries in Europe has and will continue in 2017, with focus put on maintaining the level of service, innovation and high quality to the Company's customers. These moves also allow Frutarom to significantly increase the supply of its products and technological solutions to existing customers and greatly expand the supply to new customers who joined following the acquisition.
- Frutarom's flavors activity in Poland has been merged with that of AMCO such that for the first time Frutarom has a local production site in Poland which allows it to improve its service and delivery times to its customers. In the third quarter of 2016 Wiberg's activity in Poland was also merged with AMCO's, and now the entire activity is being successfully carried out by AMCO.

8, 9 See footnote 2 above on forward looking statements.

- Transfer of production at Hagelin (acquired in 2013) from its New Jersey site to Frutarom's factory in Cincinnati and the merger of the flavors activity of F&J (acquired in 2015) with Frutarom's US flavors activity have be completed.
- Action continues being taken towards combine Piasa's activity with Frutarom's global activity based on, among other things, leveraging Frutarom's broad portfolio of savory solutions and other complementary areas, such as natural colors and antioxidants, exploiting cross-selling opportunities in the Mexican market, and combining Piasa's purchasing platform with Frutarom's global purchasing platform which will contribute towards improving Piasa's raw materials costs and accelerating its growth.
- Progress is being made merging Unique with Frutarom's South African activity while combining the management and R&D, sales, marketing and purchasing platforms. During 2018 production will be transferred from Unique's plant to Frutarom's recently-built modern plant in Johannesburg[10].
- Progress is being made merging René Laurent's R&D, sales, marketing and purchasing activities with Frutarom's flavors activity platform in Europe.
- Steps have begun being taken to integrate SDFLC with Frutarom's Latin American activity, supported by Frutarom's broad infrastructure for R&D and sales and marketing, along with its local and global and production activity in Brazil and other Latin American countries. SDFLC is now working on building a new production site which will include laboratories and automatic production facilities that will enable it to double production output. Completion of the new site, which is being built at an investment of approximately US$ 6 million, is expected in 2018.

o **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.

o **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.

o **Building up and strengthening the global purchasing system** – Frutarom continues to build and strengthen its global purchasing infrastructure, leveraging its significantly 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.

o **Resource optimization** – Frutarom is continuing to implement additional projects for combining and consolidating production sites and activities towards achieving utmost efficiency also in the areas of purchasing, logistics and supply chain which have been

10 See footnote 2 above on forward looking statements.

and will contribute over the coming years to strengthening its competitive position and improving its profits and margins. These actions, which as mentioned also include streamlining the savory operations in Europe following the Wiberg acquisition (expected to bring savings estimated at US$ 12 million a year) and streamlining of the natural plant extracts operations in the Specialty Fine Ingredients division (expected to bring savings estimated at US$ 6 million a year), should lead to operational savings on an annual basis in the range of US$ 20-22 million in relation to Frutarom's cost structure in the second quarter of 2016, which have been, are now, and will be gradually emerging over the course of 2017[11].

Frutarom is also continuing to work on building up and strengthening its global procurement platform while utilizing its purchasing power which has grown substantially in recent years, and moving towards purchasing raw materials in their source countries, mainly natural raw materials. The global procurement platform also contributed this quarter and will continue contributing to further improvement in Frutarom's profitability.

Frutarom expects that fulfilling its rapid and profitable growth strategy combining profitable internal growth with strategic acquisitions, along with the contribution from continuing fulfillment of streamlining processes and its improved cost structure, with maximum utilization of its sites around the world and strengthening of its global procurement platform, and the successful integration of the latest acquisitions made and those ahead, will result in the continuing trend of improvement in profits and profit margins. The Company anticipates that its strategic plan will lead to the reaching of its sales target of at least US$ 2 billion with an EBITDA margin of over 22% in its core businesses (assuming the current product mix) by 2020[12].

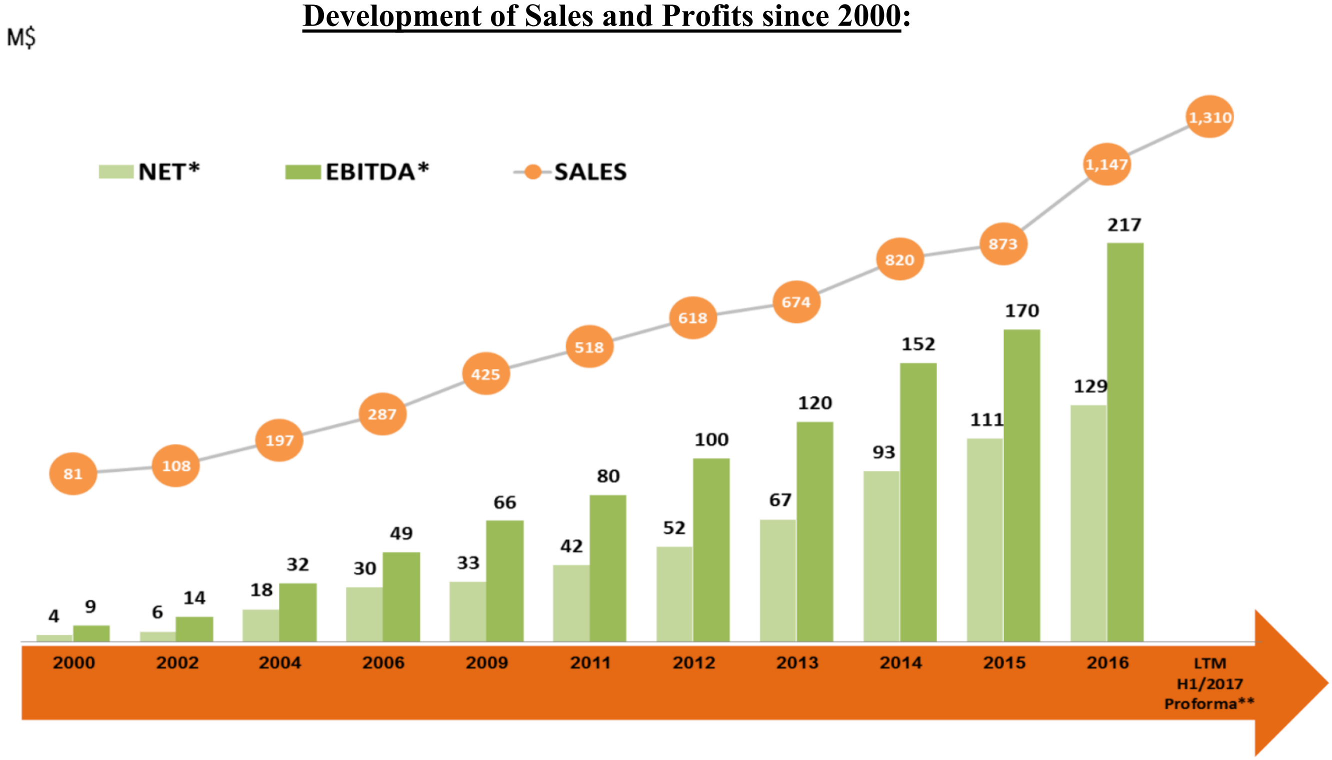
In the Company's estimation, its solid capital structure (total assets of US$ 1,790 million and equity of US$ 769 million as of June 30, 2017 constituting 43.0% of the total balance sheet), and its level of net debt (total loans minus cash) as of June 30, 2017 of approximately US$ 512 million, supported by the strong cash flow generated and together with bank backing, will allow it to continue fulfilling the growth strategy it has been implementing in recent years, including by means of further strategic acquisitions, while continuing to strengthen 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"

11 See footnote 10 below on forward looking statements.

12 The assessment concerning continued growth in sales, the improvement in profit and profit margin, the achieving of operational savings and reaching the targets specified above as a result of fulfilling the Company's strategy, constitutes a forward-looking statement as defined in the Securities Law, that rests upon estimates by Company management at this time. 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, *inter alia,* factors not dependent on the Company, including the realization of any of the risk factors in section 41 of Chapter A of the annual report. 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.

Development of Sales and Profits since 2000:



* Excluding non-recurrent expenses
** Assuming all acquisitions made and completed since 2016 were consolidated as of 1.7.2016

Frutarom will be able to continue to identify appropriate acquisitions with satisfactory terms, to obtain the financing needed for funding them and to manage their activity and the acquired activities efficiently in order to ensure that the financial benefits, the capitalizing on the synergy and the economies of scale will be realized.

B. FINANCIAL STATUS

Frutarom's total assets as of June 30, 2017 totaled US$ 1,790.1 million, compared with US$ 1,546.7 million as of June 30, 2016 and US$ 1,585.5 million as of December 31, 2016.

The Group's current assets as of June 30, 2017 totaled US$ 700.2 million, compared with US$ 638.8 million as of June 30, 2016 and US$ 624.7 million as of December 31, 2016.

Property, plant and equipment net of cumulative depreciation plus other net property as of June 30, 2017 totaled US$ 1,050.0 million, compared with US$ 878.1 million as of June 30, 2016 and US$ 926.6 million as of December 31, 2016.

The increase in total, current and long-term assets derives mainly from the acquisitions completed during 2016 and 2017, which have been fully consolidated into Frutarom's balance sheet but whose operational effects have only been partially reflected in results, and from the strengthening of the main currencies against the dollar towards the end of the quarter.

