FRUTAROM

FOUNDED 1933

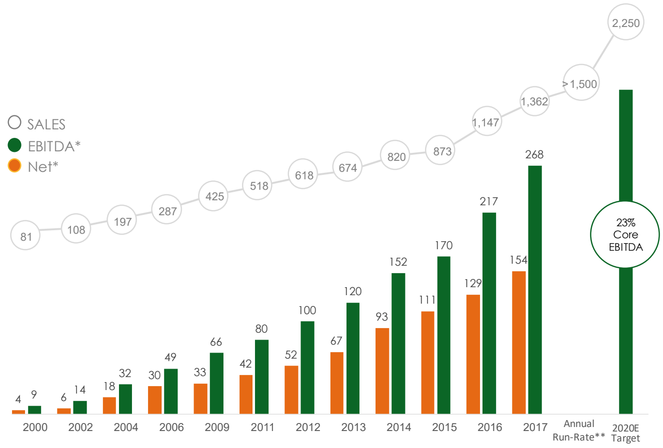
ANNUAL REPORT 2017

DEAR SHAREHOLDER

We are pleased to sum up another record year for Frutarom in our journey of rapid and profitable growth, and in positioning ourselves as a leading global player in the fields of Flavors and specialty and natural Fine Ingredients.

The continued successful implementation of our strategy, combining rapid and profitable organic growth, at a double growth rate than the markets we operate in, with strategic acquisitions, has led to our having grown, since 2000, at an average annual rate of approx. 18%, our Flavors activity growing at an annual average rate of 24%, our EBITDA growing at an average annual rate of 22% and net income at an average annual rate of 24%. Frutarom revenues have meanwhile risen by a factor of over 16, from $81 million of revenues with EBITDA at approx. $9 million in 2000, to record high revenues and earnings this year of approximately $ 1,362 million and EBITDA of approx. $ 267.5 million, with net income reaching approx. $ 154.3 million - more than double net income achieved 4 years ago, in 2013.

During the past two years we have quickened our pace of strategic acquisitions, acquiring 22 companies which, combined with continued accelerated internal growth, have already brought us to an annual rate of sales of over $ 1.5 billion.



* The figures are adjusted for non-recurring expenses

** Following its accelerated internal growth and the acquisitions made in 2017 (including Mighty, Enzymotec and Bremil), Frutarom's annual sales run-rate already exceeds 1.5B$

The rapid and profitable growth trend in the results of our core businesses, which include the Flavors and Specialty Fine Ingredients activities, continues, and upon examination of our strong competitive positioning, the acceleration of our internal growth, our recent acquisitions and the pipeline of future acquisitions, and the contribution of efficiency measures following our global mergers and acquisitions activity, we have recently raised our sales target to $ 2.25 billion with an EBITDA margin of 23% in our core businesses by 2020, and we expect 2018 to be yet another record year.

Following the accelerated profitable organic growth and 12 acquisitions made in 2017 Frutarom **Revenues Run-Rate exceeds $1.5 Billion**

Above-industry Growth

Continue Margin Expansion

Continue Acquisitions Strategy

$2.25 Billion in revenues in 2020
23% EBITDA in our core business by 2020

Strategic Focus:

Unique Offering
Natural & Clean Label
Taste & Health
More **profitable** segments

Customer Focus
Innovative solutions to **MNCs**
Local Mid Size & Private Label

Geographic Focus
Expand market share in **North America** and growing **Emerging Markets**

Leverage
Cross-selling Opportunities

Supply Chain Optimization
Integration of operations
Global **Purchasing**

OUR STRATEGIC PLAN
INCLUDES CONTINUING TO FOCUS ON SEVEN MAIN AREAS

a. A continued **sustained rapid growth** in both our Flavors and our Specialty Fine Ingredients activities, while continuously improving in **our product mix,** focusing on unique and innovative natural products that combine taste and health and address the current and future preferences of billions of consumers worldwide;

b. Focusing on developing and providing unique added-value solutions to our **large multinational customers**, and providing a full and comprehensive portfolio of solutions in the fields of taste and health to **medium-sized and locally-based customers and to the private** label sector that is growing faster than the global multinational companies;

c. Strengthening our global market leadership in **natural plant extracts**, including collaborations with farmers around the globe;

d. Continued improvement in our **geographic sales mix** while substantially increasing sales in North America and the growing emerging markets (with emphasis on Southeast Asia, Latin America and Africa);

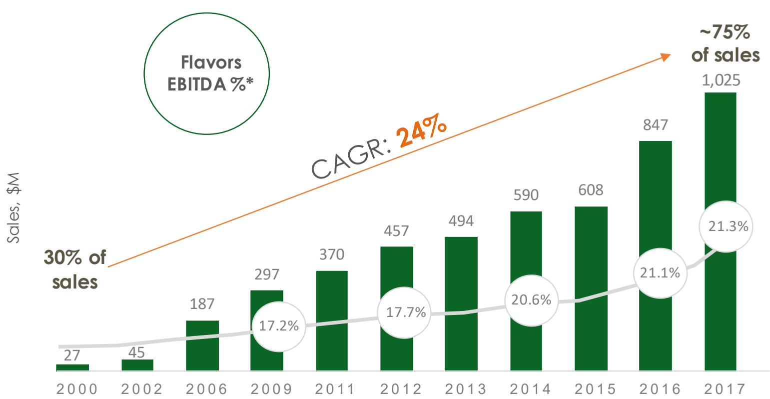
e. Reaping maximum benefit from the many **cross-selling opportunities** among our diverse operations, to which the acquisitions we performed and will perform also contribute;

f. Developing **a global Fragrances activity** - we have initiated a strategic move to develop global fragrances activity, with emphasis on emerging markets with high growth rates. We acquired Turpaz and Polena Aroma in 2017 and Meroar in 2018, and have an excellent pipeline of acquisitions that will accelerate the penetration and expansion of our activity in this field;

g. Continued **improvement in our profit** margins and profits through maximum utilization of our resources, including resources gained through the acquisitions, along with generating significant operational savings, building up a global procurement system, and reinforcing our competitiveness.

The successful implementation of our strategy to **significantly increase the share of our Flavors activity,** has led to Flavors making up an approx. 75% share of total Frutarom sales in 2017 compared with approx. 33% in 2000, while achieving internal growth rate exceeding the growth rate in markets where we operate, along with continued improvement in profits and margins.

Accelerated Growth in Taste Solution Activity



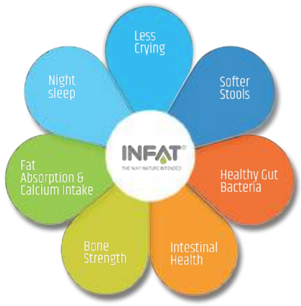
* Excluding non-recurrent expenses

Through the expansion of our Flavors activity and the contributions of the acquisitions we have made in recent years, we have established market leadership in the field of savory taste solutions for which demand climbs as the shift to convenience foods continues.

