FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDED SEPTEMBER 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 67 production sites, 82 research and development laboratories, and 103 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and markets and sells approximately 70,000 products to more than 30,000 customers in over 150 countries and employs over 5,000 people throughout the world[1].

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

1 Not including Mighty and Enzymotec for which Frutarom signed agreements on acquiring them on October 18, 2017 and October 28, 2017 respectively and as of the date of this report their acquisitions were not yet completed. For further information, see Section 'A' below "Acquisitions made subsequent to the date of the financial report."

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, beverages, flavors and fragrances, pharma/nutraceutical, cosmetics and personal hygiene 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 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 grew 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 and Building Market Leadership in Herbal Extracts** – 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. Around 75% of Frutarom sales are now from natural

products and Frutarom intends to continue increasing the proportion of its higher growth-generating natural products activity. As part of the strategy of focusing on natural products with health-promoting attributes, the activity of AB-Fortis was acquired in 2017, Grow, Nardi and Extrakt-Chemie were acquired in 2016, and Nutrafur and Vitiva were acquired in 2015. Frutarom 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).

Frutarom observed that one of the greatest challenges for its customers in switching to natural products, whether in flavors, colors, food protection or health ingredients, is their limited availability and considerably higher cost than synthetic products. Frutarom embarked on a strategic campaign with the aim of significantly increasing the availability and outputs of natural ingredients and production capacity for the specialized manufacture of natural herbal extracts. The acquisitions of Vitiva, Ingrenat, Nutrafur, Extrakt-Chemie, Nardi and René Laurent (with its extracting factory in Morocco) provided for substantially increasing Frutarom's production capacity for natural herbal extracts, creating specialization centers for the various herbal extract technologies and optimizing production between the various plants, all based on their respective extraction technology specializations and involving substantial improvement in their operational efficiency.

In addition, Frutarom works jointly with agricultural research institutes around the world to develop, under patents, strains of plants having a high content of active substances responsible for taste, color, natural food protection and health and switching to self-cultivation in partnership with large and experienced growers in regions where climates are suitable for the main types of plants on which Frutarom focuses, including in Latin America, India, China, Eastern Europe and Africa, with the intention that in the coming years approximately 50% of raw material consumption for Frutarom's main natural extracts will be from self-cultivation.

Frutarom is working on developing global market leadership in the growing field of natural herbal extracts together with continued improvement in this activity's profitability, and making further strategic acquisitions in this field.

- **Developing Global Activity in Fragrances** – Frutarom has begun a strategic campaign to develop global activity in fragrances with emphasis on high-growth emerging markets. In this framework Frutarom acquired Turpaz in 2017 which joined Frutarom's small existing businesses in fragrances situated mainly in India, Africa and Latin America. Fragrances activity is synergetic and complementary to flavors activity, among other things with respect to raw materials and production processes. Many players in Frutarom's fields of activity carry out parallel flavors and fragrances activities. The world market for fragrances was estimated in 2016 at approximately US$ 13.2 billion (larger

than for flavors which is estimated at approx. US$ 11 billion), with projections that sales in the flavors and fragrances markets will grow at an annual rate of about 3% between 2015 and 2020[2]. According to these projections, the rate of growth in emerging markets such as Asia, Central and South America, Eastern Europe and Africa is expected to be higher as a result of evolving consumer preferences in these markets and a rise in the standard of living and disposable income, and could reach an average annual rate of 5.1% from 2015 to 2020. Fragrances are sold to customers in the perfume, cosmetics, personal hygiene, household cleaning agents, detergents, air freshener and scented candle industries and more. Like flavors, fragrances are blends that are developed and tailor-made to customer requirements while long-term relationships are built up between the manufacturers and the customers, with much importance given to innovation, suppler reliance, service quality and familiarity of the manufacturers with customer needs for whom the specialty fragrances were developed. Frutarom intends to continue developing this important field, including by way of a good pipeline of additional activities in fragrances which will hasten its penetration and expansion in this field.

- **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) with higher growth rates by means of both rapid internal growth and the 20 acquisitions carried out over the past five years in North America and in emerging markets. 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 4.7 such that sales in emerging markets made up about 42% of Frutarom sales[3] in the past year[4] compared with 27% in 2010. Sales in North America over the same period rose by a factor of 4.5, 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 15% of overall sales in the past year[4] compared with 9% in 2010.

  The rapid growth of activity outside of Western Europe has led to sales in Western Europe in the past year[4] (up by 85% since 2010) now constituting 37% of Frutarom's total sales compared with 51% in 2010.

  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 lacked until recently to develop and produce savory flavors locally. In 2018 an advanced flavors plant will be built in Ho Chi Minh City, Vietnam, with the aim of supporting the rapid growth of activity expected in Vietnam and the markets of Eastern Asia.

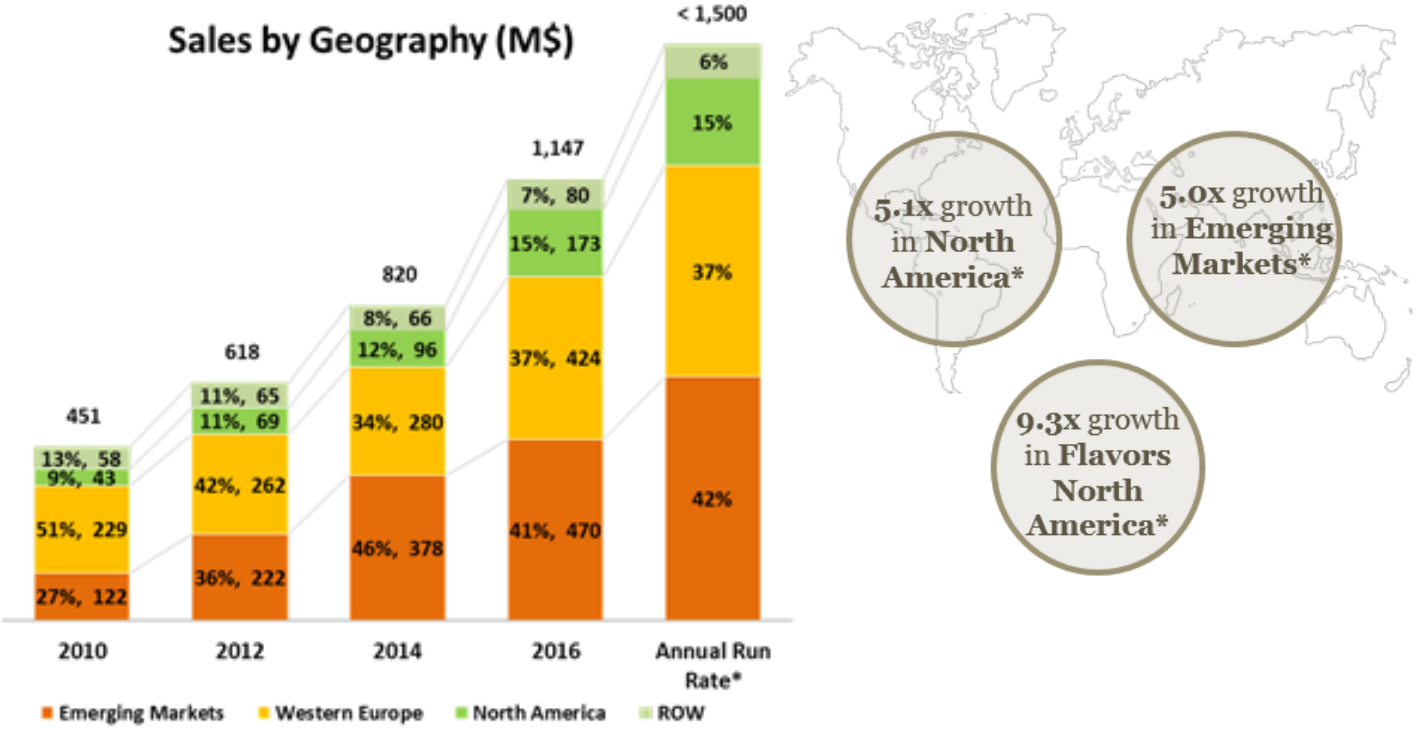
2 IAL Consultants, Dec. 2016

3 On a pro-forma basis.

4 In the 12-month period ended September 30, 2017.

Frutarom continues developing and expanding its activity in the growing emerging markets and North America through, among other things, focused reinforcement of its R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions. 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>:



* *Following the accelerated rate of internal growth and contribution by acquisitions made until now (including Mighty and Enzymotec), Frutarom's run rate of annual sales is nearing US$ 1.5 billion.*

- **<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%)[5] 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

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

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.

- **Acquisitions and Mergers and their Contribution towards Achieving Profitable Growth** – 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 44 strategic acquisitions, including 29 since the beginning of 2015, eight in 2016 and 10 since the beginning of 2017[6] which are being and will be 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 many 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 acquisitions it made 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 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 taking effect and part expected to be reflected in its results in upcoming quarters[7].

  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.

6 Including the Mighty and of Enzymotec acquisitions for which Frutarom signed agreements for their acquisition during October 2017 but as of the date of this report has not yet completed their acquisition.

7 The assessments stated in this section constitute forward-looking statements as defined in the Securities Law. 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 developments that are not necessarily under the control of Frutarom and/or resulting from the realization of any of the risk factors outlined in section 41 of Chapter A of the annual report.

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 approximately US$ 50.3 million (which reflected a company value of US$ 67 million).

  Founded in 1996, PTI engages mainly in 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 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.

  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.

- **Acquisition of Unique** – 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, consolidating the plant operations, accelerating the growth with the support of its ability to expand the supply of its products, and realizing 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 ended 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.

- **Acquisition of René Laurent** – 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 in France (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 has successfully merged the activity of René Laurent with Frutarom's activity 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 ended 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.

- **Acquisition of control 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$ 1.1 million (approximately VND 23.9 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.

  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 purchased land and is working towards building a modern flavors plant in Ho Chi Minh City which will be completed in 2018 and will allow for significant expansion of activity in the Vietnamese market and in the growing countries of the region[7].

WFF's sales volume in the 12 months ended February 2017 totaled US$ 1.5 million (approx. VND 34 billion). For further information on the acquisition of WFF, see the Company's immediate report from April 6, 2017.

- **Completion of acquisition of 100% of the shares in Nutrafur** – 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. 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.