Currency effects

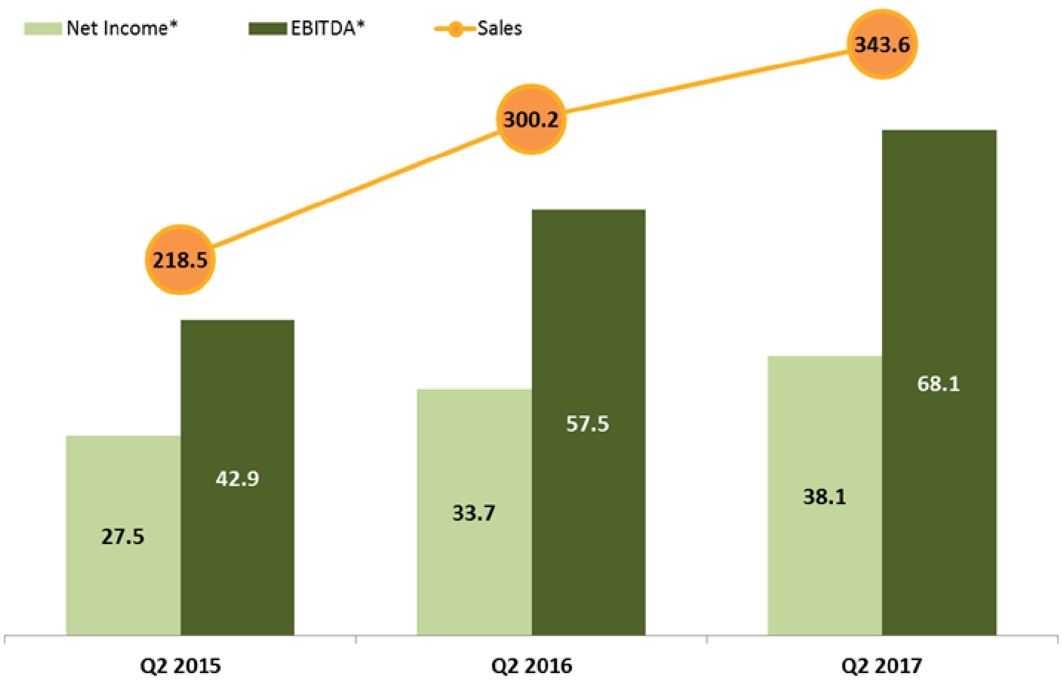
Over 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, Canadian Dollar, Chinese Yuan, New Israeli Shekel, Mexican Peso, Polish Zloty, Brazilian Real, Peruvian Nuevo Sol). Therefore, changes in exchange rates affect Frutarom's results as reported in US dollars.

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

The effect of currencies diminished Frutarom’s sales by 0.8% in Q2 2017 and by 0.6% in H1 2017, and diminished its core activity sales by 1.1% in Q2 2017 and by 1.0% in H1 2017.

C. RESULTS OF OPERATIONS FOR SECOND QUARTER 2017

The second quarter of 2017 was another record setting quarter for Frutarom in sales and in gross and operating profits, the EBITDA, and in net income and earnings per share.



* The figures are net of non-recurring expenses.

** The figures in the above graph are in millions of US dollars.

Sales

Frutarom's sales in the second quarter of 2017 rose 14.4% to a record US$ 343.6 million compared with US$ 300.2 million in the parallel quarter, reflecting 6.8% year-over-year growth in pro-forma terms on a constant currency basis.

Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a 0.8% negative impact on sales growth in pro-forma terms compared with Q2 2016.

Sales for Frutarom's **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose 13.8% in Q2 2017 to reach a record level US$ 318.3 million compared with US$ 279.7 million in the same quarter last year, reflecting 7.6% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates had a negative 1.1% impact on results in pro-forma terms.

Sales from the **Flavors activity** rose 13.3% to reach US$ 254.3 million in Q2 2017 as against US$ 224.4 million in Q2 2016, reflecting 6.0% year-over-year growth in pro-forma terms on a constant currency basis. Currency effects negatively impacted results in pro-forma terms by 1.0%.

Sales from **Specialty Fine Ingredients activity** rose 15.3% to US$ 66.4 million in Q2 2017 compared with US$ 57.6 million in Q2 2016 and reflect 14.3% year-over-year growth in pro-forma terms on a constant currency basis. Currency effects negatively impacted sales by 1.5% in pro-forma terms.

Sales from **Trade & Marketing** (which does not constitute part of Frutarom's core activities) rose by 23.4% to US$ 25.3 million in Q2 2017 compared with US$ 20.5 million in Q2 2016. Contributing to the increase was the added sales of trade & marketing goods by Piasa in Mexico which was acquired in December 2016 and currency effects which boosted trade and marketing activity sales by 3.1% in pro-forma terms. In constant currency and pro-forma terms there was a 2.7% decline in Trade & Marketing sales against the parallel period.

Sales Breakdown by Activity in Q2 for 2007 - 2017 (in US$ millions and %):

		Q2 2007	Q2 2008	Q2 2009	Q2 2010	Q2 2011	Q2 2012	Q2 2013	Q2 2014	Q2 2015	Q2 2016	Q2 2017
Flavor Activity	**Sales**	61.7	98.1	75.8	77.4	92.7	122.5	125.1	156.7	155.5	224.4	254.3
	%	%67.3	%74.0	%71.0	%67.7	%71.0	%74.3	%74.2	%71.9	71.2%	74.8%	74.0%
Fine Ingredient Activity	**Sales**	28.9	32.5	29.7	36.2	37.2	36.5	37.6	42.6	41.4	57.6	66.4
	%	%31.5	%24.5	%27.9	%31.7	%28.5	%22.2	%22.3	%19.5	18.9%	19.2%	19.3%
Inter-company sales	**Sales**	-1.0	-0.9	-0.8	-0.4	-0.9	-0.5	-1.2	-1.9	-1.5	-2.3	-2.3
	%	-%1.1	-%0.7	-%0.8	-%0.4	-%0.7	-%0.3	-%0.7	-%0.9	-0.7%	-0.8%	-0.7%
Total Core Activity	**Sales**	89.6	129.7	104.7	113.2	129.0	158.5	161.5	197.3	195.4	279.7	318.3
	%	%97.7	%97.8	%98.1	%99.0	%98.8	%96.2	%95.8	%90.5	89.4%	93.2%	92.6%
Trade & Marketing	**Sales**	2.1	2.9	2.0	1.1	1.6	6.3	7.2	20.8	23.1	20.5	25.3
	%	%2.3	%2.2	%1.9	%1.0	%1.2	%3.8	%4.2	%9.5	10.6%	6.8%	7.4%
Total Sales		91.7	132.6	106.7	114.3	130.6	164.8	168.6	218.1	218.5	300.2	343.6

Profits and margins

In Q2 2017 Frutarom achieved record quarterly results in sales, gross profit, operating profit, EBITDA, net income and earnings per share.

These record results were achieved thanks to a combination of the rapid and profitable internal growth together with the acquisitions made and initial contributions from the merger activities and efficiency measures.

Gross profit for all Frutarom activity rose 15.7% in Q2 2017 to US$ 132.2 million (38.5% of overall sales) compared with US$ 114.3 million (38.1% of overall sales) in Q2 2016.

Operating profit climbed 32.7% to reach US$ 55.2 million in Q2 2017 (16.1% operating margin) compared with US$ 41.6 million (13.9% operating margin) in Q2 2016.

EBITDA grew 22.5% and reached US$ 66.9 million for the quarter (EBITDA margin of 19.5%) compared with US$ 54.6 million in (EBITDA margin of 18.2%) in Q2 2016.

Nonrecurring expenses were recorded in Q2 2017 in connection with acquisitions and for measures taken by Frutarom to attain optimization and efficiency in the natural extracts operations of the Specialty Fine Ingredients Division. These nonrecurring expenses diminished reported gross profit for the quarter by US$ 0.5 million, reported operating profit and EBITDA by US$ 1.2 million and reported net income by US$ 0.9 million. In the parallel quarter last year net nonrecurring expenses were recorded for measures taken to optimize resources, combine plants and attain maximum operational efficiency, and in connection with acquisitions, which in Q2 2016 diminished reported gross profit by US$ 2.6 million, reported operating profit by US$ 4.4 million, reported EBITDA by US$ 2.9 million and reported net income by US$ 3.4 million.

Adjusted for non-recurring expenses, gross profit for all Frutarom activity rose 13.5% in Q2 2017 to US$ 132.6 million (38.6% of overall sales) compared with US$ 116.9 million (38.9% of overall sales) in Q2 2016, operating profit rose 22.6% to reach US$ 56.4 million (16.4% operating margin) compared with US$ 46.0 million (15.3% operating margin) in Q2 2016, and EBITDA grew 18.4% to reach US$ 68.1 million (EBITDA margin of 19.8%) compared with US$ 57.5 million (EBITDA margin of 19.2%) in Q2 2016.

Gross profit for the **core businesses** (comprised of the Flavors activity and Specialty Fine Ingredients activity) rose 15.5% in Q2 2017 and reached US$ 128.0 million with gross margin of 40.2%, compared with US$ 110.8 million and 39.6% respectively in Q2 2016.

Operating profit for the core businesses climbed 32.1% to reach US$ 54.8 million (operating margin of 17.2%) compared with US$ 41.5 million (operating margin of 14.8%) in Q2 2016.

EBITDA for the core businesses rose 22.0% to reach US$ 66.4 million (EBITDA margin of 20.9%) compared with US$ 54.4 million (EBITDA margin of 19.4%) in Q2 2016.