In recent years we have focused on **developing and expanding the portfolio of natural products we offer our customers** in response to consumer demand and prevalent trends in the global food industry, towards healthier and more natural foods. This field is growing at a rapid pace and our unique capabilities in developing innovative and unique natural products geared to both taste and health give us a substantial competitive edge:

- We have continued expanding the portfolio of specialty natural products with healthy attributes that we offer our customers through our in-house R&D as well as through collaborations with universities, research institutes and startups, and also through acquisitions;
- We have entered the growing field of natural colors and we are establishing a center for color applications and formulations which will begin operating in mid-2018;
- We have significantly expanded our activities in the growing field of Natural Solutions for Food Protection (natural antioxidants that promote food);
- We have continued to deepen our expertise in citrus-based products and in specialized technologies for producing natural ingredients important in the production of flavors, foods and beverages, and have built a citrus excellence center in Florida.
- We have invested in biotechnology to expand our product portfolio into functional foods, dietary supplements and natural algae-based products.
- We have expanded our activity in the growing field of natural specialty fine ingredients for the cosmetics and personal care industries and at the beginning of 2018 we acquired IBR.
- We have deepened our capabilities in the field of specialty fine ingredients for Infant Nutrition and elderly clinical nutrition products through the acquisition of Enzymotec.

INFAT®
THE WAY NATURE INTENDED



Today over 75% of Frutarom sales consist of natural products and we intend to continue and increase the share of our activity in natural products, which have higher growth rates.

One of our customers' greatest challenges in the transition to natural ingredients, is their limited availability and substantially higher costs, in comparison to synthetic products. Therefore, we have implemented a plan to significantly increase the availability and outputs of natural raw materials and their unique production capacity. We have made a number of acquisitions that facilitated a significant increase in our natural extracts production capacity, the creation of specialization centers in different extraction technologies and optimizing the manufacturing between the different facilities, according to the their specializations and a significant increase in their operational efficiency. In addition, Frutarom is taking action to guarantee the supply of unique raw ingredients by developing long-term collaborations with farmers across the globe. We supply the farmers with unique patented plant species with a high content of the active ingredients responsible for the flavor, color natural preservation, skin protection and improved appearance attributes, and health values, developed in collaboration with agricultural research institutions and cultivation companies, also providing them with agricultural know-how and guidance. As part of this endeavor, which started over a year ago and is rapidly expanding, collaborations of this nature are taking place in Peru, Brazil, Guatemala, Spain, Poland, Israel, Morocco, South Africa, etc. with the intention that within several years, over 50% of the raw material consumption for Frutarom's main natural extracts will be from self-cultivation.

Backward Integration Projects – Direct Sourcing with Farmers

Annatto Plantations in LATAM

Seeds used for natural food coloring

Algae Farms in Israel

Developing cosmetics, natural food colors and food supplements unique solutions

Rosemary Plantations in Spain

Rosemary, as powerful natural anti-oxidant for food & beverages

Harpagophytum (Devil's claw) in Namibia

Used for the production of EFLA®pharm devil's claw extract, an API for joint health

Oat in Poland

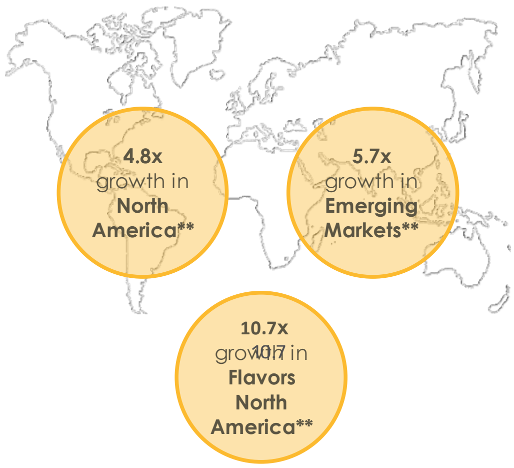
Extract helps to improve overall mental fitness/ enhances cognitive function

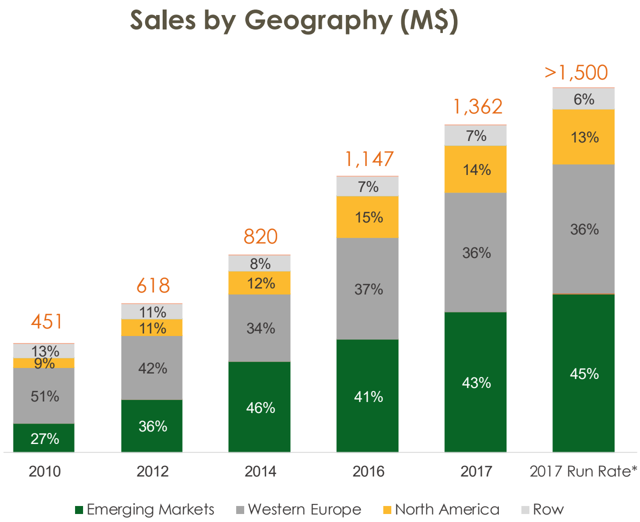
Fenugreek in India

Extract, as a natural and safe alternative to pharmaceutical heartburn medications

One of the main points differentiating us is our comprehensive product portfolio, allowing Frutarom to offer to its customers comprehensive solutions combining flavors, texture materials, natural raw materials with nutritional and health values, natural colors, natural solutions for food protection, etc., all under one roof. Each product line has its own manager supporting the salesforce and accelerating the cross selling opportunities. The possibility to work with one vendor offering comprehensive solutions is a significant advantage, in particular for the small – midsize customers who also include the private label manufacturers and who currently constitute 70% of Frutarom's customers. The expansion of our activities and acquisitions allows us to even further enhance our extensive cross-selling opportunities both for products and for customers (following the acquisitions we've carried out in the past 5 years, approx. 12,000 customers have joined our customer base) and to accelerate our growth.

Frutarom's rapid expansion in North America and the fast-growing emerging markets was implemented with the support of profitable internal growth and strategic acquisitions, with a focus on the continued improvement in Frutarom's geographic reach:





* The annual rate of sales assuming the acquisitions performed and completed in 2017 (including Enzymotec, Bremil and Mighty) had been consolidated in the reports since January 1, 2017.

** Current sales growth rate compared with 2010

As a result of our activity to **improve our geographic sales mix**, while Frutarom sales grew by a factor of 3 since 2010, sales at the same time in emerging markets grew by a factor of 5.7, such that sales in emerging markets made up approx. 43% of Frutarom sales in 2017, compared with approx. 27% in 2010. At the same time, sales in North America grew by a factor of 4.8, with a notable increase in our Flavors activity in North America, which grew by a factor of 10.7 in the past 7 years. We have built a growing activity in Flavors in Central and South America, Africa, India and in Southeast Asia, and have established market leadership in Eastern and Central Europe. We have also worked, and will continue to work, on focused reinforcement of our R&D, production, and sales and marketing platforms in our strategically targeted countries. We built a new and advanced plant in China, which includes state-of-the-art laboratories for R&D and applications, and for the first time we also have the capability of developing and producing savory flavors locally in China. Furthermore, this year we built a new modern plant in South Africa that serves the entire growing Sub-Saharan region. In 2018 we will build a new and advanced Flavors plant in Ho Chi Minh City, Vietnam, in order to support the expected rapid growth in activity in Vietnam and East Asia.