- **Acquisition of control in SDFLC** – 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. The agreement includes an option for the purchase of 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 ended May 2017 totaled approximately US$ 22 million (approx. BRL 72 million), and since then it has continued growing at an impressive double-digit rate. For further information on the acquisition of control in SDFLC, see the Company's immediate report from June 25, 2017.

- **Exercise of an acquisition option in BSA** – On July 5, 2017 Frutarom purchased the approximate 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 purchased 100% of the share capital of UK-based Flavours and Essences UK Ltd. ("**F&E**") for 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 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 about 40 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.

  Frutarom is working on fully exploiting the cross-selling opportunities inherent in this acquisition and towards expanding the product portfolio to F&E's existing customer base. In addition, Frutarom is taking 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 ended 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 acquisition of F&E, see the Company's immediate report from August 15, 2017.

- **Acquisition of Mühlehof** – On August 21, 2017 Frutarom purchased 100% of the share capital of the Swiss company Mühlehof Gewürze AG ("**Mühlehof**"), for the sum of approximately US$ 7 million (CHF 6.69 million). The transaction was financed through bank debt.

Mühlehof, which was founded in 1979, engages in the development, production and marketing of savory taste solutions, including flavors, seasoning blends, marinades and functional ingredients for the food industry, with emphasis on convenience foods and meats. Mühlehof, with 9 employees, has a site in Switzerland for development, manufacturing and marketing which is included among the acquired assets. Mühlehof has a product portfolio of specialized solutions tailor-made for its customers and Swiss tastes based on know-how and considerable experience, and a broad customer base which includes leading Swiss retail chains. Joining together Mühlehof's and Frutarom's diverse customers creates a large number and wide variety of cross-selling opportunities.

Mühlehof's activity is synergetic with Frutarom's activity in Europe in the field of savory, which has grown significantly in recent years, and particularly with Frutarom's activity in Switzerland, allowing Frutarom to increase its market share in the country and exploiting synergies in the areas of R&D, sales, operations, purchasing and logistics while attaining significant savings from the merger.

According to Mühlehof management reports, its sales turnover for the 12 months ended June 2017 totaled approximately US$ 3.4 million (CHF 3.35 million). For further information on the acquisition of Mühlehof, see the Company's immediate report from August 22, 2017.

- **Acquisition of control in Turpaz** – On September 6, 2017 Frutarom invested in and purchased shares of Turpaz Perfume and Flavor Extracts Ltd. ("**Turpaz**") and BKF Perfume Compounding Ltd. (a company owning 80% of the share capital of Turpaz, "**BKF**") and became owner of approx. 51% of the share capital and voting rights in Turpaz. The transaction was performed at a cash-free debt-free company value of approx. US$ 15.1 million (approx. NIS 53.7 million). The purchase and investment agreement includes an option for Frutarom to purchase the remaining shares of Turpaz and BKF starting four years from the date of completion of the transaction at a price based on their future business performance. The transaction was financed through bank debt.

  Turpaz engages mainly in the development, production and marketing of fragrances. Turpaz employs a staff of 16 and has a R&D, manufacturing and marketing site in Israel and recently opened a center for R&D, production, sales and marketing in the US state of New Jersey. Turpaz has a diverse portfolio of products and solutions which are based on considerable know-how and experience, and a broad customer base, and has exhibited impressive growth rates in recent years while improving its profitability margins. Turpaz's activity has been attached to Frutarom's Flavors division activity.

  According to Turpaz's management reports, its sales turnover for the 12 months ended June 2017 totaled approx. US$ 6.2 million (approx. NIS 23.3 million) with higher profitability margins than those of Frutarom's Flavors division. For further information on the acquisition of Turpaz, see the Company's immediate report from September 6, 2017.

Acquisitions made subsequent to the date of the financial report:

- **Signing of an agreement to acquire control in Mighty** – On October 18, 2017 Frutarom signed an agreement for the purchase of 60% of the shares of the Thai company The Mighty CO. LTD., which includes the activity of the Thai companies

Maharaj Food Co. Ltd. and Mighty International Co. Ltd. (collectively: "**Mighty**") for approximately US$ 12 million (not including debt) (approx. THB 393 million) according to a valuation of approx. US$ 20 million (not including debt) (approx. THB 655 million).

In the framework of the transaction Frutarom will acquire 49% of Mighty's share capital in the initial stage and will increase its holdings to 60% in the second stage subject to a number of conditions precedent and obtaining regulatory authorizations from the authorities in Thailand. The transaction includes an option for the purchase of the balance of holdings in Mighty in two stages, in periods beginning three years and five years from the date of completion of the second part of the transaction, at a price based on Mighty's future business performance. Completion of the first part of the transaction is expected in the upcoming weeks and in the Company estimates that increasing its holdings to 60% will be completed within several months..

Mighty, which was founded in 1989, engages in the development, production and marketing of flavors, including savory taste solutions and holds a leading position in Thailand's flavors market where there are few producers of taste solutions, and is among the most innovative flavor companies in Southeast Asia that base themselves on their own independent R&D. The Company's broad portfolio of solutions includes flavors, seasoning blends and marinades as well as specialty functional raw materials for the food and beverage industry with emphasis on the field of convenience foods, snacks, noodles, fish, meats, baked goods, beverages and dairy, and it has a product portfolio of specialty solutions adapted to Asian tastes based on the vast knowledge and experience of its managers. Its activity also includes unique solutions for the production of raw materials in the fields of infant nutrition and elderly nutrition, and Frutarom intends to continue developing this activity in Thailand and in the countries of the region. Approximately 60% of its activity consists of manufacturing of taste solutions, with market leadership in the field of savory taste solutions, while 40% is trade activity in specialty raw materials for the food, beverages and nutrition industries.

Mighty's sales turnover in the 12 month period ended August 2017 totaled approx. US$ 15 million (approx. THB 500 million) after the company registered average annual growth of 12% over the past four years. For further information on the signing of the agreement to acquire Mighty, see the Company's immediate report from October 18, 2017.

- **Signing of an agreement to acquire Enzymotec**

Further to an overall investment by Frutarom in approximately 18.75% of the share capital of Enzymotec Ltd., a public Israeli company whose shares are traded on NASDAQ (under the symbol ENZY) ("**Enzymotec**") for a total of US$ 42 million reflecting an average price of US$ 9.6 per share, on October 28, 2017 Frutarom, through its fully-owned subsidiary Frutarom Ltd. (the "**Acquiring Company**"), entered into an acquisition agreement by way of a reverse triangular merger with Enzymotec Ltd. and with a subsidiary of the Acquiring Company (the "**Merger Sub**").

In the framework of the merger transaction, the Acquiring Company will acquire the outstanding balance of Enzymotec shares not in its possession (approx. 81%) in return for a cash payment of US$ 11.9 per share by way of a full merger of the Merger Sub into Enzymotec such that Enzymotec will become an indirectly fully-owned subsidiary

of Frutarom and its shares shall be delisted from NASDAQ. The overall net consideration (offsetting the cash, cash equivalents, deposits and tradeable securities in Enzymotec's treasury) that was and is to be paid by Frutarom for 100% of Enzymotec's shares stands at approximately US$ 210 million (including cost of vested options, RSU's and estimated transaction expenses). The transaction will be funded through bank and/or financial institution debt.

Enzymotec, which was founded in 1998, develops, produces and markets nutritional ingredients and medical foods based on cutting-edge, proprietary technologies. Enzymotec has developed a unique technology for processing lipids that are an important nutritional ingredient, supporting various biological functions. Enzymotec's proprietary technologies enable extraction of lipids from natural sources, separation and analysis of lipid molecules, and use enzymes to synthesize lipid molecules familiar to the human body. Enzymotec utilizes a proprietary toolset that allows it to efficiently transform lipids from natural raw materials into those that have unique structural and functional characteristics. Enzymotec has two main segments of activity, the nutrition segment which includes the leading product InFat (a fat component integrated into infant formula), and VAYA Pharma in the framework of which Enzymotec develops, manufactures and markets medical foods for the dietary management of certain medical conditions or diseases.

Enzymotec, with approx. 235 employees, mainly in Israel and the United States, including 30 in R&D, has an advanced GMP certified factory in Migdal HaEmek, Israel which includes an R&D center, laboratories, a production plant and offices.

The closing of the merger is subject to the approval of the merger agreement by Enzymotec's shareholders at a meeting scheduled for December 11, 2017. In addition to receiving this shareholder approval, the closing of the merger is subject to several customary conditions as specified in the agreement. Frutarom estimates that, subject to the fulfillment of the closing conditions, the merger transaction will be completed during the first quarter of 2018.

Frutarom will take steps to develop and significantly expand Enzymotec's nutrition segment, which is very synergetic with the activity of Frutarom's Specialty Fine Ingredients division into which it will be merged, and views it as an important part of its future profitable growth strategy. In the coming months and after the transaction is completed, Frutarom will decide on an appropriate strategy for future activity of the VAYA Pharma segment with the goal of it delivering a positive contribution as quickly as possible to Frutarom shareholders. For further information on Frutarom's investments in Enzymotec and on the merger agreement, see the Company's immediate reports from August 1, August 4, August 24, September 19 and October 29, 2017.

- **Acquisition of the AB-Fortis activity** – On November 7, 2017 Frutarom acquired the AB-Fortis activity from the Spanish company AB Biotics S.A. AB-Fortis is a patent-protected micro-encapsulation technology that enables delivery of iron with increased biological absorption while avoiding the side effects of metallic taste and digestive problems in the applications of functional foods and dietary supplements. The transaction was financed by independent means.

AB-Fortis joins Frutarom's established activity in specialty fine ingredients, the framework in which Frutarom develops, produces and markets active substances and natural specialty patent protected extracts with scientifically proven healthy qualities that are backed by clinical trials and are patent protected to tens of thousands of customers throughout the world. For further information see the Company's immediate report from November 8, 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[7].

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. 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, Nutrafur and Extrakt-Chemie has provided for substantial streamlining. Actions continue for increasing production capacity at the manufacturing plants of Vitiva, Ingrenat, Nutrafur and Extrakt-Chemie (which has significantly greater production capacity than is utilized, for GMP pharma products as well) and for optimizing production between the various sites according to their varying technological extracting specializations while significantly boosting their operational efficiency. In the framework of the overall drive towards optimization and operational efficiency in the herbal extracts activities, Frutarom's plant in

Wädenswil, Switzerland is to be shut down. 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 take effect starting in the first quarter of 2018[7].