Adjusted for non-recurring expenses, gross profit of core businesses rose 13.3% this quarter to reach US$ 128.5 million (gross margin of 40.4%) compared with US$ 113.4 million (gross margin of 40.6%) in the parallel quarter last year, operating profit of core businesses rose 22.1% to reach US$ 56.0 million (17.6% operating margin) compared with US$ 45.9 million (16.4% operating margin) in Q2 2016, and EBITDA for core businesses rose 18.0% to reach US$ 67.6 million (21.2% EBITDA margin) compared with US$ 57.3 million (20.5% EBITDA margin) in Q2 2016.

Operating profit for the **Flavors activity** climbed 29.2% to US$ 45.7 million (operating margin of 18.0%) in Q2 2017 compared with US$ 35.4 million (operating margin of 15.8%) in Q2 2016.

Adjusted for non-recurring expenses, operating profit for the Flavors activity rose 18.5% to US$ 46.5 million (operating margin of 18.3%) in Q2 2017 compared with US$ 39.2 million (operating margin of 17.5%) in Q2 2016.

Operating profit for the **Specialty Fine Ingredients activity** rose 48.5% to US$ 9.1 million (operating margin of 13.7%) in Q2 2017 compared with US$ 6.1 million (operating margin of 10.6%) in Q2 2016.

Adjusted for non-recurring expenses, operating profit for the Specialty Fine Ingredients activity rose 43.2% to US$ 9.6 million (operating margin of 14.4%) in Q2 2017 compared with US$ 6.7 million (operating margin of 11.6%) in Q2 2016.

Completing the merger of companies acquired in recent years and measures being taken by Frutarom to optimize the management, R&D, sales, production resources, operations, purchasing and logistics systems, which are proceeding according to plan, will bring significant operational savings and strengthen Frutarom's competitiveness through the maximum utilization of its sites worldwide. These actions are expected to result in annual operational savings in the range of US$ 20-22 million (as compared with Frutarom's cost structure in Q2 2016) which already partly began to emerge during the first half of this year and will partly emerge gradually during the second half of the year[14].

In addition, activity continues according to plan for building and reinforcing the global platform for purchasing raw materials used by Frutarom in the manufacture of its products which will capitalize on the purchasing power that has grown significantly in recent years, along with switching to purchasing directly from producers in source countries, primarily of natural raw materials (which constitute over 75% of the raw materials used by Frutarom). The global purchasing platform will contribute as well to further improvement in purchasing costs and gross margins in the years to come.

Tables summarizing profits and margins in the second quarter:

Reported results in US dollars:

In millions of US dollars	**Core Businesses Flavors and Specialty Fine Ingredients**			**Total Frutarom Group**		
	Q2 2016	**Q2 2017**	**% increase**	**Q2 2016**	**Q2 2017**	**% increase**
Sales	279.7	318.3	13.8%	300.2	343.6	14.4%
Gross profit	110.8	128.0	15.5%	114.3	132.2	15.7%
Margin	*39.6%*	*40.2%*		*38.1%*	*38.5%*	
Operating profit	41.5	54.8	32.1%	41.6	55.2	32.7%
Margin	*14.8%*	*17.2%*		*13.9%*	*16.1%*	
EBITDA	54.4	66.4	22.0%	54.6	66.9	22.5%
Margin	*19.4%*	*20.9%*		*18.2%*	*19.5%*	
Net income				30.3	37.2	22.7%
Margin				*10.1%*	*10.8%*	

14 See footnote 10 above on forward looking statements.

Adjusted for non-recurring expenses:

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	Adjusted for non-recurring expenses		% increase adjusted for non-recurring expenses
	Q2 2016	Q2 2017		Q2 2016	Q2 2017	
Gross profit	113.4	128.5	13.3%	116.9	132.6	13.5%
Margin	*40.6%*	*40.4%*		*38.9%*	*38.6%*	
Operating profit	45.9	56.0	22.1%	46.0	56.4	22.6%
Margin	*16.4%*	*17.6%*		*15.3%*	*16.4%*	
EBITDA	57.3	67.6	18.0%	57.5	68.1	18.4%
Margin	*20.5%*	*21.2%*		*19.2%*	*19.8%*	
Net income				33.7	38.1	13.1%
Margin				*11.2%*	*11.1%*	

Financial Expenses / Income

Net financial expenses in Q2 2017 totaled US$ 8.0 million (2.3% of sales) compared with US$ 3.2 million (1.1% of sales) in Q2 2016.

Interest expenses amounted to US$ 2.1 million, compared with US$ 2.3 million in Q2 2016. Financial expenses arising from exchange-rate differences totaled US$ 6.0 million compared to US$ 1.0 million in Q2 2016, and this is due to the effect of the weakening of the dollar towards the end of the second quarter of this year on non-dollar liabilities. On the other hand, the weakening of the dollar brought a US$ 20.5 million increase to capital equity due to the increase in the capital fund for translation differences.

Taxes on Income

Taxes on income for Q2 2017 totaled US$ 10.0 million (21.1% of profit before tax) compared with US$ 8.0 million (21.0% of profit before tax) the year before.

Net Income

Net income in Q2 2017 climbed 22.7% to US$ 37.2 million (net margin of 10.8%) compared with US$ 30.3 million (net margin of 10.1%) in Q2 2016.

Net income in Q2 2017 adjusted for the non-recurring expenses grew by 13.1% to reach US$ 38.1 million (11.1% net margin) compared with US$ 33.7 million (11.2% net margin) in Q2 2016.

Earnings per Share

Earnings per share in Q2 2017 climbed 21.7% to US$ 0.61 compared with US$ 0.50 in the same quarter last year.

Earnings per share in Q2 2017 adjusted for the non-recurring expenses rose 12.0% to reach US$ 0.63 compared with US$ 0.56 for the same quarter last year.

Seasonality

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

D. RESULTS OF OPERATIONS FOR FIRST HALF 2017

In H1 2017 Frutarom achieved record results in sales, gross profits, operating profits, EBITDA, net income, cash flow and earnings per share.

Sales

Frutarom's sales in the first half of 2017 rose 15.8% to a half-year record of US$ 646.1 million compared with US$ 558.0 million in H1 2016, reflecting 6.1% year-over-year growth in pro-forma terms on a constant currency basis.

Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a 0.6% negative impact on sales growth in pro-forma terms compared with H1 2016.

Sales for Frutarom's **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose 15.6% in H1 2017 to reach a half-year record of US$ 601.8 million compared with US$ 520.6 million in the first half of last year, reflecting 7.1% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates had a negative 1.0% impact on results in pro-forma terms.

Sales from the **Flavors activity** rose 16.4% to reach US$ 473.6 million in H1 2017 as against US$ 406.8 million in H1 2016, reflecting 6.3% year-over-year growth in pro-forma terms on a constant currency basis. Currency effects negatively impacted results in pro-forma terms by 0.9%.

Sales from **Specialty Fine Ingredients** activity rose 13.0% to US$ 133.2 million in H1 2017 compared with US$ 117.9 million in H1 2016 and reflect 10.8% year-over-year growth in pro-forma terms on a constant currency basis. Currency effects negatively impacted sales by 1.4% in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activities) rose 18.5% to reach US$ 44.3 million in H1 2017 compared with US$ 37.4 million in H1 2016. Contributing to the increase was the added sales of trade and marketing goods by Piasa in Mexico, acquired in December 2016. Currency effects boosted trade and marketing activity sales by 4.9% in pro-forma terms. In constant currency and pro-forma terms there was a 7.0% decline in sales against the parallel period.

First Half Sales Breakdown by Activity for 2007 - 2017 (in US$ millions and %):

		H1 2007	H1 2008	H1 2009	H1 2010	H1 2011	H1 2012	H1 2013	H1 2014	H1 2015	H1 2016	H1 2017
Flavor Activity	**Sales**	111.6	182.5	143.1	152.8	172.9	231.4	235.7	290.9	285.2	406.8	473.6
	%	%64.8	%71.7	%69.8	%67.1	%68.7	%73.2	%73.5	%71.5	%69.1	72.9%	73.3%
Fine Ingredient Activity	**Sales**	58.0	67.8	59.3	73.8	76.3	74.0	75.1	83.5	88.3	117.9	133.2
	%	%33.7	%26.6	%28.9	%32.4	%30.3	%23.4	%23.4	%20.5	%21.4	21.1%	20.6%
Inter-company sales	**Sales**	-2.1	-2.3	-1.5	-1.2	-1.5	-1.1	-2.5	-4.3	-2.5	-4.1	-5.0
	%	-%1.2	-%0.9	-%0.8	-%0.5	-%0.6	-%0.3	-%0.8	-%1.1	-%0.6	-0.7%	-0.8%
Total Core Activity	**Sales**	167.5	248.0	200.9	225.4	247.7	304.3	308.4	370.1	371.0	520.6	601.8
	%	%97.3	%97.4	%97.9	%99.0	%98.4	%96.3	%96.1	%91.0	%89.9	93.3%	93.1%
Trade & Marketing	**Sales**	4.7	6.6	4.2	2.3	3.9	11.7	12.4	36.4	41.7	37.4	44.3
	%	%2.7	%2.6	%2.1	%1.0	%1.6	%3.7	%3.9	%9.0	%10.1	6.7%	6.9%
Total Sales		172.2	254.6	205.1	227.7	251.6	316.0	320.8	406.5	412.7	558.0	646.1

Profits and margins

In H1 2017 Frutarom achieved record quarterly results in sales, gross profit, operating profit, EBITDA, net income and earnings per share.

Gross profit for all Frutarom activity rose 16.2% in H1 2017 to US$ 247.9 million (38.4% of overall sales) compared with US$ 213.4 million (38.2% of overall sales) in H1 2016.