Strategic acquisitions and their contribution towards achieving profitable growth – Over the years we have developed extensive and successful experience performing mergers and acquisitions and are working towards integrating the acquisitions and exploiting the many commercial and operational synergies they provide, in order to achieve maximum benefit from the cross-selling opportunities, cost savings and continuing improvement to our profit margins and competitive capabilities.

Since 2011 we have carried out 47 strategic acquisitions and we have an excellent pipeline of future acquisitions. In choosing the acquired companies, we focused on penetrating new territories and on strengthening our position in strategically important and growing territories of operation. We also focused on acquisitions that enable us to significantly expand our Flavors activity and our new and unique product and technology offerings, putting the emphasis on natural products that combine taste and health, natural colors, Food Protection by Natural Solutions and specialty fine ingredients for the cosmetics, Infant Nutrition and clinical elderly nutrition industries.

ACQUISITIONS STRATEGY IMPLEMENTATION
(2013-2018)

Geographic Focus

North America

Hagelin
- Enhancing market position in the US and EM
- Expertise in Beverages

CitraSource
- Enhancing Citrus capabilities & leadership
- Presence in Florida – World Center for Citrus

Scandia Citrus
- Enhancing market position in the US
- Expertise in specialty Citrus solutions

BSA
- Canada , India
- Enhancing savory position in **North America and India**

Wiberg
- USA, Canada
- Enhancing savory position in North America

Emerging Markets

PTI Russia & CIS
- Savory Solution leadership position in Eastern Europe

Amco Poland
- Enhancing savory solutions leadership in Eastern Europe

Aroma Guatemala
- Enhancing market position in Central America

Montana Food
- Peru & Chile Enhancing market position in **LATAM**

Sonarome India
- Enhancing market
- position in India and Africa

Inventive China
- Enhancing market
- position in **Southeast Asia**

Nardi Aromas
- beverage flavoring in Brazil

Piasa
- Savory solutions leadership in Mexico

Unique Flavors S. Africa

WFF Vietnam

SDFLC Brazil

MIGHTY Thailand

Meroar Argentina

Tasty & Healthy

Continuing to improve product mix and Enhancing position in Health & Wellness

Montana Food
- Peru & Chile
- Enhancing market position in LATAM
- Natural colors

Vitiva
- Slovenia
- Food protection
- Natural Colors
- Health Ingredients

Ingrenat
- Spain
- Food protection
- Natural Colors

Nutrafur
- Specialty natural plant extracts for food, health and food protection

Extrakt Chemie
- Natural extracts for Pharma

AB Fortis
- Patent-protected micro-encapsulation technology for delivery of iron

IBR Israel
- Innovative cosmetic ingredients

CitraSource
- Enhancing Citrus capabilities & leadership
- Presence in Florida – World Center for Citrus

Scandia Citrus
- Enhancing market position in the US
- Specialty Citrus solutions Expertise

Taura
- Belgium, New Zealand, Australia
- Enhancing market position in Natural Fruit-Based Ingredients and specialty solutions

Inventive China
- Enhancing market
- position in Southeast Asia
- Unique technologies for combining flavors with fruit, chocolate, grains and nuts

Grow USA
- Biotechnology products for the supplement and nutraceutical market

Enzymotec Israel
- Innovative specialty nutrition Solutions

These acquisitions enable us to carry out projects to consolidate and combine production sites and activities for attaining maximal efficiency in purchasing, logistics and supply chain, these projects will contribute to building up our competitiveness and improve our profits and margins. These actions include, inter alia, the full merger of Enzymotec with the specialty fine ingredients activity, while combining the management, R&D, sales and operations platforms and fully tapping the many synergies between the activities in order to accelerate growth, improve cost structure and significantly increase the profitability of Enzymotec's activity and the project aimed at significantly increasing production in the natural extracts activity in the fine ingredients division, while attaining maximal efficiency.

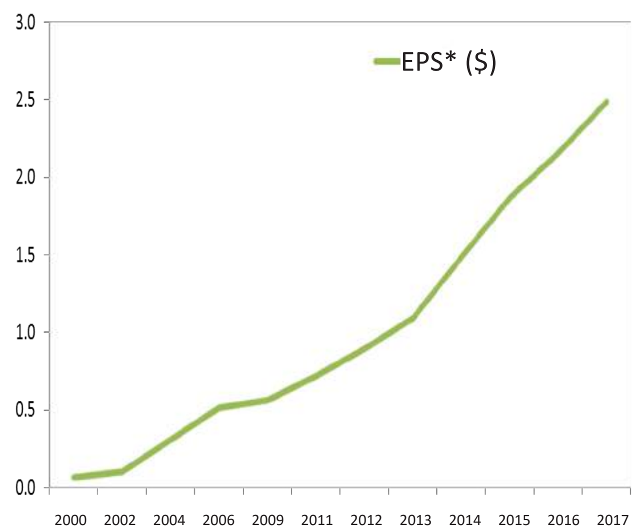
Frutarom's rapid sales growth in recent years has also translated into a significant increase and record levels in profits, profit margins, strong cash flow, and earnings per share:

In 2017 the gross margin for our core activities (Flavors and Specialty Fine Ingredients) reached 40.4%. Operating profits for core activities rose 26.2% and reached a record level of $217.2 million with an operating margin of 17.1%. EBITDA rose 23.5% to a record of. $265.4 million on an EBITDA margin of 20.9%[1] .

Net income and earnings per share climbed 19.4% and 18.8% respectively to reach $154.3 million and $2.57 per share. Net margin reached 11.3%[1].

We are continuing to generate a strong cash flow from operations: The cash flow this year grew by 50.5% to reach a record of $187.5 million.

Consistent Improvement in EPS



*Adjusted for non-recurring expenses

1 All figures in this paragraph are on a constant currency basis.

Our robust equity structure and the strong cash flow we generate will enable us to continue initiating and capitalizing on acquisition opportunities, relying on our strong high-quality acquisitions pipeline.

This year the Board of Directors decided on a dividend distribution of NIS 0.50 ($0.143) per share, reflecting a 13.6% increase from last year

Contributing to the results we are achieving are organic sales growth, an improved product mix, and measures we are taking towards maximum operational efficiency.

Work is also continuing according to plan on building and strengthening a global procurement platform that will exploit the purchasing power that has grown significantly over recent years, with a shift to purchasing directly from producers in source countries, mainly of natural raw materials (that make up more than 80% of our raw materials) which will also contribute to an improvement in purchasing costs and in gross margin.

Today Frutarom is a one of the leading growing global players in its field, positioned at the crossroads of the growing worlds of taste and health with a unique variety of products, a wide global reach, and a diversity of excellent customers, in keeping with its vision:

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

We have succeeded in achieving our ambitious goals and have made a significant quantum leap in our activities. The continued successful implementation of our strategy, deeper penetration into emerging markets having higher than the average global growth rates, and into North America, and the steps we are taking to consolidate and optimize our operational resources and procurement, and the successful integration of our acquisitions, along with our excellent pipeline of future acquisitions and robust financial structure, will lead to a another significant quantum leap in Frutarom's revenues, profits and profit margins. We are convinced in our ability to continue accomplishing our strategic plan and our ambitious targets and reach sales turnover of $2.25 billion along with an EBITDA margin of 23% from our core businesses (Flavors and Specialty Fine Ingredients) by 2020, and to continue driving up value for our shareholders.