- 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, estimated at over US$ 12 million (on an annual basis)[7] most of which have already gradually taken partial effect over the first nine months of 2017 with the balance taking effect in the coming months. 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 is continuing and will continue, 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 the many new customers who joined following the acquisition.
- Frutarom's flavors activity in Poland has been merged with that of AMCO at its new modern plant which enables it to, among other things, improve its service and delivery times.
- Action continues being taken towards combining the activity of the Mexican company Piasa 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, while exploiting the many 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.
- Progress is successfully being made merging René Laurent's R&D, sales, marketing and purchasing activities with Frutarom's flavors activity platform in Europe.
- Frutarom is taking steps to integrate SDFLC in Brazil 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. The new site, which will be built at an investment of approximately US$ 6 million, is expected to be completed in 2018.

- **Investing in R&D for natural specialty products in the fields of taste and health** which contribute to improving the product mix and Frutarom's profitability.
- **Integration of R&D systems** – Frutarom is working to make maximum utilization of the many innovative R&D and technological capabilities gained over recent years through its acquisitions, as well as implementing its new customer relationship management (CRM) system and cross-organizational joint R&D and applications projects for broadening its product portfolio, and improving the quality of solutions and level of service to customers, channeling the projects to the relevant know-how centers and leveraging the knowledge and expertise developed at the various Frutarom sites over recent decades.
- **Building up and strengthening the global purchasing system** – Frutarom continues to build and strengthen its global purchasing infrastructure, 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. The global purchasing system contributed this quarter and will continue contributing to further improvement in Frutarom's profitability.
- **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 and will contribute over the coming years to strengthening its competitive position and improving its profits and margins.

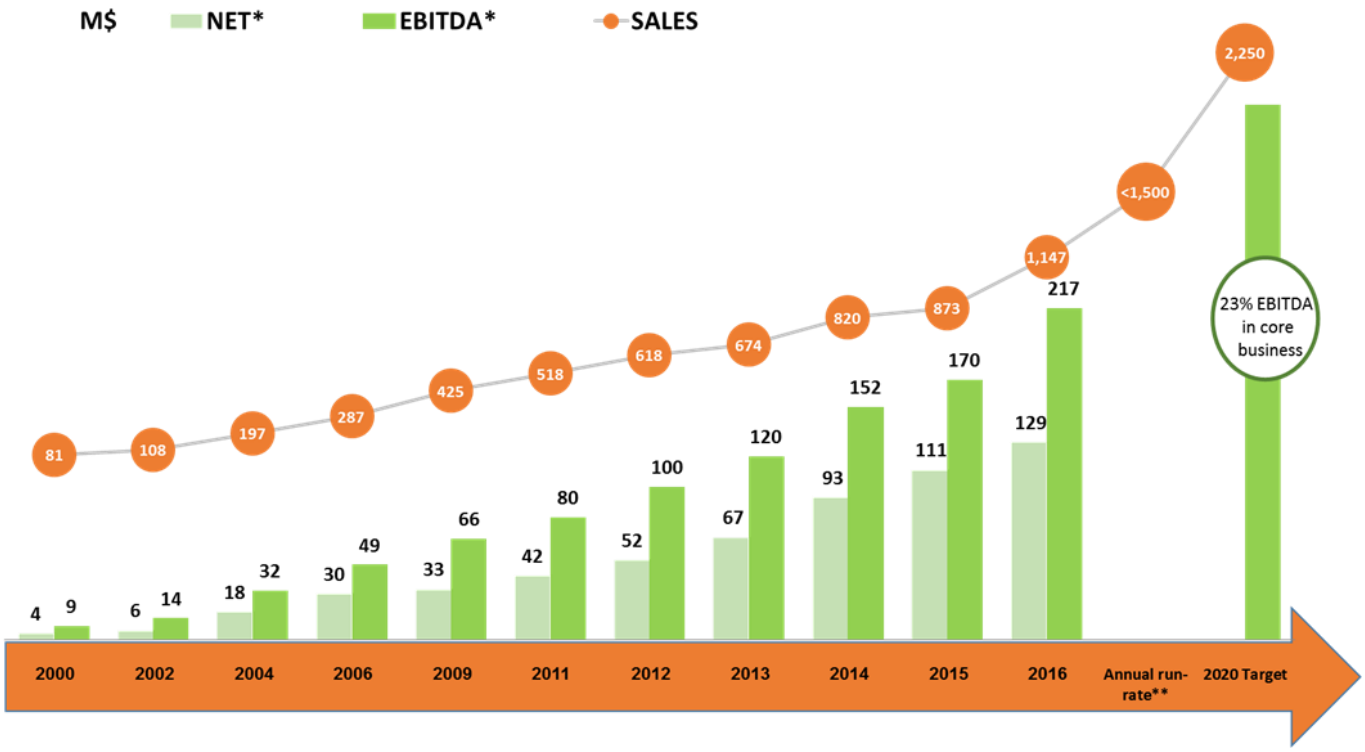
Frutarom expects that fulfilling its rapid and profitable growth strategy combining profitable internal growth with strategic acquisitions, along with the contribution from continuing fulfillment of streamlining processes and its improved cost structure, with maximum utilization of its sites around the 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 margins.

The run rate of Frutarom's annual sales is already nearing US$ 1.5 billion, and after examining its strong competitive position, accelerated rate of internal growth, its latest acquisitions and pipeline for future acquisitions, and the contribution to efficiency by its merger and global procurement activity, Frutarom is raising its sales target for 2020 to US$ 2.25 billion with an EBITDA margin rising to 23% in its core businesses (assuming the current product mix) [7]***.***

In the Company's estimation, its solid capital structure (total assets of US$ 1,905 million and equity of US$ 832 million as of September 30, 2017 constituting 43.7% of the total balance sheet), and its level of net debt (total loans minus cash) as of September 30, 2017 of approximately US$ 540 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"

Development of Sales and Profits since 2000:



* *Figures are adjusted for non-recurring expenses.*

** *Following the accelerated rate of internal growth and contribution by acquisitions made until now (including Mighty and Enzymotec), Frutarom's run rate of annual sales is nearing US$ 1.5 billion.*

B. FINANCIAL STATUS

Frutarom's total assets as of September 30, 2017 totaled US$ 1,904.6 million, compared with US$ 1,591.7 million as of September 30, 2016 and US$ 1,585.5 million as of December 31, 2016.

The Group's current assets as of September 30, 2017 totaled US$ 740.5 million, compared with US$ 639.8 million as of September 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 September 30, 2017 totaled US$ 1,080.2 million, compared with US$ 920.3 million as of September 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 over recent months.

Currency effects

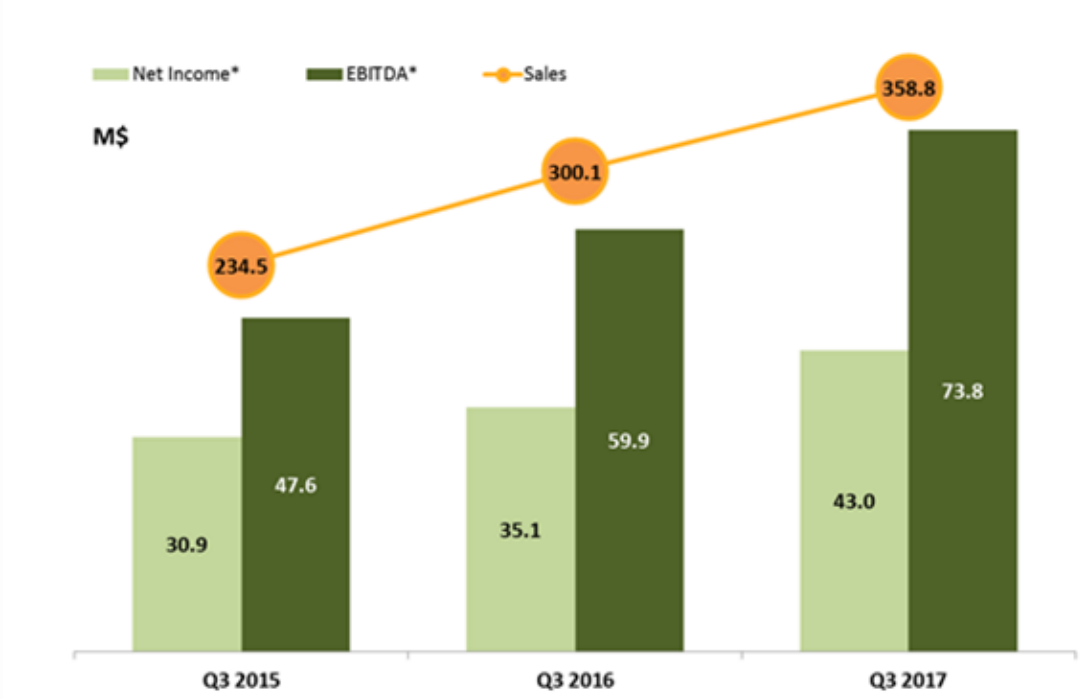
Over 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, Canadian Dollar, Chinese Yuan, New Israeli Shekel, Mexican Peso, Polish Zloty, Brazilian Real, Peruvian Nuevo Sol). Therefore, changes in exchange rates affect 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 boosted Frutarom’s sales by 2.8% in Q3 2017 and by 0.6% in the first nine months of 2017.

C. RESULTS OF OPERATIONS FOR THIRD QUARTER 2017

The third quarter of 2017 was another record setting quarter for Frutarom in sales, gross profit, operating profit, EBITDA, net income, cash flow and earnings per share.



* *The figures are net of non-recurring expenses.*

Sales

Frutarom's sales in the third quarter of 2017 rose 19.6% to a record US$ 358.8 million compared with US$ 300.1 million in the parallel quarter, reflecting 6.0% 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 boosted sales growth in pro-forma terms by 2.8%.

Sales for Frutarom's **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose 20.2% in Q3 2017 to reach a record level US$ 336.6 million compared with US$ 280.0 million in the same quarter last year, reflecting 7.4% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates boosted results by 2.6% in pro-forma terms.

Sales from the **Flavors activity** rose 21.3% to reach US$ 272.9 million in Q3 2017 as against US$ 225.0 million in Q3 2016, reflecting 6.0% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates boosted results by 2.8% in pro-forma terms.

Sales from **Specialty Fine Ingredients activity** rose 19.4% to US$ 67.1 million in Q3 2017 compared with US$ 56.1 million in Q3 2016 and reflect 17.8% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates boosted results by 1.6% in pro-forma terms.