Operating profit climbed 39.4% to reach US$ 100.5 million in H1 2017 (15.6% operating margin) compared with US$ 72.1 million (12.9% operating margin) in H1 2016.

EBITDA grew 29.3% and reached US$ 122.6 million for the first half year (EBITDA margin of 19.0%) compared with US$ 94.9 million in (EBITDA margin of 17.0%) in H1 2016.

Nonrecurring expenses were recorded in H1 2017 in connection with acquisitions and for measures taken by Frutarom to attain optimization and efficiency in the natural extracts operations of the Specialty Fine Ingredients Division. These nonrecurring expenses diminished reported gross profit for the period by US$ 1.3 million, reported operating profit and EBITDA by US$ 2.0 million, and reported net income by US$ 1.6 million. In H1 2016 nonrecurring expenses were recorded for measures taken to optimize resources, combine plants and attain maximum operational efficiency, and in connection with acquisitions, and non-recurring income was recorded from the sale of a plant in North Bergen, New Jersey, which in total diminished reported gross profit for H1 2016 by US$ 4.1 million, reported operating profit by US$ 11.4 million, reported EBITDA by US$ 9.9 million and reported net income by US$ 8.3 million.

Adjusted for non-recurring expenses, gross profit for all Frutarom activity rose 14.5% in H1 2017 to US$ 249.1 million (38.6% of overall sales) compared with US$ 217.5 million (39.0% of overall sales) in H1 2016, operating profit rose 22.8% to reach US$ 102.6 million (15.9% operating margin) compared with US$ 83.6 million (15.0% operating margin) in H1 2016, and EBITDA grew 19.0% to reach US$ 124.7 million (EBITDA margin of 19.3%) compared with US$ 104.8 million (EBITDA margin of 18.8%) in H1 2016.

Gross profit for the **core businesses** (comprised of the Flavors activity and Specialty Fine Ingredients activity) rose 16.3% in H1 2017 and reached US$ 239.6 million with gross margin of 39.8%, compared with US$ 206.1 million and 39.6% respectively in H1 2016.

Operating profit for the core businesses climbed 39.6% to reach US$ 99.7 million (operating margin of 16.6%) compared with US$ 71.4 million (operating margin of 13.7%) in H1 2016.

EBITDA for the core businesses rose 29.5% to reach US$ 121.5 million (EBITDA margin of 20.2%) in H1 2017 compared with US$ 93.8 million (EBITDA margin of 18.0%) in H1 2016.

Adjusted for non-recurring expenses, gross profit of core businesses rose 14.6% in H1 2017 to reach US$ 240.9 million (40.0% gross margin) compared with US$ 210.3 million (40.4% gross margin) in H1 2016, operating profit of core businesses rose 22.8% to reach US$ 101.7 million (16.9% operating margin) compared with US$ 82.8 million (15.9% operating margin) in H1 2016, and EBITDA for core businesses rose 19.1% to reach US$ 123.5 million (20.5% EBITDA margin) compared with US$ 103.7 million (19.9% EBITDA margin) in H1 2016.

Operating profit for the **Flavors activity** climbed 39.4% to US$ 81.7 million (operating margin of 17.2%) in H1 2017 compared with US$ 58.6 million (operating margin of 14.4%) in H1 2016.

Adjusted for non-recurring expenses, operating profit for the Flavors activity rose 19.4% to US$ 82.4 million (operating margin of 17.4%) in H1 2017 compared with US$ 69.0 million (operating margin of 17.0%) in H1 2016.

Operating profit for the **Specialty Fine Ingredients activity** rose 41.1% to US$ 18.0 million (operating margin of 13.5%) in H1 2017 compared with US$ 12.8 million (operating margin of 10.8%) in H1 2016.

Adjusted for non-recurring expenses, operating profit for the Specialty Fine Ingredients activity rose 40.3% to US$ 19.3 million (operating margin of 14.5%) in H1 2017 compared with US$ 13.8 million (operating margin of 11.7%) in H1 2016.

Tables summarizing profits and margins in the first half:

Reported results in US dollars:

In millions of US dollars	Core Businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	H1 2016	**H1 2017**	**% increase**	**H1 2016**	**H1 2017**	**% increase**
Sales	520.6	601.8	15.6%	558.0	646.1	15.8%
Gross profit	206.1	239.6	16.3%	213.4	247.9	16.2%
Margin	*39.6%*	*39.8%*		*38.2%*	*38.4%*	
Operating profit	71.4	99.7	39.6%	72.1	100.5	39.4%
Margin	*13.7%*	*16.6%*		*12.9%*	*15.6%*	
EBITDA	93.8	121.5	29.5%	94.9	122.6	29.3%
Margin	*18.0%*	*20.2%*		*17.0%*	*19.0%*	
Net income				51.8	70.9	36.9%
Margin				*9.3%*	*11.0%*	

Adjusted for non-recurring expenses:

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	**Adjusted for non-recurring expenses**		**% increase** adjusted for non-recurring expenses
	H1 2016	**H1 2017**		**H1 2016**	**H1 2017**	
Gross profit	210.3	240.9	14.6%	217.5	249.1	14.5%
Margin	*40.4%*	*40.0%*		*39.0%*	*38.6%*	
Operating profit	82.8	101.7	22.8%	83.6	102.6	22.8%
Margin	*15.9%*	*16.9%*		*15.0%*	*15.9%*	
EBITDA	103.7	123.5	19.1%	104.8	124.7	19.0%
Margin	*19.9%*	*20.5%*		*18.8%*	*19.3%*	
Net income				60.1	72.5	20.6%
Margin				*10.8%*	*11.2%*	

Financial Expenses / Income

Net financial expenses in H1 2017 totaled US$ 10.2 million (1.6% of sales) compared with US$ 7.7 million (1.4% of sales) in H1 2016.

Interest expenses in H1 2017 amounted to US$ 4.1 million, compared with US$ 4.4 million in H1 2016. Financial expenses arising from exchange-rate differences totaled US$ 6.1 million compared to US$ 3.3 million in the parallel period, and this is due to the effect of the weakening of the dollar towards the end of the second quarter of 2017 on non-dollar liabilities. On the other hand, the weakening of the dollar brought a US$ 38.4 million increase to capital equity in the first half of 2017 due to the increase in the capital fund for translation differences.

Taxes on Income

Taxes on income for H1 2017 totaled US$ 19.4 million (21.5% of profit before tax) compared with US$ 12.6 million (19.5% of profit before tax) in the same period last year.

Net Income

Net income in H1 2017 climbed 36.9% to US$ 70.9 million (net margin of 11.0%) compared with US$ 51.8 million (net margin of 9.3%) in H1 2016.

Net income in H1 2017 adjusted for the non-recurring expenses grew by 20.6% to reach US$ 72.5 million (11.2% net margin) compared with US$ 60.1 million (10.8% net margin) in H1 2016.

Earnings per Share

Earnings per share in H1 2017 climbed 36.0% to US$ 1.17 compared with US$ 0.86 in H1 2016.

Earnings per share in H1 2017 adjusted for the non-recurring expenses rose 19.5% to reach US$ 1.20 compared with US$ 1.00 in H1 2016.

E. LIQUIDITY

In the first half of 2017 Frutarom achieved a record net cash flow from operating activities of US$ 75.4 million (37.5% growth) compared with US$ 54.8 million in H1 2016.

Net cash flow from operating activities in Q2 2017 amounted to US$ 32.9 million compared with US$ 36.7 million in the same quarter last year. The cash flow was affected by the increase in sales and by timing differences in tax payments in the parallel quarter last year.

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 maintaining a reasonable level of debt.

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.

F. SOURCES OF FINANCING

Sources of Capital

As of June 30, 2017 Frutarom's capital equity totaled US$ 768.9 million (43.0% of the balance sheet) compared with US$ 618.9 million (40.0% of the balance sheet) as of June 30, 2016 and US$ 664.6 million (41.9% of the balance sheet) as of December 31, 2016.

Loans (Average) -

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

  Average long-term credit from banks and financial institutions in Q2 2017 stood at US$ 489.6 million as compared with US$ 434.3 million in Q2 2016. This increase in credit is due mainly to loans taken in the past year to finance the acquisitions performed.

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

  Average short-term credit extended to the Company by banks and financial institutions in Q2 2017 stood at US$ 118.5 million as compared with US$ 117.6 million in Q2 2016.

Frutarom's cash balances on June 30, 2017 totaled US$ 108.3 million compared with US$ 118.7 million on June 30, 2016 and US$ 113.5 million on December 31, 2016.

Frutarom's net debt on June 30, 2017 totaled US$ 511.6 million compared with US$ 438.3 million on June 30, 2016 and US$ 420.3 million on December 31, 2016.

As of June 30, 2017 the Company was in compliance with the financial covenants it had undertaken to meet, as specified in Note 14 to the annual report, and specifically:

- The Company's equity stood at US$ 769 million.
- The Company's equity as a percentage of its total balance sheet stood at 43.0%.
- The ratio of the Company's total financial liabilities, less cash, to EBITDA stood at 2.0 whereby the EBITDA calculation was done on a pro-forma basis and net of non-recurring expenses.

Accounts Payable and Accounts Receivable (Average)

In Q2 2017 the Company made use of US$ 88.9 million in credit from suppliers compared with US$ 80.9 million in the parallel period. During the second quarter of 2017 the Company extended US$ 239.6 million in credit to its customers compared with US$ 207.9 million the year before. The increase in trade receivables is largely due to an increase in the overall scope of activity and the acquisitions made 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 estimates that the cash flow it generates from current operations can be expected to cover the full repayment of its anticipated liabilities without the need for any further outside sources of funds.

EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

The Group's activity is highly decentralized. Within its core business (Flavors and Specialty Fine Ingredients) the Group produces thousands of products destined for thousands of customers throughout the world, using thousands of different raw materials purchased from a wide range of suppliers worldwide. The Group is not significantly dependent on any specific customer, product or supplier.

In the second quarter of 2017 and during the cumulative period from December 31, 2016 and 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 were no significant changes from the figures presented in the periodic report for 2016.

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	**3.846**	**3.671**	**3.496**	**3.321**	**3.146**
	US$ 000s				
Cash and cash equivalents	(31)	(15)	307	15	31
Customers	(994)	(497)	9,936	497	994
Other accounts receivable	(90)	(45)	904	45	90
	(1,115)	**(557)**	**11,147**	**557**	**1,115**
Suppliers and service providers	223	112	2,232	(112)	(223)
Other payables	670	335	6,699	(335)	(670)
	893	**447**	**8,931**	**(447)**	**(893)**
Total exposure, net	**(222)**	**(110)**	**2,216**	**110**	**222**

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	0.965	0.921	0.877	0.833	0.789
	US$ 000s				
Cash and cash equivalents	(4,753)	(2,376)	47,525	2,376	4,753
Customers	(8,828)	(4,414)	88,283	4,414	8,828
Other accounts receivable	(1,037)	(519)	10,370	519	1,037
Other long-term receivables	-	-	2	-	-
	(14,618)	**(7,309)**	**146,180**	**7,309**	**14,618**
Bank credit	24,418	12,209	244,179	(12,209)	(24,418)
Suppliers and service providers	4,025	2,012	40,246	(2,012)	(4,025)
Other payables	4,686	2,343	46,860	(2,343)	(4,686)
	33,129	**16,564**	**331,285**	**(16,564)**	**(33,129)**
Total exposure, net	**18,511**	**9,255**	**(185,105)**	**(9,255)**	**(18,511)**

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	0.847	0.808	0.770	0.731	0.693
	US$ 000s				
Cash and cash equivalents	(597)	(299)	5,974	299	597
Customers	(1,422)	(711)	14,223	711	1,422
Other accounts receivable	(176)	(88)	1,757	88	176
	(2,195)	**(1,098)**	**21,954**	**1,098**	**2,195**
Bank credit	5,138	2,569	51,378	(2,569)	(5,138)
Suppliers and service providers	735	367	7,347	(367)	(735)
Other payables	818	409	8,184	(409)	(818)
	6,691	**3,345**	**66,909**	**(3,345)**	**(6,691)**
Total exposure, net	**4,496**	**2,247**	**(44,955)**	**(2,247)**	**(4,496)**

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	**1.055**	**1.007**	**0.959**	**0.911**	**0.863**
	US$ 000s				
Cash and cash equivalents	(335)	(168)	3,350	168	335
Customers	(587)	(294)	5,872	294	587
Other accounts receivable	(246)	(123)	2,459	123	246
	(1,168)	**(585)**	**11,681**	**585**	**1,168**
Bank credit	10,351	5,176	103,511	(5,176)	(10,351)
Suppliers and service providers	287	144	2,872	(144)	(287)
Other payables	516	258	5,156	(258)	(516)
Other long-term liabilities	1	0	6	(0)	(1)
	11,155	**5,578**	**111,545**	**(5,578)**	**(11,155)**
Total exposure, net	**9,987**	**4,993**	**(99,864)**	**(4,993)**	**(9,987)**

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	**65.127**	**62.167**	**59.207**	**56.246**	**53.286**
	US$ 000s				
Cash and cash equivalents	(568)	(284)	5,678	284	568
Customers	(1,492)	(746)	14,923	746	1,492
Other accounts receivable	(66)	(33)	664	33	66
	(2,126)	**(1,063)**	**21,265**	**1,063**	**2,126**
Suppliers and service providers	151	76	1,512	(76)	(151)
Other payables	461	231	4,613	(231)	(461)
	612	**307**	**6,125**	**(307)**	**(612)**
Total exposure, net	**(1,514)**	**(756)**	**15,140**	**756**	**1,514**

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	(2,535)	(1,268)	25,351	1,268	2,535
Customers	(6,457)	(3,229)	64,571	3,229	6,457
Other accounts receivable	(644)	(322)	6,442	322	644
	(9,636)	**(4,819)**	**96,364**	**4,819**	**9,636**
Bank credit	456	228	4,555	(228)	(456)
Suppliers and service providers	2,553	1,276	25,529	(1,276)	(2,553)
Other payables	2,406	1,203	24,058	(1,203)	(2,406)
Other long-term liabilities	7,832	3,916	78,315	(3,916)	(7,832)
	13,247	**6,623**	**132,457**	**(6,623)**	**(13,247)**
Total exposure, net	**3,611**	**1,804**	**(36,093)**	**(1,804)**	**(3,611)**

SUMMARY OF SENSITIVITY TEST TABLES

The functional currency of most Group companies is the local currency in their respective countries, and therefore currency translations of monetary balances of these companies have no effect on the Profit and Loss Statement and are directly attributed to the Company's shareholders' equity (currency translation capital fund).

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	**3.846**	**3.671**	**3.496**	**3.321**	**3.146**
	US$ 000				
Total Exposure, net	**(222)**	**(110)**	**2,216**	**110**	**222**

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	**0.847**	**0.808**	**0.770**	**0.731**	**0.693**
	US$ 000				

Total Exposure, net	**4,496**	**2,247**	**(44,955)**	**(2,247)**	**(4,496)**

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	**0.965**	**0.921**	**0.877**	**0.833**	**0.789**
	US$ 000				
Total exposure, net	**18,511**	**9,255**	**(185,105)**	**(9,255)**	**(18,511)**

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	**1.055**	**1.007**	**0.959**	**0.911**	**0.863**
	US$ 000				
Total exposure, net	**9,987**	**4,993**	**(99,864)**	**(4,993)**	**(9,987)**

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	**65.127**	**62.167**	**59.207**	**56.246**	**53.286**
	US$ 000				
Total exposure, net	**(1,514)**	**(756)**	**15,140**	**756**	**1,514**

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	**3,611**	**1,804**	**(36,093)**	**(1,804)**	**(3,611)**

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	**11**	**5**	**60,495**	**(6)**	**(11)**

in fair value, net					

ASPECTS OF CORPORATE GOVERNANCE

a. On March 22, 2017 the Company's Board of Directors approved the repurchase of Company shares for an overall total amount of US$ 900 thousand for the purpose of allocating options in the framework of the 2012 Plan, whereby 3,362 shares (whose value as of the date of said decision stood at about US$ 186 thousand) are already held by the Company. Further to the abovementioned approval by the Company's Board of Directors, on April 24, 2017 the Company granted stock options to employees and officeholders. For further information, see the Outline and immediate reports issued by the Company on March 23, April 4 and April 24, 2017.

   On August 16, 2017 the Company's Board of Directors approved the repurchase of Company shares for a total value of US$ 900 thousand for the purpose of allocating options in the framework of Plan 2012. For further information, see paragraph e below.

   As of the date of this report, The Company holds 145,897 dormant shares that were purchased in the framework of the abovementioned repurchase plans.

b. On January 10, 2017 the terms of service of Mr. Yacov Elinav and Mr. Isaac Angel as external directors with the Company came to an end. For further information, see the Company's reports from January 11, 2017.

c. On January 10, 2017 the General Meeting of Company shareholders approved the appointment of Mr. Ziv Gil as an external director in the Company for an initial period of three years in accordance with paragraph 239(b) of the Companies Law; the extension of service by Ms. Dafna Sharir as an external director in the Company for a second three-year term in accordance with paragraph 239(b) of the Companies Law; and approved the Compensation Policy for Company officeholders in accordance with paragraph 267a of the Companies Law. For further information, including the full texts of the above-mentioned resolutions by the General Meeting, see the Company's reports from November 29, 2016 and January 11, 2017.

Events subsequent to the balance sheet date:

d. On August 8, 2017 the Annual General Meeting of Company Shareholders discussed and approved the items on the General Meeting's agenda, as follows: (a) presentation and discussion of the Company's financial reports and directors' report for the year 2016; (b) reappointment of the accounting firm Kesselman & Kesselman as the Company's independent auditors until the end of the next Annual General Meeting and the authorizing of the Company's Board of Directors to determine its fees; (c) reappointment of the directors who are not external directors: Dr. John J. Farber, Mrs. Maya Farber, Ms. Sandra Farber, Mr. Hans Abderhalden and Mr. Gil Leidner (independent director) for an additional term of service as members of the Company's Board of Directors until the end of the next Annual General Meeting, under conditions identical to the conditions of their current service.

   For further information, see the Company's reports from July 4 and August 9, 2017.

e. On August 16, 2017 the Company's Board of Directors approved the repurchase of Company shares for a total of US$ 900 thousand for the purpose of allocating options in the framework of Plan 2012. For further information, see the Company's immediate report from August 17, 2017.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

REPORT ON LIABILITIES BY REPAYMENT DATE

For information on the Company’s liabilities according to repayment date, see the Immediate Report on the Corporation's Liabilities by Repayment Dates issued by the Company concurrently with the issuance of this report.