We are certain that with the cooperation of our employees, led by Frutarom's management and with the ongoing support of the members of the Board of Directors and from you, our shareholders, we can continue to develop, expand and successfully meet the ambitious goals and challanges ahead.

Sincerely Yours,

Dr. John Farber

Chairman of the Board of Directors

Ori Yehudai

President & CEO

March 20, 2018


THANK YOU

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Section A

Description of the Company's Business

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In this report the following terms will bear the meaning appearing next to them:

"AMCO"	AMCO spółka z ograniczoną odpowiedzialnością
"Aroma"	The Panamanian company International Aroma Group which holds the Aroma group
"BSA"	Investissements BSA Inc.
"CitraSource"	The business activity and assets of CitraSource LLC and 100% of the issued share capital of CitraSource LLC Holdings
"Date of the Report" or "Date of the Publication of the Report"	Close to the date of publication of this report
"Directors' Report"	Report of the Board of Directors of the Company as of Dec. 31, 2017, attached as Chapter 2 to this report
"EAFI"	East Anglian Food Ingredients Ltd.
"Enzymotec"	Enzymotec Ltd.
"Etol"	FRUTAROM ETOL Tovarna arom in eteričnih olj d.o.o
"Extrakt-Chemie"	Extrakt-Chemie Dr. Bruno Stellmach GmbH & Co. KG
"F&E"	Flavours and Essences UK Ltd
"Financial Statements"	The financial statements of the Company as of Dec. 31, 2017, attached as Chapter 3 to this report
"FoodBlenders"	FoodBlenders Limited
"F&J"	Crestmont Investment, which holds the entire share capital of The Foote & Jenks Corporation and Eden Essentials Inc.
"GDRs"	Global Depositary Receipts
"Grow"	Grow Company Inc.
"Hagelin"	Hagelin & Company Inc. and BRC Operating Company LLC

"ICC"	"ICC Industries Inc"
"Ingrenat"	Ingredientes Naturales Seleccionados, S.L
"Inventive"	Inventive Technology Ltd. & Prowin International Ltd.
"JannDeRee"	JannDeRee (Pty)
"Mighty"	The Mighty CO. LTD.
"Montana Food"	The flavors and natural colors for food division of Montana S.A.
"Muhlehof"	Muhlehof Gewurz AG.
"Nardi"	Nardi Aromas Ltda.
"Nutrafur"	Nutrafur S.A.
"Piasa"	Proveedores De Ingenieria Alimentaria, S.A. De C.V.
"PTI"	Protein Technologies Ingredients
"Redbrook"	Redbrook Ingredient Services Limited
"René Laurent"	René Laurent
"Scandia"	Scandia Citrus LLC
"SDFLC"	SDFLC Brasil Indústria E Comércio Ltda.
"Share"	Ordinary share par value NIS 1.00 of the Company - Frutarom Industries Ltd.
"Sonarome"	Sonarome Private Ltd.
"Taiga International"	Taiga International
"Taura"	Taura Natural Ingredients Holding Pty Ltd.
The "Company"	Frutarom Industries Limited
The "Group" or "Frutarom"	Frutarom Industries Limited, including its consolidated companies
The "Companies Law"	The Companies Law, 1999
The "Ordinance"	Income Tax Ordinance (New Version)
The "Securities Law"	The Securities Law, 1968

Turpaz	Turpaz Perfume and Flavor Extracts Ltd.
“US$” or “USD”	United States dollar(s)
“Vitiva”	VITIVA proizvodnja in storitve d.d
“Vantodio”	Vantodio Holdings Limited
“Unique”	Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited
"WFF"	Western Flavors Fragrances Production Joint Stock Company
“Wiberg”	SAGEMA GmbH (currently known as Worldwide WIBERG GmbH) and Wiberg GmbH

All financial data in this report is in US dollars unless stated otherwise.

CHAPTER 1 – THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

1. The Group's Activity and Description of its Business Development

General

1.1. Frutarom was incorporated in Israel in 1995 as a private limited stock company under the name Frutarom NewCo (1995) Ltd. In 1996 the Company's shares were listed for trading on the Tel Aviv Stock Exchange, and the name of the Company was changed to Frutarom Industries Ltd.

1.2. Frutarom Ltd., a wholly owned subsidiary of the Company through which the Company's business and production activities are held, was established in 1933 as Frutarom Palestine Ltd. Frutarom's operations initially consisted of the cultivation of aromatic plants and flowers for the extraction and distillation of flavor and fragrance substances and essential oils.

1.3. During the second half of the 1980s, upon the change of Frutarom's management, a new business strategy was adopted promoting substantial growth in the Company's international activities to turn Frutarom into a leading global company in its field by significantly expanding its Flavor operations, the Company's most profitable activity. In the early 1990s Frutarom's management decided to expand its global activity by acquiring companies and operations within its fields of activity. Since 2001 Frutarom has accelerated its growth by implementing a strategy combining profitable organic growth and the execution of strategic acquisitions in order to expand its business opportunities in both emerging and developed markets. Over the past 5 years Frutarom has significantly increased its mergers and acquisitions activity, making 42 acquisitions[1], including 11 in 2015, 8 in 2016 and 12 in 2017. In 2018 until the date of this report, Frutarom made 2 additional acquisitions.

1.4. In February 2005 the Company raised capital from investment institutions in Israel and abroad by issuing shares and registering GDRs for trading on the London Stock Exchange Official List.

1.5. The Company's largest shareholder is the ICC Group[2] with holdings as of the date of this report of 21,358,034 shares constituting approximately 35.87% of the Company's issued capital and voting rights in the Company, and approx. 35.52% on a fully diluted basis.

1.6. Frutarom is a growing global company, one of the world's top ten companies in the field of flavors and specialty fine ingredients.[3]

Frutarom develops, produces and markets comprehensive solutions in the

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1 Including Meorar, which Frutarom signed an agreement for its purchase on March 13, 2018 (see section 1.8.11 (q) below) and as of the publication of this report, Frutarom has not completed the acquisition.

2 To the best of the Company's knowledge, the above holdings are through subsidiaries of ICC . In addition to these shares, 48,888 shares (approx. 0.08% of the Company's issued and paid up share capital) are directly held by Dr. John J. Farber and his wife, Mrs. Maya Farber, who serve as chairman of the Company's board of directors and a director of the Company respectively, and are the controlling shareholders in ICC. Their daughter, Ms. Sandra Farber, also serves as a director of the Company and owns approx. 6.86% of ICC's issued and paid up capital.

3 Leffingwell & Associates, October 2017

fields of flavors and specialty fine ingredients used for the production of food, beverages, flavors and fragrances, pharmaceutical/nutraceutical products, cosmetics and personal care products, and other products. As of the date of this report Frutarom operates 74 production sites, 93 research and development laboratories, and 111 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and markets and sells over 70,000 products to more than 30,000 customers in more than 150 countries and employs over 5,400 people throughout the world.