Sales from **Trade & Marketing** (which does not constitute part of Frutarom's core activities) rose by 10.8% to US$ 22.2 million in Q3 2017 compared with US$ 20.0 million in Q3 2016. Contributing to the increase were 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 4.8% in pro-forma terms. In constant currency and pro-forma terms, Trade & Marketing sales declined by 12.5% against the parallel period.

Sales Breakdown by Activity in Q3 for 2007 - 2017 (in US$ millions and %):

		Q3 2007	Q3 2008	Q3 2009	Q3 2010	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Q3 2016	Q3 2017
Flavor Activity	**Sales**	57.6	86.1	77.3	75.4	96.9	114.2	119.4	151.1	165.4	225.0	272.9
	%	65.7%	71.7%	69.3%	67.9%	71.7%	72.7%	74.2%	71.7%	70.5%	75%	76.1%
Fine Ingredient Activity	**Sales**	28.1	31.1	33.5	34.6	37.8	37.2	36.7	40.8	48.3	56.1	67.1
	%	32.0%	25.9%	30.1%	31.1%	27.9%	23.7%	22.8%	19.4%	20.6%	18.7%	18.7%
Inter-company sales	**Sales**	-1.3	-1.0	-0.7	-0.5	-0.7	-0.6	-2.4	-1.3	-1.0	-1.1	-3.4
	%	-1.4%	-0.9%	-0.7%	-0.5%	-0.5%	-0.4%	-1.5%	-0.6%	-0.4%	-0.4%	-0.9%
Total Core Activity	**Sales**	84.4	116.2	110.1	109.5	134.0	150.8	153.7	190.7	212.7	280.0	336.6
	%	96.3%	96.8%	98.7%	98.6%	99.0%	96.0%	95.5%	90.5%	90.7%	93.3%	93.8%
Trade & Marketing	**Sales**	3.3	3.8	1.5	1.5	1.3	6.3	7.3	20.1	21.8	20.0	22.2
	%	3.7%	3.2%	1.3%	1.4%	1.0%	4.0%	4.6%	9.5%	9.3%	6.7%	6.2%
Total Sales		87.7	120.0	111.6	111.0	135.3	157.1	161.0	210.8	234.5	300.1	358.8

Profits and margins

In Q3 2017 Frutarom achieved record quarterly results in sales, gross profit, operating profit, EBITDA, net income, cash flow 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 21.5% in Q3 2017 to US$ 138.4 million (38.6% of overall sales) compared with US$ 114.0 million (38.0% of overall sales) in Q3 2016.

Operating profit climbed 27.5% to reach US$ 57.8 million in Q3 2017 (operating margin of 16.1%, a third quarter record) compared with US$ 45.3 million (15.1% operating margin) in Q2 2016.

EBITDA grew 27.2% to reach US$ 71.1 million in Q3 2017 (EBITDA margin of 19.8%, a third quarter record) compared with US$ 55.9 million in (EBITDA margin of 18.6%) in Q3 2016.

Non-recurring expenses were recorded in Q3 2017 in connection with acquisitions and for measures taken by Frutarom to attain optimization and efficiency mainly in the natural extracts operations of the Specialty Fine Ingredients Division. These non-recurring expenses diminished gross profit by US$ 1.6 million, operating profit and EBITDA by US$ 2.7 million and net income by US$ 2.2 million. In the parallel quarter last year non-recurring expenses

were recorded for measures taken to optimize resources, combine plants and attain maximum operational efficiency, and in connection with acquisitions, which in Q3 2016 diminished gross profit by US$ 3.1 million, operating profit and EBITDA by US$ 4.0 million and net income by US$ 2.9 million.

Adjusted for non-recurring expenses, gross profit for all Frutarom activity rose 19.6% in Q3 2017 to US$ 140.0 million (39.0% of overall sales) compared with US$ 117.1 million (39.0% of overall sales) in Q3 2016, operating profit rose 22.7% to reach US$ 60.5 million (16.9% operating margin) compared with US$ 49.3 million (16.4% operating margin) in Q3 2016, and EBITDA grew 23.3% to reach US$ 73.8 million (EBITDA margin of 20.6%) compared with US$ 59.9 million (EBITDA margin of 20.0%) in Q3 2016.

Gross profit for the **core businesses** (comprised of the Flavors activity and Specialty Fine Ingredients activity) rose 23.0% in Q3 2017 and reached US$ 134.1 million with gross margin of 39.8%, compared with US$ 109.0 million and 38.9% respectively in Q3 2016.

Operating profit for the **core businesses** climbed 27.5% in Q3 2017 to reach US$ 57.3 million (operating margin of 17.0%) compared with US$ 44.9 million (operating margin of 16.0%) in Q3 2016.

EBITDA for the **core businesses** rose 27.4% in Q3 2017 to reach US$ 70.5 million (EBITDA margin of 21.0%) compared with US$ 55.4 million (EBITDA margin of 19.8%) in Q3 2016.

Gross profit of **core businesses** adjusted for non-recurring expenses rose 21.1% in Q3 2017 to reach US$ 135.7 million (gross margin of 40.3%) compared with US$ 112.1 million (gross margin of 40.0%) in the parallel quarter last year, operating profit of core businesses rose 22.7% to reach US$ 60.0 million (17.8% operating margin) compared with US$ 48.9 million (17.5% operating margin) in Q3 2016, and EBITDA for core businesses rose 23.4% to reach US$ 73.3 million (21.8% EBITDA margin) compared with US$ 59.4 million (21.2% EBITDA margin) in Q3 2016.

Operating profit for the **Flavors activity** climbed 26.9% to US$ 50.0 million (operating margin of 18.3%) in Q3 2017 compared with US$ 39.4 million (operating margin of 17.5%) in Q3 2016.

Adjusted for non-recurring expenses, operating profit for the Flavors activity rose 21.9% to US$ 51.2 million (operating margin of 18.8%) in Q3 2017 compared with US$ 42.0 million (operating margin of 18.7%) in Q3 2016.

Operating profit for the **Specialty Fine Ingredients activity** rose 33.2% to US$ 7.2 million (operating margin of 10.8%) in Q3 2017 compared with US$ 5.4 million (operating margin of 9.7%) in Q3 2016.

Adjusted for non-recurring expenses, operating profit for the Specialty Fine Ingredients activity rose 28.1% to US$ 8.8 million (operating margin of 13.2%) in Q3 2017 compared with US$ 6.9 million (operating margin of 12.3%) in Q3 2016.

Completing the merger of companies acquired in recent years and measures being taken by Frutarom to optimize the management, R&D, sales and marketing, 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.

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 third quarter2016-2017:

Reported results in US dollars:

In millions of US dollars	**Core Businesses Flavors and Specialty Fine Ingredients**			**Total Frutarom Group**		
	Q3 2016	**Q3 2017**	**% increase**	**Q3 2016**	**Q3 2017**	**% increase**
Sales	280.0	336.6	20.2%	300.1	358.8	19.6%
Gross profit	109.0	134.1	23.0%	114.0	138.4	21.5%
Margin	*38.9%*	*39.8%*		*38.0%*	*38.6%*	
Operating profit	44.9	57.3	27.5%	45.3	57.8	27.5%
Margin	*16.0%*	*17.0%*		*15.1%*	*16.1%*	
EBITDA	55.4	70.5	27.4%	55.9	71.1	27.2%
Margin	*19.8%*	*21.0%*		*18.6%*	*19.8%*	
Net income				32.2	40.8	26.7%
Margin				*10.7%*	*11.4%*	

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
	Q3 2016	**Q3 2017**		**Q3 2016**	**Q3 2017**	
Gross profit	112.1	135.7	21.1%	117.1	140.0	19.6%
Margin	*40.0%*	*40.3%*		*39.0%*	*39.0%*	
Operating profit	48.9	60.0	22.7%	49.3	60.5	22.7%
Margin	*17.5%*	*17.8%*		*16.4%*	*16.9%*	
EBITDA	59.4	73.3	23.4%	59.9	73.8	23.3%
Margin	*21.2%*	*21.8%*		*20.0%*	*20.6%*	
Net income				35.1	43.0	22.3%
Margin				*11.7%*	*12.0%*	

Financial Expenses / Income

Net financial expenses in Q3 2017 totaled US$ 5.6 million (1.6% of sales) compared with US$ 5.1 million (1.7% of sales) in Q3 2016.

Interest expenses amounted to US$ 2.8 million, compared with US$ 2.8 million in Q3 2016. Financial expenses arising from exchange-rate differences totaled US$ 2.8 million compared to US$ 2.2 million in Q3 2016.

Taxes on Income

Taxes on income for Q3 2017 totaled US$ 11.3 million (21.7% of profit before tax) compared with US$ 8.0 million (19.9% of profit before tax) in the same quarter last year.

Net Income

Net income in Q3 2017 climbed 26.7% to a record US$ 40.8 million (net margin of 11.4%) compared with US$ 32.2 million (net margin of 10.7%) in Q3 2016.

Net income in Q3 2017 adjusted for the non-recurring expenses grew by 22.3% to US$ 43.0 million (12.0% net margin) compared with US$ 35.1 million (11.7% net margin) in Q3 2016.

Earnings per Share

Earnings per share in Q3 2017 climbed 26.5% to US$ 0.68 compared with US$ 0.54 in the same quarter last year.

Earnings per share in Q3 2017 adjusted for the non-recurring expenses rose 22.0% to reach US$ 0.72 compared with US$ 0.59 for the same quarter last year.

Cash Flow

Net cash flow from operating activities in Q3 2017 rose 52.7% and reached a record US$ 63.5 million compared with US$ 41.6 million in 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 THE FIRST NINE MONTHS OF 2017

In the first nine months of 2017 Frutarom achieved record results for the period in sales, gross profits, operating profits, EBITDA, net income, cash flow and earnings per share.

Sales

Frutarom's sales in the first nine months of 2017 rose 17.1% to a record US$ 1,004.9 million compared with US$ 858.0 million in the same period last year, reflecting 6.0% 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 boosted sales growth in pro-forma terms by 0.6% compared with the same period last year.

Sales for Frutarom's **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose 17.2% in the first nine months of 2017 to reach a record US$ 938.4 million compared with US$ 800.6 million in the same period last year, reflecting 7.2% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates boosted results by 0.3% in pro-forma terms.