DIVIDEND DISTRIBUTION

On March 22, 2017, concurrent to the approval of the financial statements for December 31, 2016, the Company’s Board of Directors decided on the distribution of a dividend of NIS 0.44 per share. On May 7, 2017 shareholders were paid a dividend totaling approximately US$ 7,234 thousand. For further information, see the Company’s immediate report from March 23, 2017.

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 decided that the information is negligible because 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.

With regards to the balance sheet, 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 external parties 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 external parties 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.

EVENTS SUBSEQUENT TO THE DATE OF REPORT ON FINANCIAL CONDITION MENTIONED IN THE FINANCIAL STATEMENTS

A. Exercise of an option to purchase the balance of shares in BSA of Canada

For details regarding the Company's purchase of the balance of shares in the Canadian company BSA, see Section 'A' above under acquisitions made subsequent to the date of the financial statements.

B. Investment in Enzymotec

On August 1 and August 4, 2017 the Company reported having invested, through a subsidiary, in the share capital of Enzymotec Ltd. ("**Enzymotec**"), a company traded on NASDAQ under the symbol ENZY, and that it holds approximately 9.6% of the share capital in exchange for an overall sum of approximately US$ 17.2 million, reflecting an average price of about US$ 7.8 per share. The Company financed the investment from independent sources.

Frutarom views the investment in Enzymotec as interesting and relevant if a significant change were to occur in Enzymotec's business strategy and implementation. In accordance with the future strategy and its implementation and other measures such as Enzymotec's business and financial position and its market value, the Company will consider its future investment and whether to increase or reduce its holdings.

For further information, see the Company's immediate reports from August 1 and August 4, 2017.

C. Acquisition of F&E

For details regarding the Company's purchase of 100% of the shares of F&E, see Section 'A' above under acquisitions made subsequent to the date of the financial statements.

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

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

August 16, 2017

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2017

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2017

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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 30 June 2017 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with 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 June 30, 2017, and the result of its operations, changes in shareholders' equity and cash flows for the six and three-month periods then ended in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Haifa, Israel
August 16, 2017

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

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FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2017

	30 June		31 December
	2017	**2016**	**2016**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	108,317	118,656	113,528
Accounts receivable:			
Trade	248,360	206,207	200,106
Other	30,750	40,059	29,888
Prepaid expenses and advances to suppliers	21,826	16,977	20,248
Inventory	290,901	256,873	260,951
	700,154	638,772	624,721
NON-CURRENT ASSETS:			
Property, plant and equipment	292,221	267,660	268,820
Intangible assets	757,796	610,442	657,781
Investment in associates and available for sale assets	33,348	25,281	27,976
Deferred income tax assets	4,039	3,398	3,477
Other	2,514	1,194	2,686
	1,089,918	907,975	960,740
Total assets	1,790,072	1,546,747	1,585,461

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors: August 16, 2017

	30 June		31 December
	2017	2016	2016
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	359,626	241,094	234,204
Accounts payable:			
Trade	96,526	88,706	81,630
Other	115,789	109,301	109,607
Liability for put option for the shareholders of a subsidiary	-	38,641	40,350
	571,941	477,742	465,791
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	260,339	315,901	299,576
Retirement benefit obligations, net	38,007	33,589	35,041
Deferred income tax liabilities	58,093	45,080	50,147
Liability for shareholders of subsidiaries and other	92,836	55,491	70,302
	449,275	450,061	455,066
Total liabilities	1,021,216	927,803	920,857
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	17,064	16,952	16,997
Other capital surplus	118,200	112,220	114,396
Translation differences	(71,018)	(92,981)	(109,043)
Retained earnings	700,477	578,344	637,868
Less - cost of company shares held by the company	(2,702)	(3,210)	(3,765)
	762,021	611,325	656,453
Non-controlling interests	6,835	7,619	8,151
Total equity	768,856	618,944	664,604
Total equity and liabilities	1,790,072	1,546,747	1,585,461

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2017	**2016**	**2017**	**2016**	**2016**
	(Unaudited)				**(Audited)**
	U.S. dollars in thousands (except for income per share data)				
SALES	646,120	557,961	343,589	300,220	1,147,041
COST OF SALES	398,243	344,580	211,426	185,950	709,488
GROSS PROFIT	247,877	213,381	132,163	114,270	437,553
Selling, marketing, research and development expenses – net	101,792	96,068	52,629	51,141	196,001
General and administrative expenses	45,601	39,354	23,718	20,643	81,637
Other expenses - net	385	6,317	665	1,237	11,772
Group's share of earnings of companies accounted for at equity	444	504	45	354	1,113
INCOME FROM OPERATIONS	100,543	72,146	55,196	41,603	149,256
FINANCIAL EXPENSES - net	10,204	7,747	8,031	3,242	12,841
INCOME BEFORE TAXES ON INCOME	90,339	64,399	47,165	38,361	136,415
INCOME TAX	19,413	12,574	9,974	8,041	25,346
NET INCOME FOR THE PERIOD	70,926	51,825	37,191	30,320	111,069
PROFIT ATTRIBUTED TO:					
Owners of the parent company	69,843	50,844	36,570	29,654	109,245
Non-controlling interest	1,083	981	621	666	1,824
TOTAL INCOME	70,926	51,825	37,191	30,320	111,069
EARNINGS PER SHARE:					
Basic	1.17	0.86	0.61	0.50	1.85
Fully diluted	1.17	0.85	0.61	0.50	1.84

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

	6 months ended 30 June		3 months ended 31 March		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	70,926	51,825	37,191	30,320	111,069
Other Comprehensive Income:					
Items that will not be reclassified subsequently to profit or loss -					
Remeasurement of net defined benefit liability	-	-	-	-	1,123
ITEMS THAT COULD BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:					
Gain from available-for-sale financial assets	482	-	(471)	-	41
Translation differences	38,399	20,283	20,470	(236)	3,910
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	109,807	72,108	57,190	30,084	116,143
ATTRIBUTABLE TO:					
Owners of the parent	108,350	71,112	56,274	29,582	114,615
Non-controlling interest	1,457	996	916	502	1,528
TOTAL INCOME	109,807	72,108	57,190	30,084	116,143

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2017 (audited)	16,997	114,396	(109,043)	637,868	(3,765)	656,453	8,151	664,604
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2017 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	69,843	-	69,843	1,083	70,926
Other comprehensive income for the period	-	482	38,025	-	-	38,507	374	38,881
Total comprehensive income for the period	-	482	38,025	69,843	-	108,350	1,457	109,807
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(707)	(707)	-	(707)
Receipts in respect of allotment of company shares to employees	-	(1,180)	-	-	1,770	590	-	590
Changes of ownership rights in subsidiary	-	378	-	-	-	378	(2,773)	(2,395)
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	928	-	-	-	928	-	928
Proceeds from issuance of shares to senior employees	67	3,196	-	-	-	3,263	-	3,263
Dividend, including erosion	-	-	-	(7,234)	-	(7,234)	-	(7,234)
	-	3,322	-	(7,234)	1,063	(2,782)	(2,773)	(5,555)
BALANCE AT 30 JUNE 2017 (unaudited)	17,064	118,200	(71,018)	700,477	(2,702)	762,021	6,835	768,856

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary Shares	**Other capital surplus**	**Translation Differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 April 2017 (audited)	17,027	116,817	(91,193)	663,977	(3,791)	702,837	8,692	711,529
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2017 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	36,570	-	36,570	621	37,191
Other comprehensive income for the period	-	(471)	20,175	-	-	19,704	295	19,999
Total comprehensive income for the period	-	(471)	20,175	36,570	-	56,274	916	57,190
Plans for allotment of company shares to employees of subsidiary:								
Receipts in respect of allotment of company shares to employees	-	(726)	-	-	1,089	363	-	363
Changes of ownership rights in subsidiary	-	378	-	-	-	378	(2,773)	(2,395)
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	473	-	-	-	473	-	473
Proceeds from issuance of shares to senior employees	37	1,729	-	-	-	1,766	-	1,766
Dividend, including erosion	-	-	-	(70)	-	(70)	-	(70)
	37	1,854	-	(70)	1,089	2,910	(2,773)	137
BALANCE AT 30 JUNE 2017 (unaudited)	17,064	118,200	(71,018)	700,477	(2,702)	762,021	6,835	768,856

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

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FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 parent company	Non-controlling interests	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 6 MONTH PERIOD ENDED 30 JUNE 2016 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	50,844	-	50,844	981	51,825
Other comprehensive income for the period	-	-	20,268	-	-	20,268	15	20,283
Total comprehensive income for the period	-	-	20,268	50,844	-	71,112	996	72,108
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	-	(374)	-	-	561	187	-	187
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	733	-	-	-	733	-	733
Proceeds from issuance of shares to senior employees	40	1,313	-	-	-	1,353	-	1,353
Changes of ownership rights in subsidiary	-	82	-	-	-	82	(973)	(891)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(63)	(63)
Dividend, including erosion	-	-	-	(6,380)	-	(6,380)	-	(6,380)
	40	1,754	-	(6,380)	(99)	(4,685)	(1,036)	(5,721)
Non-controlling interest from business combination	-	-	-	-	-	-	873	873
BALANCE AT 30 JUNE 2016 (unaudited)	16,952	112,220	(92,981)	578,344	(3,210)	611,325	7,619	618,944