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

1.7.1. **Flavors activity** – In the framework of its Flavors activity, Frutarom develops, produces, markets and sells sweet and non-sweet (savory) flavor solutions, including flavors 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, as well as new products to suit varying consumer preferences. In accordance with the Company's strategy, Frutarom's Flavors activity has grown rapidly and profitably by combining organic growth and acquisitions, and in 2017 accounted for approx. 81% of Frutarom's total core business and approx.75% of Frutarom's overall sales (as opposed to 33% of overall sales in 2000).

This rapid growth is the result of (a) a focus on the fast growing area of natural flavors; (b) the development of unique innovative solutions combining taste and health for the market segment of large multinationals; (c) a focus on mid-size and local customers in emerging and developed markets – and private label manufacturers in particular, with an emphasis on customized service as normally provided to large multinational customers, including comprehensive solutions and technological support, assistance in developing products, marketing support, , high level of service and the offering of tailor-made products as are normally provided to large multinational companies; and (d) the execution of strategic acquisitions which have been, and continue to be, successfully integrated into Frutarom's global activities.

1.7.2. **Specialty Fine Ingredients activity** – In the framework of its Specialty Fine Ingredients activity, Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae-based biotech products, natural colors for food, natural antioxidants that help in providing solutions in the fields of Food Protection and of natural cosmetics, specialty fine ingredients for infant nutrition for and elderly clinical nutrition, essential oils, specialty citrus products and aromatic chemicals. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharma/nutraceutical, infant nutrition, cosmetics and personal care industries.

Frutarom focuses its Specialty Fine Ingredients activity on developing a portfolio of high added-value 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 higher-than-average growth in demand compared to non-natural products. In recent years Frutarom has been focusing on continuing to expand its portfolio of natural products, offered to customers, with particular emphasis on the field of natural, tasty, functional and healthy foods. In 2017 Specialty Fine Ingredients activity accounted to approx. 19% of Frutarom's core business activity and approx. 18% of its overall sales.

1.7.3. **Trade & Marketing activity** – In addition to its core businesses, Frutarom also imports and markets various raw materials that it does not manufacture, as part of the service offered to customers which includes providing them comprehensive solutions for their needs. This Trade & Marketing activity is synergetic with and supports Frutarom’s core businesses by leveraging its global sales organization, supply chain and purchasing systems, as well as its global management, and allows Frutarom to offer a wider variety of products and solutions, as well as 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 expanded following the acquisitions of Etol in 2012, PTI in 2013, Montana Food in 2014 and Piasa in 2016 (as described below), centers mainly on Central and Eastern Europe, Latin America and Israel. Sales in this field constitute approx. 7% of total Frutarom activity in 2017.

1.8. **Rapid Growth Strategy – Combining profitable internal growth with strategic acquisitions**

Frutarom has adopted a strategy that combines rapid and profitable internal growth, while strengthening its R&D and innovation, supply chain and production, and sales and marketing platforms, along with making further strategic acquisitions and leveraging the various resulting synergies. In recent years, as part of this strategy, Frutarom has focused on the following objectives:

1.8.1. **Increasing the proportion of its 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 an above-market growth rate. As part of the expansion of its Flavors activity, about 10 years ago Frutarom began a strategic campaign to gain market leadership in the field of savory taste solutions as well, which is growing due to the rising standard of living along with changing lifestyle and consumer habits, which result in a growing demand for processed and convenience foods. This is also achieved 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 approx. 24%. In 2017 sales in the field of Flavors constituted approx. 75% of total Frutarom sales (as compared to 33% of total sales in 2000).

The Company expects this trend of internal growth of its Flavors activity to continue by, among other things, the addition of products and increasing the offer of comprehensive solutions 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 the extensive cross selling opportunities generated by these acquisitions.

1.8.2. **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. This shift has also been due to evolving regulatory standards in many countries throughout the world that limit the use of certain materials and lead to improved nutritional properties in foods and beverages, resulting in manufacturers needing to employ innovative technologies and solutions that are based on natural products. Consumer awareness towards proper and healthy nutrition has not compromised demand that products remain tasty despite the reduced amounts of 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 consumers' disposable income and their willingness to increase their spending on processed foods and convenience products, and on products perceived as healthier. A continuing trend of consumer demand 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 has 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 an 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 when producing convenience food) that are based on innovative, natural ingredients. 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.

1.8.3. **Focus on natural products and establishing market leadership in the field of plant extracts** – In response to consumer demand and to major trends in the global food market for healthier and more natural foods, Frutarom is working towards developing and expanding its portfolio of natural products. This category 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 it offers its customers through internal R&D, collaborations with universities, research institutes and startups, as well as acquisitions. In addition, Frutarom is expanding its fields of activities into other growing profitable areas, including natural fine ingredients for the cosmetics industry and specialty fine ingredients for infant nutrition and elderly clinical nutrition products. Currently, approx. 75% of Frutarom sales are of natural products and it intends to keep increasing the share of its natural products activity, since natural products have higher growth rates. As part of its strategy to focus on natural products with health-promoting attributes, in 2018 it acquired IBR, in 2017 it acquired the activity of AB Fortis, in 2016 Grow, Nardi and Extrakt-Chemie, and in 2015 Nutrafur and Vitiva were acquired (for further information on these acquisitions, see sections 1.8.10 and 1.8.11 below). In recent years Frutarom further expanded its activity in natural products by entering the natural food colors field (by acquiring Montana Food, Vitiva, and Ingrenat) and it is making substantial investments in the establishment of an applications and formulations center for colors in its plant in Slovenia. This center is expected to serve Frutarom's thousands of food and beverage customers all over Europe and the region and is scheduled to start operating in the second half of 2018. In addition, Frutarom is also taking action towards significantly increasing its activity in the area of natural antioxidants that promote Food Protection (through the acquisition of Vitiva, Ingrenat and Nutrafur; see section 1.8.10 below). Moreover, 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, see section 1.8.10 below). Frutarom also increased its activity in the field of innovative natural solutions for incorporating fruit components into food products (by acquiring Taura and Inventive, see section 1.8.10 below).

Frutarom has identified that one of its customers' greatest challenges in the transition to natural ingredients, in the fields of flavor, colors, natural preservatives and in the fields of health and cosmetics, is their limited availability and substantially higher costs, in comparison to synthetic products. As a result, Frutarom initiated a strategic plan to significantly increase the availability and outputs of natural raw ingredients alongside a substantial increase in its production capacity for natural plant extracts. The acquisitions of Vitiva, Ingranat, Nutrafur, Extract Chemie, Nardi, René Laurent (which has an extraction facility in Morocco) and IBR (see section 1.8.10 below), enabled a significant increase in Frutarom's natural extracts production capacity, the creation of specialization centers in different technologies for plant extraction and optimizing the manufacturing between the different facilities, according to the their specializations in the different extraction technologies and a significant increase in their operational efficiency.