Sales from the **Flavors activity** rose 18.2% to reach US$ 746.5 million in the first nine months of 2017 as against US$ 631.7 million in the same period last year, reflecting 6.2% year-over-year growth in pro-forma terms on a constant currency basis. Changes in exchange rates boosted results in pro-forma terms by 0.4%.

Sales from **Specialty Fine Ingredients** activity rose 15.1% to US$ 200.2 million in the first nine months of 2017 compared with US$ 174.0 million in the same period last year and reflect 13.0% year-over-year growth in pro-forma terms on a constant currency basis. Currency effects negatively impacted sales by 0.5% in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activities) rose 15.8% to reach US$ 66.5 million in the first nine months of 2017 compared with US$ 57.4 million in the same period last year. Contributing to the increase were the added Trade & Marketing product sales of Piasa in Mexico which was acquired in December 2016 and currency effects which boosted sales by 4.8% in pro-forma terms. In constant currency pro-forma terms, Trade & Marketing sales declined 8.9%.

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

		1-9 2007	1-9 2008	1-9 2009	1-9 2010	1-9 2011	1-9 2012	1-9 2013	1-9 2014	1-9 2015	1-9 2016	1-9 2017
Flavor Activity	**Sales**	169.2	268.6	220.4	228.2	269.8	345.6	355.1	442.0	450.6	631.7	746.5
	%	65.1%	71.7%	69.6%	67.4%	69.7%	73.0%	73.7%	71.6%	69.6%	73.6%	74.3%
Fine Ingredient Activity	**Sales**	86.1	98.9	92.9	108.3	114.1	111.2	111.8	124.4	136.7	174.0	200.2
	%	33.1%	26.4%	29.3%	32.0%	29.5%	23.5%	23.2%	20.1%	21.1%	20.3%	19.9%
Inter-company sales	**Sales**	-3.4	-3.3	-2.3	-1.7	-2.2	-1.7	-4.8	-5.6	-3.6	-5.2	-8.3
	%	-1.3%	-0.9%	-0.7%	-0.5%	-0.6%	-0.4%	-1.0%	-0.9%	-0.6%	-0.6%	-0.8%
Total Core Activity	**Sales**	251.9	364.2	311.0	334.8	381.7	455.1	462.1	560.8	583.7	800.6	938.4
	%	96.9%	97.2%	98.2%	98.9%	98.6%	96.2%	95.9%	90.8%	90.1%	93.3%	93.4%
Trade & Marketing	**Sales**	7.9	10.4	5.7	3.9	5.2	18.0	19.8	56.5	63.5	57.4	66.5
	%	3.1%	2.8%	1.8%	1.1%	1.4%	3.8%	4.1%	9.2%	9.8%	6.7%	6.6%
Total Sales		260.0	374.6	316.7	338.7	386.9	473.1	481.9	617.3	647.2	858.0	1,004.9

Profits and margins

In the first nine months of 2017 Frutarom achieved record results for the period in sales, gross profit, operating profit, EBITDA, net income, cash flow and earnings per share.

Gross profit for all Frutarom activity rose 18.0% in the first nine months of 2017 to US$ 386.3 million (38.4% of overall sales) compared with US$ 327.4 million (38.2% of overall sales) in the same period last year.

Operating profit climbed 34.8% to reach US$ 158.3 million in the first nine months of 2017 (15.8% operating margin), a record level for this period, compared with US$ 117.4 million (13.7% operating margin) in the same period last year.

EBITDA grew 28.5% and reached US$ 193.8 million in the first nine months of 2017 (EBITDA margin of 19.3%), a record level for this period, compared with US$ 150.7 million (EBITDA margin of 17.6%) in the same period last year.

Non-recurring expenses were recorded in the first nine months of 2017 in connection with acquisitions and for measures taken by Frutarom to attain optimization and efficiency mainly in the natural extracts operations of the Specialty Fine Ingredients Division. These non-recurring expenses diminished gross profit for the period by US$ 2.9 million, operating profit and EBITDA by US$ 4.8 million, and net income by US$ 3.7 million. In the first nine months of 2016 non-recurring expenses were recorded for acquisitions and for measures taken to optimize resources, combine plants and attain maximum operational efficiency, and in contrast non-recurring income was recorded from the sale of a plant in North Bergen, New Jersey, which in total diminished gross profit for the first nine months of 2016 by US$ 7.2 million, operating profit by US$ 15.4 million, EBITDA by US$ 13.9 million and net income by US$ 11.2 million.

Adjusted for non-recurring expenses, gross profit for all Frutarom activity rose 16.3% in the first nine months of 2017 to US$ 389.2 million (38.7% of overall sales) compared with US$ 334.6 million (39.0% of overall sales) in the same period last year, operating profit rose 22.8% to reach US$ 163.1 million (16.2% operating margin) compared with US$ 132.8 million (15.5% operating margin) in in the same period last year, and EBITDA grew 20.6% to reach US$ 198.5 million (EBITDA margin of 19.8%) compared with US$ 164.6 million (EBITDA margin of 19.2%) in the same period last year.

Gross profit for the **core businesses** (comprised of the Flavors activity and Specialty Fine Ingredients activity) rose 18.6% in the first nine months of 2017 and reached US$ 373.7 million with gross margin of 39.8%, compared with US$ 315.1 million and 39.4% respectively in the same period last year.

Operating profit for the core businesses climbed 35.0% to reach US$ 156.9 million (operating margin of 16.7%) compared with US$ 116.3 million (operating margin of 14.5%) in the same period last year.

EBITDA for the core businesses rose 28.7% to reach US$ 192.0 million (EBITDA margin of 20.5%) compared with US$ 149.2 million (EBITDA margin of 18.6%) in the same period last year.

Adjusted for non-recurring expenses, gross profit of core businesses rose 16.8% in the first nine months of 2017 to reach US$ 376.5 million (40.1% gross margin) compared with US$ 322.3 million (40.3% gross margin) in the same period last year, operating profit of core businesses rose 22.8% to reach US$ 161.7 million (17.2% operating margin) compared with US$ 131.7 million (16.4% operating margin) in the same period last year, and EBITDA for core businesses rose 20.7% to reach US$ 196.8 million (21.0% EBITDA margin) compared with US$ 163.1 million (20.4% EBITDA margin) in the same period last year.

Operating profit for the **Flavors activity** climbed 34.4% to US$ 131.7 million (operating margin of 17.6%) in the first nine months of 2017 compared with US$ 98.0 million (operating margin of 15.5%) in the same period last year.

Adjusted for non-recurring expenses, operating profit for the Flavors activity rose 20.4% to US$ 133.6 million (operating margin of 17.9%) in the first nine months of 2017 compared with US$ 111.0 million (operating margin of 17.6%) in the same period last year.

Operating profit for the **Specialty Fine Ingredients activity** rose 38.7% to US$ 25.3 million (operating margin of 12.6%) in the first nine months of 2017 compared with US$ 18.2 million (operating margin of 10.5%) in in the same period last year.

Adjusted for non-recurring expenses, operating profit for the Specialty Fine Ingredients activity rose 36.2% to US$ 28.1 million (operating margin of 14.0%) in the first nine months of 2017 compared with US$ 20.6 million (operating margin of 11.9%) in the same period last year.

Tables summarizing profits and margins in the first nine months of 2016-2017:

Reported results in US dollars:

In millions of US dollars	**Core Businesses Flavors and Specialty Fine Ingredients**			**Total Frutarom Group**		
	2016	**2017**	**% increase**	**2016**	**2017**	**% increase**
Sales	800.6	938.4	17.2%	858.0	1,004.9	17.1%
Gross profit	315.1	373.7	18.6%	327.4	386.3	18.0%
Margin	*39.4%*	*39.8%*		*38.2%*	*38.4%*	
Operating profit	116.3	156.9	35.0%	117.4	158.3	34.8%
Margin	*14.5%*	*16.7%*		*13.7%*	*15.8%*	
EBITDA	149.2	192.0	28.7%	150.7	193.8	28.5%
Margin	*18.6%*	*20.5%*		*17.6%*	*19.3%*	
Net income				84.0	111.8	33.0%
Margin				*9.8%*	*11.1%*	

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
	2016	2017		2016	2017	
Gross profit	322.3	376.5	16.8%	334.6	389.2	16.3%
Margin	*40.3%*	*40.1%*		*39.0%*	*38.7%*	
Operating profit	131.7	161.7	22.8%	132.8	163.1	22.8%
Margin	*16.4%*	*17.2%*		*15.5%*	*16.2%*	
EBITDA	163.1	196.8	20.7%	164.6	198.5	20.6%
Margin	*20.4%*	*21.0%*		*19.2%*	*19.8%*	
Net income				95.3	115.5	21.2%
Margin				*11.1%*	*11.5%*	

Financial Expenses / Income

Net financial expenses in the first nine months of 2017 totaled US$ 15.8 million (1.6% of sales) compared with US$ 12.8 million (1.5% of sales) in the same period last year.

Interest expenses in the first nine months of 2017 amounted to US$ 6.9 million, compared with US$ 7.3 million in the same period last year. Financial expenses arising from exchange-rate differences totaled US$ 8.9 million compared to US$ 5.5 million in the parallel period, and this is due to the effect of the weakening of the dollar on non-dollar liabilities. On the other hand, the weakening of the dollar brought a US$ 54.4 million increase to capital equity in the first nine months of 2017 due to the increase in the capital fund for translation differences.

Taxes on Income

Taxes on income for the first nine months 2017 totaled US$ 30.7 million (21.6% of profit before tax) compared with US$ 20.6 million (19.7% of profit before tax) in the same period last year.

Net Income

Net income in the first nine months of 2017 climbed 33.0% to reach a record US$ 111.8 million (net margin of 11.1%) compared with US$ 84.0 million (net margin of 9.8%) in the same period last year.

Net income in the first nine months of 2017 adjusted for the non-recurring expenses grew by 21.2% to reach US$ 115.5 million (11.5% net margin) compared with US$ 95.3 million (11.1% net margin) in the same period last year.

Earnings per Share

Earnings per share in the first nine months of 2017 climbed 32.3% and reached a record US$ 1.86 compared with US$ 1.41 in the same period last year. Earnings per share in the first nine months of 2017 adjusted for the non-recurring expenses rose 20.4% to reach US$ 1.92 compared with US$ 1.60 in the same period last year.