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 April 2016 (audited)	16,950	111,726	(92,909)	548,655	(3,279)	581,143	8,153	589,296
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2016 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	29,654	-	29,654	666	30,320
Other comprehensive income for the period	-	-	(72)	-	-	(72)	(164)	(236)
Total comprehensive income for the period	-	-	(72)	29,654	-	29,582	502	30,084
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(46)	-	-	69	23	-	23
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	380	-	-	-	380	-	380
Proceeds from issuance of shares to senior employees	2	78	-	-	-	80	-	80
Changes of ownership rights in subsidiary	-	82	-	-	-	82	(973)	(891)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(63)	(63)
Dividend, including erosion	-	-	-	35	-	35	-	35
	2	494	-	35	69	600	(1,036)	(436)
BALANCE AT 30 JUNE 2016 (unaudited)	16,952	112,220	(92,981)	578,344	(3,210)	611,325	7,619	618,944

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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**	**Non-controlling Interest**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2016	16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2016:								
Comprehensive income:								
Income for the year	-	-	-	109,245	-	109,245	1,824	111,069
Other comprehensive income	-	41	4,206	1,123	-	5,370	(296)	5,074
Total comprehensive income for the year	-	41	4,206	110,368	-	114,615	1,528	116,143
Plan for allotment of Company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,395)	(1,395)	-	(1,395)
Receipts in respect of allotment of Company shares to employees	-	(494)	-	-	741	247	-	247
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	-	1,577	-	-	-	1,577	-	1,577
Proceeds from issuance of shares to senior employees	85	2,729	-	-	-	2,814	-	2,814
Changes of ownership rights in subsidiary	-	77	-	-	-	77	(973)	(896)
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(63)	(63)
Dividend paid	-	-	-	(6,380)	-	(6,380)	-	(6,380)
	85	3,889	-	(6,380)	(654)	(3,060)	(1,036)	(4,096)
Non-controlling interest from business combination	-	-	-	-	-	-	873	873
BALANCE AT 31 DECEMBER 2016	16,997	114,396	(109,043)	637,868	(3,765)	656,453	8,151	664,604

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2017	**2016**	**2017**	**2016**	**2016**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	U.S. dollars in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (see appendix)	88,985	62,082	41,630	39,986	139,235
Income tax paid - net	(13,596)	(7,253)	(8,775)	(3,319)	(14,610)
Net cash provided by operating activities	75,389	54,829	32,855	36,667	124,625
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(14,160)	(10,893)	(7,288)	(5,931)	(28,493)
Purchase of intangibles	(1,153)	(650)	(554)	(220)	(1,344)
Interest received	448	400	218	129	656
Acquisition of subsidiaries - net of cash acquired (see note 4)	(68,254)	(43,458)	(48,799)	(8,519)	(103,786)
Purchase of available for sale securities	(5,606)	-	(1,269)	-	(2,199)
Proceeds from sale of property	210	2,851	152	1,535	11,099
Net cash used in investing activities	(88,515)	(51,750)	(57,540)	(13,006)	(124,067)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	-	(687)	-	(687)	(1,434)
Receipts from senior employees in respect of allotment of shares	3,263	1,353	1,766	80	2,814
Interest paid	(3,965)	(3,525)	(2,282)	(1,478)	(7,324)
Receipt of long-term bank and financial institutions loans	59,406	61,894	5,014	55,693	156,890
Repayment of Put option to shareholders in subsidiary (note 4a)	(40,226)	-	-	-	-
Acquisition of non-controlling interests in subsidiary (note 4f)	(2,395)	(891)	(2,395)	(891)	(896)
Repayment of long-term bank and financial institutions loans	(89,842)	(42,302)	(47,428)	(20,149)	(92,460)
Receipt (repayment) of short-term bank loans and credit-net	82,412	37,337	65,052	(5,048)	(3,056)
Acquisition of the Company shares by the Company – net of receipts in respect of the shares	(117)	(473)	363	23	(1,148)
Dividend paid	(7,234)	(6,380)	(7,234)	(6,380)	(6,380)
Net cash provided (used) in financing activities	1,302	46,326	12,856	21,163	47,006
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,824)	49,405	(11,829)	44,824	47,564
Balance of cash and cash equivalents and bank credit at beginning of period	113,528	68,997	116,261	75,346	68,997
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	6,613	254	3,885	(1,514)	(3,033)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	108,317	118,656	108,317	118,656	113,528

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2017

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash generated from operations:					
Income before tax	90,339	64,399	47,165	38,361	136,415
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	21,169	21,978	11,230	12,650	43,115
Recognition of compensation related to employee stock and options grants	928	733	473	380	1,577
Liability for employee rights upon retirement – net	439	542	139	238	1,236
Loss (gain) from sale and write-off of fixed assets and other assets	247	(4,679)	(30)	(4,559)	(4,003)
Dividend received from companies accounted for at equity	2,250	-	-	-	-
Group's share of losses (earnings) of companies accounted for at equity, net	(444)	(504)	(45)	(354)	(1,113)
Erosion of long term loans	4,866	197	4,166	(141)	2,387
Erosion of Liability for put option for the shareholders of a subsidiary	-	(45)	-	(45)	-
Interest paid – net	3,517	3,125	2,064	1,349	6,668
	32,972	21,347	17,997	9,518	49,867
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable:					
Trade	(29,333)	(22,605)	(15,005)	(6,138)	(14,106)
Other	3,091	(1,982)	1,077	3,247	(49)
Decrease (increase) in other long-term receivables	(97)	(962)	47	119	(2,390)
Increase (decrease) in accounts payable:					
Trade	5,298	10,300	(3,382)	(729)	(5,097)
Other	(1,445)	7,127	(3,278)	(646)	(3,685)
Increase in other long-term Payables	14	1,257	(20)	500	336
Increase in inventory	(11,854)	(16,799)	(2,971)	(4,246)	(22,056)
	(34,326)	(23,664)	(23,532)	(7,893)	(47,047)
Net cash flows from operating activities	88,985	62,082	41,630	39,986	139,235

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 30 June 2017 and for the 6 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2016 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, 2016.

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 2016 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 2016 financial statements of the group.

NOTE 4 – BUSINESS COMBINATIONS

a. Acquisition of the remaining holdings of Vantodio:

On February 1, 2017 The Company has exercised the remaining 25% balance of share capital of Vantodio Holdings Limited, which has the holding in the Russian group "Protein Technologies Ingredients", from the end of the third year, hence at a multiple of between 6 and 7 of the average annual EBITDA achieved in the three years prior to the exercise of the option. The Company holds from that date 100% of the share capital of Vantodio. The option has exercised for a total consideration of approximately $ 40 million. The purchase of the remaining 25% balance of shares was financed through bank credit.

b. Acquisition of Unique

On February 8, 2017 the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares in the South African companies Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited (collectively: "Unique") in consideration (including the taking on of debt) for approximately USD 6.4 million (ZAR 90 million), of which approximately 1 million will be paid as deferred payment. The purchase agreement includes a mechanism for future consideration contingent on Unique's future business performance. The transaction was completed upon the signing of the agreement and was financed through bank debt.

Unique, which was founded in 2001, engages in the development, production and marketing of flavors, with emphasis on savory flavors (the non-sweet spectrum of flavors) and on sweet taste solutions. Unique, which has grown in recent years at a rapid pace, has an R&D, production and marketing site in Pretoria, South Africa, near Frutarom's new South African site, and a wide customer base in South Africa and other important emerging markets of the Sub-Saharan region like Ghana, Malawi, Zimbabwe and Mozambique. Unique has a workforce of 64 people.

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 Unique (continued):

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Trade	2,197
Inventory	314
Others	97
Non-current assets:	
Property, plant and equipment	173
Intangible assets	6,129
Current liabilities :	
Trade payables	(1,567)
Other account payables	(971)
Deferred taxes	(18)
	6,354

From the date it was consolidated with the financial statements of the Company through June 30, 2017, the acquired operations have yielded revenues of $ 4,163 thousands and net profit of $ 464 thousands (net of acquisition costs).

c. Acquisition of Rene Laurent

On April 4, 2017 the Company signed an agreement for the purchase of 100% of the French Company "René Laurent" in consideration for approx. USD 21 million (Euro 20 million). The transaction was completed upon the signing of the agreement and was financed through bank debt.

Founded in 1885 with a very longstanding reputation as one of the world's oldest Companies in flavors and specialty fine natural ingredients, René Laurent engages in the development, production and marketing of flavors and natural extracts. René Laurent has two production sites (one focusing on sweet flavors and the other on savory flavors), and an R&D center near Cannes, in Grasse, France, an area at the heart of the French flavors industry, plus a production site near Casablanca, Morocco, where natural herbal extracts activity is carried out for both the field of natural flavors and the field of antioxidants for food protection. René Laurent has a broad customer base in Europe, mainly in France, as well as in French speaking countries in Africa such as Morocco, Cameroon and Ivory Coast, and in Asia. René Laurent has approximately 100 employees.

NOTE 4 – BUSINESS COMBINATIONS (continued):

c. Acquisition of Rene Laurent (continued):

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 Rene Laurent at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	2,406
Trade	3,148
Inventory	4,110
Others	3,390
Non-current assets:	
Property, plant and equipment	1,522
Intangible assets	11,181
Current liabilities :	
Trade payables	(1,777)
Other account payables	(3,082)
	20,898

From the date it was consolidated with the financial statements of the Company through June 30, 2017, the acquired operations have yielded revenues of $ 3,945 thousands and net profit of $ 277 thousands. In addition, acquisition costs amounted $ 217 thousands has incurred.

d. Acquisition of control in SDFLC

On June 22, 2017, the Company signed an agreement for the purchase of 80% of the shares in the Brazilian company SDFLC Brasil Indústria E Comércio Ltda. ("**SDFLC**"), in exchange for BRL 103 million (approx. US$ 29.5 million). The purchase agreement includes debt and a mechanism for future consideration contingent on SDFLC future business performance, which as of the date of acquisition estimated in the amount of approximately BRL 10 million. Additionally, the 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 SFCLC's business performance. The transaction was completed upon signing and financed through bank debt.