In addition, Frutarom is taking action to guarantee the supply of unique raw ingredients by developing long term collaborations with farmers across the globe. As part of this agricultural collaboration, Frutarom supplies the farmers with unique patented varieties developed in collaboration with agricultural research institutions and cultivation companies from all over the world - these varieties have a higher content of the active materials responsible for flavor and color attributes, natural preservatives, skin protection and improved appearance, and health values – and it also provides them with agricultural know-how and guidance. These collaborations ensure a regular ongoing supply of important natural raw materials, at prices beneath the market, with higher active ingredients concentration than the level found in nature. As part of this endeavor, that started over a year ago and is rapidly expanding, collaborations of this nature are taking place in Peru, Brazil, Guatemala, Spain, Poland, Israel, Morocco, South Africa and more, with the intention that within several years approximately 50% of the raw material consumption for Frutarom's main natural extracts will be from self-cultivation.

Frutarom seeks to establish global market leadership in the growing area of natural plant extracts, while further improving the activity's profitability and carrying out additional strategic acquisitions in this field.

1.8.4. **Developing Global Activity in the field of Fragrances** – Frutarom has initiated a strategic plan for developing global activity in the field of fragrances with an emphasis on emerging markets with high growth rates. As part of this plan, Frutarom has acquired Turpaz and Pollena Aroma in 2017 and Meroar in 2018, which have joined Frutarom's smaller existing businesses in the field of fragrances, especially in India, Africa and Latin America (see section 1.8.11 below). The fragrances activity is synergistic with, and complementary to, the Flavors activity, due to several factors, two of them being the raw materials and production processes, and many players in Frutarom's field of activities have both flavor and fragrance activities. The global market for fragrances, was estimated in 2016 to be worth approximately $13.2 B, and the projection is that the sales in the flavor and fragrance markets will grow in an annual growth rate of approx. 3% between 2015 to 2020[4]. According to these estimates, the growth rates in emerging markets, such as Asia, central and South America, Eastern Europe and Africa, is expected to be even higher, as a result of changes in consumer preferences in these markets and a rise in the standard of living and available income, and might reach an average annual rate of approx. 5.1% between 2015 - 2020. Fragrances are sold to customers in the perfume, cosmetics, personal care, household cleaning agents, detergents, air fresheners, and scented candles industries and more. Fragrances, just like flavors, are tailor made mixes developed according to the customer's requirements, while establishing long term relationships between manufactures and customers, with great importance placed on innovation, vendors' reliability, quality of service and their acquaintance with the needs of the customers for whom the specialty fragrances were developed. Frutarom intends to further develop this important area, including establishing a pipeline of acquisitions of additional activities in the field of fragrances that will accelerate its penetration and the expansion of its activity in this field.

1.8.5. **Strategic change in the geographic mix** – In recent years Frutarom has been implementing a strategy of geographic expansion in North America and emerging markets (Asia, Africa and South America) having higher rates of growth, through accelerated internal growth and 21 acquisitions made over the past 5 years in North America and emerging markets . As a result of this strategy, while Frutarom sales grew by a factor of 3 since 2010, sales in emerging markets at the same time grew by a factor of 4.8, such that the sales in emerging markets made up approx. 43% of Frutarom sales in 2017, compared with approx. 27% in 2010. Meanwhile, sales in North America grew by a factor 4.6, with a notable increase in flavors activity in North America, as it grew by a factor of 10.7 in the past 7 years. In 2017 sales in North America accounted for approx. 14% of overall sales compared with approx. 9% in 2010.

The rapid growth of activity outside of Western Europe has led to sales in

[4] IAL Consultants, Dec 2016

Western Europe (which have grown by approx. 116% since 2010) constituting approx. 36% of Frutarom's total sales in 2017, compared with 51% in 2010.

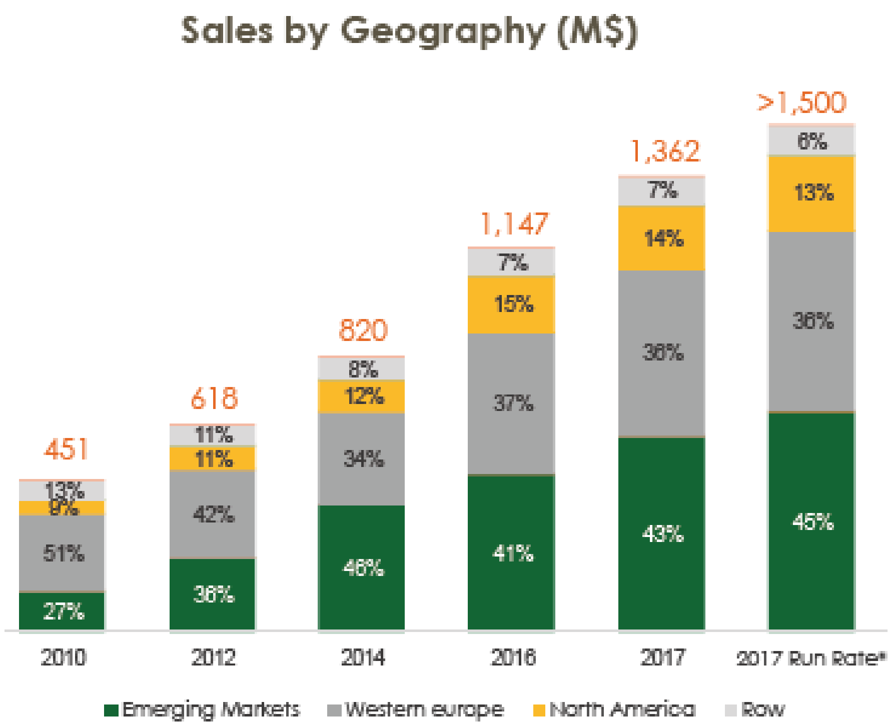
In 2016 Frutarom inaugurated its modern plant in South Africa which enables it to significantly strengthen and increase its activity in the sub-Saharan countries and provide its customers in the region with advanced R&D and applications services along with the benefits of efficient cutting edge means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

As part of the growth strategy in East Asia, in 2016 Frutarom built a new state-of-the-art plant for flavors in China which features sophisticated laboratories for research, development and applications and which also provides Frutarom the ability, it previously lacked, to develop and produce savory flavors locally. In 2018 an advanced Flavors facility will be built in Ho Chi Minh, Vietnam, in order to support the expected rapid growth in activity in Vietnam and the Far East markets.

Frutarom will continue developing and expanding its activity in the growing emerging markets and in North America through, among other things, building up its R&D, production, marketing and sales platforms in key growing target countries and the continued execution of further strategic acquisitions.

Frutarom is continuing to develop and expand its activity in Western European markets by leveraging its broad product portfolio and continuing to exploit its abundant cross-selling opportunities and execute further strategic acquisitions.

<u>Development of Sales Distribution by Geographic Region</u>



* Assuming the acquisitions performed and completed in 2017 (including Enzymotec, Bremil and Mighty) were consolidated into the reports from January 1, 2017.

1.8.6. **Focus on providing quality service and product development to large multinational customers and medium sized local customers** – 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 customer segment of the market, which makes up the greater part (approx. 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 requirements. Frutarom also offers mid-size and local customers as well as its private label customers - which usually have more limited resources than large and multinational customers - assistance in the development of their products while providing marketing support, flexibility on minimum order quantities and delivery dates and an option to provide them with comprehensive solutions in flavors, natural colors, natural preservatives and health components all under one roof.