E. LIQUIDITY

In the first nine months of 2017 Frutarom achieved a record net cash flow from operating activities of US$ 138.9 million (44.0% growth) compared with US$ 96.4 million in the same period 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 September 30, 2017 Frutarom's capital equity totaled US$ 831.5 million (43.7% of the balance sheet) compared with US$ 655.6 million (41.2% of the balance sheet) as of September 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 Q3 2017 stood at US$ 509.3 million as compared with US$ 480.8 million in Q3 2016.

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

  Average short-term credit extended to the Company by banks and financial institutions in Q3 2017 stood at US$ 158.0 million as compared with US$ 84.7 million in Q3 2016.

Frutarom's cash balance on September 30, 2017 totaled US$ 144.4 million compared with US$ 125.5 million on September 30, 2016 and US$ 113.5 million on December 31, 2016.

Frutarom's net debt on September 30, 2017 totaled US$ 539.9 million compared with US$ 441.9 million on September 30, 2016 and US$ 420.3 million on December 31, 2016. This increase is mainly due to loans taken in the past year to finance the acquisitions.

In the third quarter of 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$ 832 million.
- The Company's equity as a percentage of its total balance sheet stood at 43.7%.
- 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 Q3 2017 the Company made use of US$ 84.6 million in credit from suppliers compared with US$ 71.8 million in the parallel period. During the third quarter of 2017 the Company extended US$ 260.8 million in credit to its customers compared with US$ 208.5 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 third quarter of 2017 and during the first nine months of 2017 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	**3.882**	**3.705**	**3.529**	**3.353**	**3.176**
	US$ 000s				
Cash and cash equivalents	(6)	(3)	62	3	6
Customers	(1,015)	(507)	10,147	507	1,015
Other accounts receivable	(91)	(45)	905	45	91
	(1,112)	**(555)**	**11,114**	**555**	**1,112**
Suppliers and service providers	389	195	3,892	(195)	(389)
Other payables	570	285	5,700	(285)	(570)
	959	**480**	**9,592**	**(480)**	**(959)**
Total exposure, net	**(153)**	**(75)**	**1,522**	**75**	**153**

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	**0.934**	**0.891**	**0.849**	**0.807**	**0.764**
	US$ 000s				
Cash and cash equivalents	(5,283)	(2,642)	52,832	2,642	5,283
Customers	(8,382)	(4,191)	83,822	4,191	8,382
Other accounts receivable	(730)	(365)	7,297	365	730
	(14,395)	**(7,198)**	**143,951**	**7,198**	**14,395**
Bank credit	24,927	12,464	249,271	(12,464)	(24,927)
Suppliers and service providers	3,545	1,773	35,450	(1,773)	(3,545)
Other payables	5,214	2,607	52,141	(2,607)	(5,214)
	33,686	**16,844**	**336,862**	**(16,844)**	**(33,686)**
Total exposure, net	**19,291**	**9,646**	**(192,911)**	**(9,646)**	**(19,291)**

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	**0.820**	**0.782**	**0.745**	**0.708**	**0.671**
	US$ 000s				
Cash and cash equivalents	(1,393)	(697)	13,931	697	1,393
Customers	(1,916)	(958)	19,161	958	1,916
Other accounts receivable	(146)	(73)	1,462	73	146
	(3,455)	**(1,728)**	**34,554**	**1,728**	**3,455**
Bank credit	10,481	5,240	104,807	(5,240)	(10,481)
Suppliers and service providers	817	408	8,168	(408)	(817)
Other payables	1,010	505	10,103	(505)	(1,010)
	12,308	**6,153**	**123,078**	**(6,153)**	**(12,308)**
Total exposure, net	**8,853**	**4,425**	**(88,524)**	**(4,425)**	**(8,853)**

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	**1.070**	**1.022**	**0.973**	**0.924**	**0.876**
	US$ 000s				
Cash and cash equivalents	(62)	(31)	624	31	62
Customers	(499)	(249)	4,989	249	499
Other accounts receivable	(177)	(89)	1,774	89	177
	(738)	**(369)**	**7,387**	**369**	**738**
Bank credit	9,508	4,754	95,082	(4,754)	(9,508)
Suppliers and service providers	224	112	2,243	(112)	(224)
Other payables	424	212	4,236	(212)	(424)
Other long-term liabilities	1	0	6	(0)	(1)
	10,157	**5,078**	**101,567**	**(5,078)**	**(10,157)**
Total exposure, net	**9,419**	**4,709**	**(94,180)**	**(4,709)**	**(9,419)**

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	**63.291**	**60.414**	**57.537**	**54.661**	**51.784**
	US$ 000s				
Cash and cash equivalents	(909)	(454)	9,086	454	909
Customers	(1,435)	(717)	14,346	717	1,435
Other accounts receivable	(85)	(43)	852	43	85
	(2,429)	**(1,214)**	**24,284**	**1,214**	**2,429**
Suppliers and service providers	150	75	1,497	(75)	(150)
Other payables	400	200	4,004	(200)	(400)
	550	**275**	**5,501**	**(275)**	**(550)**
Total exposure, net	**(1,879)**	**(939)**	**18,783**	**939**	**1,879**

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	(3,620)	(1,810)	36,201	1,810	3,620
Customers	(6,380)	(3,190)	63,803	3,190	6,380
Other accounts receivable	(854)	(427)	8,540	427	854
	(10,854)	**(5,427)**	**108,544**	**5,427**	**10,854**
Bank credit	539	269	5,385	(269)	(539)
Suppliers and service providers	2,429	1,214	24,287	(1,214)	(2,429)
Other payables	2,282	1,141	22,820	(1,141)	(2,282)
Other long-term liabilities	6,742	3,371	67,417	(3,371)	(6,742)
	11,992	**5,995**	**119,909**	**(5,995)**	**(11,992)**
Total exposure, net	**1,138**	**568**	**(11,365)**	**(568)**	**(1,138)**

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	**3.882**	**3.705**	**3.529**	**3.353**	**3.176**
	US$ 000				
Total Exposure, net	**(153)**	**(75)**	**1,522**	**75**	**153**

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	**0.820**	**0.782**	**0.745**	**0.708**	**0.671**
	US$ 000				
Total Exposure, net	**8,853**	**4,425**	**(88,524)**	**(4,425)**	**(8,853)**

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	**0.934**	**0.891**	**0.849**	**0.807**	**0.764**
	US$ 000				
Total exposure, net	**19,291**	**9,646**	**(192,911)**	**(9,646)**	**(19,291)**

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	**1.070**	**1.022**	**0.973**	**0.924**	**0.876**
	US$ 000				
Total exposure, net	**9,419**	**4,709**	**(94,180)**	**(4,709)**	**(9,419)**

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	**63.291**	**60.414**	**57.537**	**54.661**	**51.784**
	US$ 000				
Total exposure, net	**(1,879)**	**(939)**	**18,783**	**939**	**1,879**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure, net	**1,138**	**568**	**(11,365)**	**(568)**	**(1,138)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure to change in fair value, net	**11**	**6**	**59,962**	**(5)**	**(11)**

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 the Outline and immediate reports issued by the Company on August 17, October 1 and November 14, 2017.

   As of the date of this report, The Company holds 155,672 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.

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.

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 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. Outline of Options Allocation to Company Officeholders and Employees

On October 1, 2017 the Company issued an outline for the allocation of 11,803 stock options to Company officeholders and employees. For further information see Section 'A' above in the chapter on Aspects of Corporate Governance and also the Company's immediate report from October 1, 2017.

B. Signing an Agreement for Acquiring Control of Mighty

For details regarding the signing of an agreement for the acquisition of 60% of the shares of Mighty, see Section 'A' above: "Acquisitions made subsequent to the date of the financial report."

C. Signing an Agreement for the Acquisition of Enzymotec

For details regarding the signing of an agreement for the acquisition of Enzymotec, see Section 'A' above: "Acquisitions made subsequent to the date of the financial report."

D. Acquisition of the Spanish AB-Fortis Activity

For details on the acquisition of the Spanish AB-Fortis activity, see Section 'A' above: "Acquisitions made subsequent to the date of the financial report."

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

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

November 20, 2017

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 September, 2017

FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 September, 2017

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

Haifa, Israel
November 20, 2017

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

Kesselman & Kesselman, Building 25, MATAM, P.O BOX 15084 Haifa, 3190500, Israel
Telephone: +972 -4- 8605000, Fax:+972 -4- 8605001, www.pwc.com/il

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2017

	30 September		31 December
	2017	2016	2016
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	144,432	125,536	113,528
Accounts receivable:			
Trade	252,075	210,847	200,106
Other	29,008	24,552	32,087
Prepaid expenses and advances to suppliers	22,235	24,111	20,248
Inventory	292,751	254,766	260,951
	740,501	639,812	626,920
NON-CURRENT ASSETS:			
Property, plant and equipment	301,997	271,946	268,820
Intangible assets	778,156	648,395	657,781
Investment in associates and available for sale assets	76,434	25,636	25,777
Deferred income tax assets	4,245	3,487	3,477
Other	3,227	2,428	2,686
	1,164,059	951,892	958,541
Total assets	1,904,560	1,591,704	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 November 20, 2017.