NOTE 4 – BUSINESS COMBINATIONS (continued):

d. Acquisition of control in SDFLC (continued):

SDFLC was founded in 2001 in the city of Sete Lagoas in the Brazilian state of Minas Gerais and engages in the market of taste solutions for ice creams and desserts in Brazil. The company provides its customers support in product R&D based on portfolio of solutions for ice creams and desserts based on natural ingredients and includes: diverse taste solutions, texture solutions, coatings and glazing, as well as a unique diversity of innovative functional solutions (low sugar, low fat, low calorie and non-allergenic).

SDFLC employs about 90 workers and serves around 2,250 customers in Brazil in the field of ice cream and desserts, including independent artisan ice cream makers, multinationals, food processing companies and leading dining chains, and this is by means of a sales and marketing network with broad nationwide deployment.

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 SDFLC at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	38
Trade	2,994
Inventory	2,086
Others	264
Non-current assets:	
Property, plant and equipment	2,761
Intangible assets	55,281
Current liabilities :	
Bank credit and loans	(219)
Trade payables	(717)
Other account payables	(391)
Deferred taxes	(7,195)
Non-current liabilities:	
Long-term other account payables	(23,565)
Long term loans	(1,908)
	29,429

SDFLC shall be consolidated as of June 30, 2017. Therefore there is no effect on income and loss for the period.

NOTE 4 – BUSINESS COMBINATIONS (continued):

e. Signing an agreement for the Acquisition of WFF

On April 5, 2017 the Company signed an agreement for the purchase of 60% of the Vietnamese company Western Flavors Fragrances Production ("WFF") for approx. USD 1.3 million (VND 28.7 billion). The purchase agreement includes a mutual option for purchasing the remaining balance of WFF shares beginning four years from completion of the transaction at a price based on the future business performance of WFF during that period. The transaction should be completed in the following weeks and will be financed through Company's own funds.

WFF was founded in 2003, has 44 employees and engages in the development, production and marketing of flavors, mostly in the field of sweet flavors and with emphasis on the dairy, beverages, confectionery and baked goods segments. The company has a broad portfolio of products and around 300 customers from among the leaders in their fields in Vietnam. WFF has a plant and laboratory in southern Vietnam in Ho Chi Minh City and a sales and marketing office in Hanoi, in the country's northern region, and is one of a handful of flavors producers in the Vietnamese market having a research, development and applications laboratory, production site and local sales and marketing platform. Frutarom intends to build a modern new flavors plant in Ho Chi Minh City which will enable it to significantly expand its activity in the Vietnamese market and in the growing countries of the region.

f. Acquisition of the remaining holdings of Nutrafur

On June 12, 2017, the Company signed, through a subsidiary, an agreement for the purchase of 20.92% of the shares of the Spanish company Nutrafur S.A. ("Nutrafur") from the company's founding families for US$ 2.4 million (approx. € 2.1 million) such that Frutarom now holds 100% of Nutrafur shares. The transaction was completed upon signing.
It should be noted that on September 3, 2015, the company acquired approx. 79% of the shares of Nutrafur.

g. On a proforma basis - assuming that the companies acquired in 2016 has been consolidated as from 1.1.2016 and the companies acquired in 2017 had been consolidated in the corresponding period in 2016 – the H1 2016 sale would have amounted to approx. $ 612.4 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 March 22, 2017, the Company's Board of Directors declared the distribution of a dividend of NIS 0.44 per share. The dividend was paid to the shareholders on 7 of May, 2017 in the total amount of $ 7,234 thousands.

NOTE 6 – SEGMENT REPORTING

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

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

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total consolidated
			U.S. dollars in thousands		
6 months ended 30 June 2017: (unaudited):					
Revenues	473,612	133,157	44,304	(4,953)	646,120
Segment results	81,656	18,037	880	(30)	100,543
6 months ended 30 June 2016: (unaudited):					
Revenues	406,794	117,862	37,384	(4,079)	557,961
Segment results	58,562	12,785	776	23	72,146
3 months ended 30 June 2017 (unaudited):					
Revenues	254,260	66,404	25,259	(2,334)	343,589
Segment results	45,707	9,099	378	12	55,196
3 months ended 30 June 2016 (unaudited):					
Revenues	224,415	57,614	20,477	(2,286)	300,220
Segment results	35,364	6,126	100	13	41,603
Year ended 31 December 2016 (audited):					
Revenues	846,517	227,860	79,494	(6,830)	1,147,041
Segment results	125,825	21,549	1,938	(56)	149,256

NOTE 6 – SEGMENT REPORTING (continued):

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2017	**2016**	**2017**	**2016**	**2016**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	U.S. dollars in thousands				
Reported segment income	100,543	72,146	55,196	41,603	149,256
Financing expenses (income)	10,204	7,747	8,031	3,242	12,841
Profit before taxes on income	90,399	64,399	47,165	38,361	136,415

NOTE 7 – SUBSEQUENT EVENTS:

a. Exercise of an acquisition option in BSA

On July 5, 2017 Frutarom purchased the approximately 5% balance of the share capital of the Canadian company Les Ingredients Alimentaires BSA Inc. ("BSA") for approximately US$ 2 million (approx. CAD 2.75 million) and thereby completed its acquisition of 100% of the shares in BSA, and this is further to the purchase of 95% of BSA’s share capital on May 15, 2015.

BSA was founded in 1989 and its main activity is the development, production and marketing of unique and innovative savory taste solutions that include seasoning blends and functional ingredients for the food industry, with particular focus on the areas of processed meats and convenience foods. BSA has a large and production site in Montreal and around 150 employees.

b. Investment in Enzymotec

On July 31, 2017 the Company invested, through a subsidiary, in approximately 7.57% of the share capital of Enzymotec Ltd. (“Enzymotec”), a company traded on NASDAQ under the symbol ENZY, for the overall sum of approximately US$ 12.9 million, reflecting an average price of about US$ 7.4 per share. On August 3, 2017 the Company made an additional investment increasing its holdings to 9.6% of the share capital of Enzymotec, for approximately US$ 4.3 million to a total investment of approximately US$ 17.2 million, reflecting an average price of about US$ 7.8 per share. Frutarom financed the investment from independent sources.

Enzymotec is a developer, manufacturer and marketer of innovative lipid-based bioactive ingredients for the nutritional supplement, healthcare, medical foods and infant formula industries and possesses know-how, research & development and products that are in part of interest and relevance to Frutarom's core businesses.

NOTE 7 – SUBSEQUENT EVENTS (continued):

c. Acquisition of Flavours & Essences

On August 14, 2017 Frutarom signed an agreement for the purchase of 100% of the shares in the UK Company Flavours and Essences UK Ltd. ("F&E"), for the sum of approximately US$ 19.5 million (£ 15 million) and a mechanism for future consideration based on F&E's future business performance over the period of three years from the purchase date. The transaction was completed upon signing and financed through bank debt.

F&E, which was founded in 1998, engages in the development, production and marketing of flavors and natural colors. F&E operates a production site and R&D center in Blackburn, England, employs 41 people, and has a broad customer base in Europe, particularly in the UK and Ireland. F&E's activity is synergetic with Frutarom's activity in the field of flavors, as well as with Frutarom's developing activity in the field of natural food colors

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
7. Flora Lewin, Global Chief information officer

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

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

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

In the Quarterly Report Regarding Effectiveness of Internal Audit on Financial Reporting and on Disclosure attached to the Quarterly Report ending on March 31, 2017 (hereinafter: the "**Last Quarterly Report Regarding Effectiveness**") the Board of Directors and the Company's management assessed the internal audit in the Company; based on this assessment, the Board of Directors and the Company's management concluded that said internal audit, as at March 31, 2017, 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 5B to the Company's 2016 Annual 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 has finalized, from the date of acquisition, 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 second quarter of 2017 (the "**Reports**");
2. To my knowledge, the Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which they were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the financial reports and other financial information contained in the reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:

   a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –

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

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

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

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

   c. No events or issues occurring during the period between the date of the last Quarterly Report (the report for the period ended March 31, 2017) 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: August 16, 2017

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Ori Yehudai

President and CEO

<u>Directors' Declarations</u>

<u>Declaration of the Executive Vice President and CFO</u>

The undersigned, Alon Granot, hereby declares as follows:

1. I have reviewed the financial reports and other financial information contained in the interim reports of Frutarom Industries Ltd. (the "**Company**") for the second quarter of 2017 (the "**Reports**");
2. To my knowledge, the interim financial reports and other financial information contained in the interim Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;
3. To my knowledge, the interim financial reports and other financial information contained in the interim reports duly reflect the Company's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;
4. I have disclosed to the Company's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:
   a. All the material deficiencies and weaknesses in prescribing and implementing the internal control on the financial reporting and on the disclosure, if any, which may reasonably adversely affect the ability of the Company to gather, process or report on financial information in a manner which could raise concerns regarding the reliability of the financial reporting and the preparation of the financial reports in accordance to the provisions of the law; and –
   b. Any fraud, material or not material, which involves the president and CEO or anyone directly reporting to him or other employees who hold

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

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

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

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

   c. No events or issues occurring during the period between the date of the last Quarterly Report (the report for the period ended March 31, 2017) 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: August 16, 2017

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Alon Granot
Executive Vice President and CFO