1.8.7. **Mergers and Acquisitions and their contribution towards achieving profitable growth** – Frutarom has extensive experience with successful execution of mergers and acquisitions, 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 made 47 strategic acquisitions[6], including 33 since the beginning of 2015, 8 acquisitions in 2016, 12 in 2017, and 2 in 2018, which are, and will be, integrated with its global operations and which contribute, and will continue to contribute, to the continued growth in sales and improvement in profits and margins through maximal utilization of the numerous 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;

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

6 See footnote 1 above.

(3) Broadening and deepening its portfolio of natural solutions, as specified in section 1.8.3 above.

1.8.8. Frutarom is working on successfully integrating its acquisitions and fully tapping the strong potential they bring. The integration of these acquisitions is proceeding successfully and according to plan. The managements of the acquired activities, together with Frutarom's regional and local managements in each geographic area or of the relevant business activity assume a leading role in the merger processes. In addition, Frutarom has developed advanced dedicated computer systems that support the quick integration and monitoring of acquired activities, while realizing synergies in the areas of R&D, sales and marketing, purchasing, production and logistics.

1.8.9. Frutarom see much synergetic potential in the acquisitions it has made and is working to realize and fully utilize them, both for accelerating growth through fully tapping the cross-selling opportunities and the numerous marketing and technological synergies created by these acquisitions, and for attaining the significant operational savings, some of which are already being reflected, and some which will be reflected in its results in upcoming quarters.[7]

Latest Acquisitions and their Support for Frutarom's Growth Strategy

[7] The assessments stated here is section 1.8 above, including on the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings constitute forward-looking statements as defined in the Securities Law, resting upon estimates by Company management, as of the date of this report, based on the potential synergies between the Company's activities and the acquired activities. Such assessments could fail to materialize, in full or in part, or materialize in a different manner, including materially different, than expected, as a result of unexpected developments that are not necessarily under the Company's control in the merging of activity connected with the human resources, R&D, salesforce, operations (including closure of manufacturing facilities and/or transfer of production between different facilities), logistics, technology, procurement, systems and the services of the merged activities and/or resulting from the realization of any of the risk factors as outlined in section 41 below. In addition, Frutarom could fail to capitalize on the expected synergies (including those whose purpose is cost savings) that are inherent in the acquisitions.

1.8.10. Following is a description of the acquisitions executed by the Company in 2015 and 2016 (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)[8]:

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
February 2015	**FoodBlenders** – UK Purchase of 100% of the share capital	Cash payment of approx. £ 1.45 million (approx. US$ 2.2 million) plus an additional performance-based amount of approx. £ 724 thousand (approx. US$ 1.1 million) that was paid in 2015. The acquisition was independently financed.	Development, production and marketing of savory taste solutions to a broad customer base which includes food and private label manufacturers in the UK.	Approx. US$ 3 million in 2014.	FoodBlenders has a development, production and marketing site in the UK located near the Frutarom site at Wellingborough. FoodBlenders' product portfolio and technologies supplement the product portfolio of activities at Savoury Flavours and EAFI in the UK, acquired by Frutarom in 2012 and 2011 respectively, which specialize in savory taste solutions as well. The activity of FoodBlenders was merged with Frutarom's growing flavors activity in the UK.
February 2015	**Ingrenat** – Spain Purchase of 100% of the share capital	Cash payment of approx. US$ 4.4 million (approx. Euro 3.9 million) plus assumption of debt totaling approx. US$ 2.8 million (approx. € 2.5 million), and a mechanism for future consideration for which the Company will pay approx. € 650 thousand (approx. US$ 718 thousand). The acquisition was financed through bank debt.	R&D, production, sales and marketing of natural extracts from plants which provide solutions for taste, color and antioxidant activity for the food industry. Its customers are leading food manufacturers and producers of flavors, fragrances and natural colors.	Approx. US$ 9.8 million in 2014.	The acquisition of Ingrenat continues Frutarom's implementation of its strategy of deepening and expanding its activity in the growing field of natural colors and antioxidants for food, and Frutarom intends to continue investing in expanding its global activity in this important and growing field. Ingrenat has an R&D and sales and marketing center and production site in Murcia, Spain, with large production capacity and the possibility for substantial expansion. As part of its comprehensive strategic drive to establish global market

8 For information on acquisitions performed during the reported period, see section 1.8.11 of this chapter.

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					leadership in natural plant extracts and substantially increasing production capacity and the establishment of centers specializing in the different plant extraction technologies and optimizing production between the different facilities, Frutarom has substantially increased its production capacity in the Ingrenat plant, while attaining significant operational savings. Ingrenat's activity has been integrated into Frutarom's Fine Ingredients activity.
December 2014 / April 2015	**Vitiva** – Slovenia Purchase of 100% of the share capital in two stages: Approx. 92% in Dec. 2014 and the balance in April 2015	Overall cash payment of approx. US$ 10 million (approx. Euro 8 million). The acquisition was independently financed.	R&D, production, sales and marketing of specialty natural extracts from plants with antioxidant properties or having scientifically-proven health attributes supported by clinical trials, and natural colors for customers in the food, medicinal, nutraceutical and cosmetics industries. Its customers include some of the world's leading makers of food products, pharmaceuticals and cosmetics. Vitiva also has R&D capabilities and a longstanding research-based pool of knowledge for continuing to expand its current product portfolio and for entering additional fields including preservatives for animal feed and pet food.	Approx. US$ 11 million in 2014.	The natural colors for food activity joined the natural colors for food activity of Montana Food and Ingrenat (for further information, see above), and continues the implementation of Frutarom's strategy of penetrating the growing field of natural colors with the intention of continuing to invest in considerably expanding its global activity in this growing field. As part of its comprehensive strategic drive to establish global market leadership in natural plant extracts and substantially increase production capacity and the establishment of centers specializing in the different plant extraction technologies and optimizing production between the different facilities, Frutarom has substantially increased its production capacity in the Vitiva plant. Vitiva is currently a center for development and applications in food protection for Frutarom. The natural