	30 September		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	388,597	222,151	234,204
Accounts payable:			
Trade	89,856	78,234	81,630
Other	119,106	114,514	109,607
Liability for put option for the shareholders of a subsidiary	-	40,601	40,350
	597,559	455,500	465,791
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	295,702	345,280	299,576
Retirement benefit obligations, net	38,540	34,132	35,041
Deferred income tax liabilities	59,304	44,575	50,147
Liability for shareholders of a subsidiaries and other	81,918	56,648	70,302
	475,464	480,635	455,066
Total liabilities	1,073,023	936,135	920,857
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	17,070	16,959	16,997
Other capital surplus	124,005	112,711	114,396
Translation differences	(54,609)	(88,448)	(109,043)
Retained earnings	740,870	610,239	637,868
Less - cost of company shares held by the company	(3,118)	(3,843)	(3,765)
	824,218	647,618	656,453
Non-controlling interests	7,319	7,951	8,151
Total equity	831,537	655,569	664,604
Total equity and liabilities	1,904,560	1,591,704	1,585,461

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)				(Audited)
	U.S. dollars in thousands (except for income per share data)				
SALES	1,004,905	858,019	358,785	300,058	1,147,041
COST OF SALES	618,596	530,668	220,353	186,088	709,488
GROSS PROFIT	386,309	327,351	138,432	113,970	437,553
Selling, marketing, research and development expenses – net	159,592	144,608	57,800	48,540	196,001
General and administrative expenses	67,824	59,782	22,223	20,428	81,637
Other expenses – net	1,477	6,325	1,092	8	11,772
Group's share of earnings of companies accounted for at equity	886	806	442	302	1,113
INCOME FROM OPERATIONS	158,302	117,442	57,759	45,296	149,256
FINANCIAL EXPENSES - net	15,819	12,804	5,615	5,057	12,841
INCOME BEFORE TAXS ON INCOME	142,483	104,638	52,144	40,239	136,415
INCOME TAX	30,724	20,590	11,311	8,016	25,346
NET INCOME FOR THE PERIOD	111,759	84,048	40,833	32,223	111,069
PROFIT ATTRIBUTED TO:					
Owners of the parent company	110,236	82,739	40,393	31,895	109,245
Non-controlling interest	1,523	1,309	440	328	1,824
TOTAL INCOME	111,759	84,048	40,833	32,223	111,069
EARNINGS PER SHARE:					
Basic	1.86	1.41	0.68	0.54	1.85
Fully diluted	1.85	1.40	0.68	0.54	1.84

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	111,759	84,048	40,833	32,223	111,069
Other Comprehensive Income:					
Items that will not be reclassified subsequently to profit or loss -					
Remeasurement of net defined benefit liability	-	-	-	-	1,123
ITEM THAT COULD BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:					
Gain from available-for-sale financial assets	5,932	-	5,450	-	41
Translation differences	54,903	24,820	16,504	4,537	3,910
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	172,594	108,868	62,787	36,760	116,143
ATTRIBUTABLE TO:					
Owners of the parent	170,602	107,540	62,252	36,428	114,615
Non-controlling interest	1,992	1,328	535	332	1,528
TOTAL INCOME	172,594	108,868	62,787	36,760	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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER, 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 9 MONTH PERIOD ENDED 30 SEPTEMBER 2017 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	110,236	-	110,236	1,523	111,759
Other comprehensive income for the period	-	5,932	54,434	-	-	60,366	469	60,835
Total comprehensive income for the period	-	5,932	54,434	110,236	-	170,602	1,992	172,594
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(1,528)	(1,528)	-	(1,528)
Receipts in respect of allotment of company shares to employees	-	(1,450)	-	-	2,175	725	-	725
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	-	1,375	-	-	-	1,375	-	1,375
Proceeds from issuance of shares to senior employees	73	3,374	-	-	-	3,447	-	3,447
Dividend to non-controlling interest	-	-	-	-	-	-	(51)	(51)
Dividend, including erosion	-	-	-	(7,234)	-	(7,234)	-	(7,234)
	-	3,677	-	(7,234)	647	(2,837)	(2,824)	(5,661)
BALANCE AT 30 SEPTEMBER 2017 (unaudited)	17,070	124,005	(54,609)	740,870	(3,118)	824,218	7,319	831,537

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 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 JULY 2017 (unaudited)	17,064	118,200	(71,018)	700,477	(2,702)	762,021	6,835	768,856
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2017 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	40,393	-	40,393	440	40,833
Other comprehensive income for the period	-	5,450	16,409	-	-	21,859	95	21,954
Total comprehensive income for the period	-	5,450	16,409	40,393	-	62,252	535	62,787
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	-	-	-	-	(821)	(821)	-	(821)
Receipts in respect of allotment of company shares to employees	-	(270)	-	-	405	135	-	135
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	447	-	-	-	447	-	447
Proceeds from issuance of shares to senior employees	6	178	-	-	-	184	-	184
Dividend to non-controlling interest	-	-	-	-	-	-	(51)	(51)
	-	355	-	-	(416)	(55)	(51)	(106)
BALANCE AT 30 SEPTEMBER 2017 (unaudited)	17,070	124,005	(54,609)	740,870	(3,118)	824,218	7,319	831,537

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER, 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 9 MONTH PERIOD ENDED 30 September 2016 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	82,739	-	82,739	1,309	84,048
Other comprehensive income for the period	-	-	24,801	-	-	24,801	19	24,820
Total comprehensive income for the period	-	-	24,801	82,739	-	107,540	1,328	108,868
Plans 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	-	(442)	-	-	663	221	-	221
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	1,145	-	-	-	1,145	-	1,145
Proceeds from issuance of shares to senior employees	47	1,460	-	-	-	1,507	-	1,507
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)
	47	2,245	-	(6,380)	(732)	(4,820)	(1,036)	(5,856)
Non-controlling interest from business combination	-	-	-	-	-	-	873	873
BALANCE AT 30 SEPTEMBER, 2016 (unaudited)	16,959	112,711	(88,448)	610,239	(3,843)	647,618	7,951	655,569

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 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 JULY 2016 (unaudited)	16,952	112,220	(92,981)	578,344	(3,210)	611,325	7,619	618,944
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2016 (unaudited):								
Comprehensive income:	-	-	-	31,895	-	31,895	328	32,223
Income for the period	-	-	4,533	-	-	4,533	4	4,537
Other comprehensive income for the period	-	-	4,533	31,895	-	36,428	332	36,760
Total comprehensive income for the period								
Plans for allotment of company shares to employees of subsidiary:	-	-	-	-	(735)	(735)	-	(735)
Acquisition of the Company shares by the Company	-	(68)	-	-	102	34	-	34
Receipts in respect of allotment of company shares to employees								
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock	-	412	-	-	-	412	-	412
and options grants	7	147	-	-	-	154	-	154
	7	491	-	-	(633)	(135)	-	(135)
BALANCE AT 30 SEPTEMBER, 2016 (unaudited)	16,959	112,711	(88,448)	610,239	(3,843)	647,618	7,951	655,569

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 parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands (audited)							
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 YEAR ENDED 31 DECEBMBER 2016:								
Comprehensive income:								
Income for the year	-	-	-	109,245	-	109,245	1,824	111,069
Other comprehensive losses	-	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 options 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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2017

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2017	2016	2017	2016	2016
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (See appendix)	161,391	104,837	72,406	42,755	139,235
Income tax paid – net	(22,523)	(8,424)	(8,927)	(1,171)	(14,610)
Net cash provided by operating activities	138,868	96,413	63,479	41,584	124,625
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(23,960)	(19,400)	(9,800)	(8,507)	(28,493)
Purchase of intangibles	(1,742)	(747)	(589)	(97)	(1,344)
Interest received	682	358	234	(42)	656
Acquisition of subsidiaries - net of cash acquired (see note 4)	(99,713)	(87,578)	(31,459)	(44,120)	(103,786)
Purchase of available for sale securities	(40,169)	-	(34,563)	-	(2,199)
Proceeds from sale of property	229	9,794	19	6,943	11,099
Net cash used in investing activities	(164,673)	(97,573)	(76,158)	(45,823)	(124,067)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(51)	(1,062)	(51)	(375)	(1,434)
Receipts from senior employees in respect of allotment of shares	3,447	1,507	184	154	2,814
Interest paid	(6,209)	(5,345)	(2,244)	(1,820)	(7,324)
Receipt of long-term bank and financial institutions loans	125,092	135,254	65,686	73,360	156,890
Repayment of Put option to shareholders in subsidiary (note 4a)	(42,227)	-	(2,001)	-	-
Acquisition of non-controlling interests in subsidiary (note 4a)	(2,395)	(893)	-	-	(896)
Repayment of long-term bank and financial institutions loans	(117,102)	(61,577)	(27,260)	(19,277)	(92,460)
Receipt (repayment) of short-term bank loans and credit-net	94,173	(3,492)	11,761	(40,829)	(3,056)
Acquisition of the Company shares by the Company – net of receipts in respect of the shares	(803)	(1,174)	(686)	(701)	(1,148)
Dividend paid	(7,234)	(6,380)	-	-	(6,380)
Net cash provided (used) by financing activities	46,691	56,838	45,389	10,512	47,006
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS	20,886	55,678	32,710	6,273	47,564
Balance of cash and cash equivalents and bank credit at beginning of period	113,528	68,997	108,317	118,656	68,997
Profits (losses) from exchange differences on cash equivalents and bank credit	10,018	861	3,405	607	(3,033)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	144,432	125,536	144,432	125,536	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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2017

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

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Cash generated from operations:					
Income before tax	142,483	104,638	52,144	40,239	136,415
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	34,077	32,157	12,908	10,179	43,115
Recognition of compensation related to employee stock and option grants	1,375	1,145	447	412	1,577
Liability for employee rights upon retirement – net	696	856	257	314	1,236
Loss (gain) from sale and write-off of fixed assets and other assets	519	(4,711)	272	(32)	(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	(886)	(806)	(442)	(302)	(1,113)
Erosion of long term loans	7,307	3,954	2,441	3,757	2,387
Erosion of Liability for put option for the shareholders of a subsidiary	-	(157)	-	(112)	-
Interest paid - net	5,527	4,987	2,010	1,862	6,668
	50,865	37,425	17,893	16,078	49,867
Change in operating assets and liability items:					
Decrease (increase) in accounts receivable:					
Trade	(21,386)	(25,613)	7,947	(3,008)	(14,106)
Other	4,612	(659)	1,521	1,323	(49)
Decrease (increase) in other long-term receivables	(829)	(2,196)	(732)	(1,234)	(2,390)
Increase (decrease) in accounts payable:					
Trade	(5,481)	(2,499)	(10,779)	(12,799)	(5,097)
Other	(6,457)	6,022	(5,012)	(1,105)	(3,685)
Increase (decrease) in other long-term Payables	1,477	2,197	1,463	940	336
Increase in inventory	(3,893)	(14,478)	7,961	2,321	(22,056)
	(31,957)	(37,226)	2,369	(13,562)	(47,047)
Net cash flows from operating activities	161,391	104,837	72,406	42,755	139,235

The accompanying notes are an integral part of these 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 September 2017 and for the 9 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 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.

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 remaining share capital of subsidiaries

1) **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.

2) **Acquisition of the remaining holdings of Nutrafur**

On June 12, 2017, the Company signed, through a subsidiary, an agreement for the purchase of approx. 21% 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 (On September 3, 2015 the Company acquired approx. 79% of the shares of Nutrafur). The transaction was completed upon signing.

3) **Acquisition of the remaining holdings of 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.

NOTE 4 – BUSINESS COMBINATIONS (continued):

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 ZAR 90 million (USD 6.4 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.

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

	Fair value
	U.S. dollars
	In thousands
Current assets:	
Trade	2,017
Inventory	314
Others	97
Non-current assets:	
Property, plant and equipment	173
Intangible assets	6,968
Current liabilities :	
Trade payables	(1,567)
Other account payables	(971)
Non-current liabilities:	
Deferred taxes	(662)
	6,369

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 7,152 thousands. In the course period Unique and Frutarom South Africa were merged into a single entity, which operates under the same management.

NOTE 4 – BUSINESS COMBINATIONS (continued):

b. 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. EUR 20 million (USD 21 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.

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	1,104
Trade	3,148
Inventory	3,528
Others	2,231
Non-current assets:	
Property, plant and equipment	1,522
Intangible assets	15,860
Current liabilities :	
Trade payables	(1,777)
Other payables	(3,085)
Non-current liabilities:	
Deferred taxes	(1,633)
	20,898

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 7,339 thousands and net profit of $ 127 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

d. 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. VND 23.9 billion (USD 1.1 million). 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 was 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 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.

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

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	111
Trade	351
Inventory	744
Others	140
Non-current assets:	
Property, plant and equipment	499
Current liabilities :	
Trade payables	(365)
Bank credit and loans	(367)
Other account payables	(56)
	1,057

NOTE 4 – BUSINESS COMBINATIONS (continued):

d. Acquisition of WFF (continued)

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 229 thousands and net profit of $ 21 thousands (net of acquisition costs).

e. Acquisition of 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.

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, including independent artisan ice cream makers, multinationals, food processing companies and leading dining chains.

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):

e. Acquisition of SDFLC (continued):

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	43,810
Current liabilities :	
Bank credit and loans	(219)
Trade payables	(717)
Other account payables	(3,427)
Non-current liabilities:	
Deferred taxes	(5,538)
Long-term other account payables	(10,715)
Long term loans	(1,908)
	29,429

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 7,529 thousands and net profit of $ 1,388 thousands (net of acquisition costs).

f. Acquisition of F&E

On August 15, 2017 the Company signed an agreement for the purchase of 100% of the shares of the UK Company Flavours and Essences (UK) Ltd. ("F&E") for approximately £ 15 million (approximately US$ 19.5 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.

NOTE 4 – BUSINESS COMBINATIONS (continued):

f. Acquisition of F&E (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 F&E at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	2,529
Trade	3,879
Inventory	2,099
Non-current assets:	
Property, plant and equipment	575
Intangible assets	13,947
Current liabilities :	
Trade payables	(1,641)
Other payables	(1,847)
Non-current liabilities:	
Deferred taxes	(53)
	19,488

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 3,728 thousands and net profit of $ 946 thousands (net of acquisition costs).

g. Acquisition of Muhlehof

On August 21, 2017 the Company signed an agreement for the purchase of 100% of the shares of the Swiss company Mühlehof Gewürze AG (“Muhlehof”) for approximately CHF 6.7 million ($ 7 million). The transaction was completed upon signing and financed through bank debt.

Muhlehof, which was founded in 1979, engages in the development, production and marketing of savory taste solutions (the non-sweet spectrum of flavors), including flavors, seasoning blends, marinades and functional ingredients for the food industry, with emphasis on convenience foods and meats. Muhlehof, with 9 employees, has a site in Switzerland for development, manufacturing and marketing which is included among the acquired assets.

NOTE 4 – BUSINESS COMBINATIONS (continued):

g. Acquisition of Muhlehof (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 Muhlehof at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	463
Trade	257
Inventory	246
Other receivables	97
Non-current assets:	
Property, plant and equipment	480
Intangible assets	5,603
Current liabilities :	
Trade payables	(117)
Other payables	(54)
	6,975

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 522 thousands and net profit of $ 64 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

h. Acquisition of Turpaz

On September 6, 2017 Frutarom invested in and purchased shares of Turpaz Perfume and Flavor Extracts Ltd. ("Turpaz") and BKF Perfume Compounding Ltd. (a company owning 80% of the share capital of Turpaz, "BKF") and became owner of approx. 51% of the share capital and voting rights in Turpaz. The consideration paid by Frutarom for the shares is approx. NIS 14.5 million (approx. US$ 4.1 million), and in addition Frutarom injected an investment of approx. NIS 27 million (approx. US$ 7.6 million) in BKF. The purchase and investment agreement includes an option for Frutarom to purchase the remaining shares of Turpaz and BKF starting four years from the date of completion of the transaction at a price based on their future business performance. The transaction was financed through bank debt.

Turpaz engages mainly in the development, production and marketing of fragrance solutions. Turpaz, with 16 employees, has an R&D, manufacturing and marketing site in Israel and recently opened a center for R&D, production, sales and marketing in the US state of New Jersey.

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 Turpaz at date of acquisition:

	Fair value
	U.S. dollars
	In thousands
Current assets:	
Cash and cash equivalents	8,737
Trade	2,044
Inventory	1,145
Other receivables	26
Non-current assets:	
Property, plant and equipment	111
Intangible assets	3,332
Current liabilities :	
Trade payables	(632)
Other payables	(1,496)
Non-current liabilities:	
Bank loans	(1,670)
Deferred taxes	(55)
	11,542

From the date it was consolidated with the financial statements of the Company through September 30, 2017, the acquired operations have yielded revenues of $ 566 thousands and net profit of $ 85 thousands (net of acquisition costs).

NOTE 4 – BUSINESS COMBINATIONS (continued):

i. 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 9 months 2016 sale would have amounted to approx. $ 942.4 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				
9 months ended 30 September 2017: (unaudited):					
Revenues	746,502	200,220	66,510	(8,327)	1,004,905
Segment results	131,705	25,268	1,376	(47)	158,302
9 months ended 30 September 2016: (unaudited):					
Revenues	631,749	174,007	57,428	(5,165)	858,019
Segment results	98,007	18,213	1,166	56	117,442
3 months ended 30 September 2017 (unaudited):					
Revenues	272,890	67,063	22,206	(3,374)	358,785
Segment results	50,049	7,231	496	(17)	57,759
3 months ended 30 September 2016 (unaudited):					
Revenues	224,955	56,145	20,044	(1,086)	300,058
Segment results	39,445	5,428	390	33	45,296
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:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2017	2016	2017	2016	2016
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	158,302	117,442	57,759	45,296	149,256
Financing expenses (income)	15,819	12,804	5,615	5,057	12,841
Profit before taxes on income	142,483	104,638	52,144	40,239	136,415

NOTE 7 – SUBSEQUENT EVENTS:

a. Acquisition of Mighty

On October 18, 2017 Frutarom acquired 60% of the shares in the Thai company The Mighty CO. LTD. (which includes the activity of Maharaj Food Co. Ltd. and Mighty International Co. Ltd., collectively: "Mighty") for approximately THB 393 million (approximately US$ 12 million) (not including debt) plus future consideration based on Mighty's future performance. Frutarom is initially acquiring 49% of Mighty's share capital and will increase its holdings to 60% subject to a number of conditions precedent and obtaining regulatory authorizations from the authorities in Thailand. Completion of the first part of the transaction is expected in the upcoming weeks and the Company estimates that increasing its holdings to 60% will be completed within several months. The transaction includes an option for the purchase of the balance of holdings in Mighty in two stages in periods beginning three years and five years after acquiring a 60% stake at a price based on Mighty's future business performance. The acquisition will be financed by independent means and through bank debt.

b. Acquisition of Enzymotec (Public traded on NASDAQ)

On July 31, 2017 the Company invested, through a subsidiary, in approximately 7.57% of the share capital of Enzymotec Ltd., for the overall sum of approximately US$ 12.9 million. 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. On October 24, 2017 the Company made an additional investment of US$ 24.2 to a total sum of approximately US$ 42 million, increasing its holdings to 18.75% of the share capital of Enzymotec. The investment is presented in the balance sheet under available for sale assets.

On October 28, 2017 Frutarom, through its fully-owned subsidiary Frutarom Ltd. (the “Acquiring Company”), entered into an acquisition agreement by way of a reverse triangular merger with Enzymotec Ltd. and with a subsidiary of the Acquiring Company (the “Merger Sub”). The acquisition of the balance of Enzymotec shares will be funded by means of bank debt and/or financial institution debt.

NOTE 7 – SUBSEQUENT EVENTS (continued):

In the framework of the aforementioned merger transaction, the Acquiring Company will acquire the outstanding balance of Enzymotec shares not in its possession (approx. 81%) for a cash payment of US$ 11.9 per share (interest free and net of any taxes to be deducted at source), by way of a full merger of the Merger Sub into Enzymotec such that Enzymotec will become an indirectly fully-owned subsidiary of Frutarom and its shares shall be delisted from NASDAQ.

Enzymotec, which was founded in 1998, develops, produces and markets nutritional ingredients and medical foods based on cutting-edge, proprietary technologies. Enzymotec has developed a unique technology for processing lipids that are an important nutritional ingredient, supporting various biological functions. Enzymotec's proprietary technologies enable extraction of lipids from natural sources, separation and analysis of lipid molecules, and use enzymes to synthesize lipid molecules familiar to the human body. Enzymotec utilizes a proprietary toolset that allows it to efficiently transform lipids from natural raw materials into those that have unique structural and functional characteristics. Enzymotec has two main segments of activity, the nutrition segment which includes the leading product InFat (a fat component integrated into infant formula), and VAYA Pharma in the framework of which Enzymotec develops, manufactures and markets medical foods for the dietary management of certain medical conditions or diseases.

Enzymotec, with approx. 235 employees, mainly in Israel and the United States, including 30 in R&D, has an advanced GMP certified factory in Migdal HaEmek, Israel which includes an R&D center, laboratories, a production plant and offices.
As of the date of this report the merger has not yet been completed. The closing of the merger is subject to the approval of the merger agreement by Enzymotec's shareholders at a meeting scheduled for December 11, 2017. In addition to receiving this shareholder approval, the closing of the merger is subject to several customary conditions as specified in the agreement. Frutarom estimates that, subject to the fulfillment of the closing conditions, the merger transaction will be completed during the first quarter of 2018.

c. Acquisition of AB-Fortis activity

On November 7, 2017 Frutarom has signed an agreement with AB Biotics S.A. of Spain for the acquisition of the activity of AB-Fortis with its patent-protected micro-encapsulation technology that enables delivery of iron with increased biological absorption while avoiding the side effects of metallic taste and digestive problems in the applications of functional foods and dietary supplements. The products provide a unique innovative way to effectively administer a daily dose of iron. The acquisition was be financed by independent means.