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					colors activity has been merged with the Company's colors activity in Spain and Peru. Vitiva's activity has been integrated with the activity of Frutarom's Specialty Fine Ingredients division.
March 2015	**Taiga International** – Belgium Purchase of 100% of the share capital	Cash payment of approx. US$ 3 million (approx. Euro 2.7 million). The acquisition was independently financed.	Production and marketing of flavor extracts for the food (including leading chocolate manufacturers), beverages and tobacco industries, to customers, in North America and Europe.	Approx. US$ 4.9 million in 2014.	Taiga's production, R&D and marketing site in Belgium was merged into Frutarom's existing production sites in Europe, with the achievement of substantial operational savings.
May 2015	**Sonarome** – India Purchase of 60% of the share capital	Cash payment of approx. US$ 17.7 million (approx. INR 1,104 million). The purchase agreement includes an option for the purchase of the balance of shares starting from the elapse of two years from the date of completion of the transaction, at a price based on Sonarome's future business performance. The acquisition was financed through bank debt.	Development, production and marketing of flavors and fragrances. In addition to its activity in India, Sonarome has widespread activity in approx. 20 markets in Africa, mainly in Nigeria, South Africa, Ethiopia, Kenya, and Mozambique which also constitute growing and important target markets for Frutarom's growth strategy. Sonarome's broad customer base includes local and global food and beverages manufacturers.	Approx. US$ 12 million in 2014.	Sonarome has a production, R&D and marketing site in Bangalore, India with unutilized production capacity. The acquisition of Sonarome is another important step in attaining Frutarom's objective of expanding its activity in the emerging markets of India and Africa where rates of growth are high, by means of both internal growth and acquisitions. Frutarom continues to develop and deepen its presence in the important markets of India and Africa and is integrating Sonarome's R&D and sales and marketing infrastructure with its own global R&D and sales and marketing infrastructure in order to leverage and realize the many cross-selling possibilities that this acquisition generates. In addition, Frutarom is working towards leveraging Sonarome's production and supply chain capabilities

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					to accelerate its growth in India. The acquisition provides Frutarom with the advantages of a global manufacturer with a local R&D and production infrastructure for shortening delivery times and improving service to customers in the region. In addition to its activity in flavors, Sonarome has infrastructure of growing activity in fragrances, mainly in India and the emerging markets of Africa, and Frutarom aims to utilize this infrastructure to penetrate additional emerging markets.
June 2015	BSA – Canada Purchase of 95% of the share capital In July 2017 The Company purchased the balance of BSA's share capital, for further information see section 1.8.11 (g)	Cash payment of approx. US$ 36 million (approx. C$ 45 million) and an additional payment of approx. US$ 2 million (approx. C$ 2.75 million) for the balance of shares (5%). The acquisition was financed through bank debt.	BSA's main activity is the development, production and marketing of unique and innovative savory taste solutions that include seasoning mixes and functional ingredients for the food industry, with special emphasis on processed meats and convenience foods.	Approx. US$ 34 million in the 12-month period ending August 2014.	BSA has a large and efficient production site in Montreal as well as activity in India. BSA's activity has been combined with Frutarom's global activity in the field of Savory Solutions.
June 2015	**Taura** – Belgium, New Zealand Purchase of 100% of the share capital	Cash payment of approx. US$ 71 million (approx. Euro 62.7 million) plus future consideration of approx. € 3 million (approx. US$ 3.5 million) conditional on Taura's business performance.	Mainly develops, produces and markets innovative solutions using its unique Ultra Rapid Concentration (URC®) method for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience food and baked goods, raising the percentage	Approx. US$ 40 million in the 12-month period ending March 2015.	Leading global player in its field with production sites in New Zealand and Belgium, and sales offices in the US and UK. Taura's activity is largely synergetic with Frutarom's global Flavors activity into which it was integrated, enabling Frutarom to broaden and reinforce its supply of natural products and offer a portfolio of products and solutions that combine fruit components, natural

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
			of the final product's fruit content, improving and enhancing their flavor and texture, and lengthening shelf life through the use of natural ingredients and flavors. Taura has a broad customer base that includes leading global and national food and beverage makers in the United States, the Asia-Pacific region and Europe.		flavors and colors, and ingredients with high nutritional value while continuing to expand and deepen its activity and market share. The acquisition accelerates the growth of Frutarom's activity in Asia-Pacific markets, with emphasis on Australia and New Zealand, as for the first time Frutarom has a production site and R&D and sales and marketing platforms in New Zealand. Taura has long-established relationships with leading customers in these countries that enable Frutarom to offer them the full range of its products. Frutarom is working towards merging its sales platforms with Taura's, and customers throughout the world are offered the full variety of Frutarom's and Taura's innovative, unique and comprehensive capabilities and technologies in the fields of taste and health.
June 2015	**F&J** – USA Purchase of 100% of the share capital	Cash payment of approx. US$ 4.2 million. The acquisition was financed through bank debt.	Development, production and marketing of flavor extracts to the pharma, food, beverages and tobacco industries.	US$ 2.9 million in 2014.	F&J's production activity was transferred to Frutarom's plant at Cincinnati, Ohio, attaining the full amount of operational savings.
July 2015	**Scandia** – USA Acquisition of business activity and assets.	Cash payment of approx. US$ 6 million. The acquisition was financed through bank debt.	Research and development, production and marketing of unique solutions in the field of citrus to leading global customers in the flavors, foods and beverages markets.	US$ 8 million in 2014.	Scandia's activity is largely synergetic with that of CitraSource which was acquired in 2014 and was successfully merged with it.

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
September 2015	**Nutrafur** – Spain Purchase of 79% of the share capital. In June 2017, The Company completed the acquisition of balance of share capital of Nutrafur, see section 1.8.11(e) above.	Cash payment of approx. US$ 8.3 million (approx. Euro 7.4 million). The acquisition was financed through bank debt.	R&D, production, sales and marketing of specialty natural extracts from plants with antioxidant properties or having scientifically-proven health attributes supported by clinical trials for the food, pharmaceutical, nutraceutical and cosmetics industries.	Approx. US$ 13 million in the 12-month period ending June 2015.	This acquisition is part of the comprehensive strategic drive to establish global market leadership in natural plant extracts and substantially increasing production capacity and the establishment of centers specializing in the different plant extraction technologies and optimizing production between the different facilities, Nutrafur has an R&D and sales and marketing center and an efficient production site in Murcia, Spain with large production capacity and significant possibility for expansion, which Frutarom is working towards utilizing. Nutrafur's production site is near the production site of Ingrenat which was acquired in the first quarter of 2015 (see above) and the geographic proximity between the sites provides maximum operational flexibility for both the use of various extraction technologies and the use of various production platforms while making optimum use of Frutarom's global supply chain. The acquisition, together with the acquisitions of Vitiva and Ingrenat (see above), has allowed for significant operational savings in Frutarom's global production platform in the field of natural extracts as well as in the procurement, production, logistics and marketing of the Company's solutions in these fields which Frutarom is working towards realizing. In this framework,

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					In this Framework, Frutarom's site in New Jersey, USA, which had been until then its largest site for natural extracts, was closed down in the last quarter of 2015 and its activity transferred to the Company's sites in Slovenia and Spain. The acquisition fits well with Frutarom's strategy of continuing the accelerated development and production of natural functional solutions combining taste and health in response to consumer demand and the major trends in the worldwide food markets for healthier and more natural foods.
December 2015	**Inventive** – Hong Kong Purchase of 100% of the share capital	Cash payment of approx. US$ 17 million (partly by the assumption of debt) and a mechanism for future consideration conditional on Inventive's business performance during the three years following the acquisition date. The acquisition was independently financed and through bank debt.	Development, production and marketing of flavors and flavor inclusions through the application of innovative solutions and unique technologies for combining flavors with fruit components, chocolate, grains and nuts in many food products, particularly dairy products, ice creams, pastries and beverages. Inventive has a broad customer base which includes blue-chip global food and beverage makers along with leading Chinese food and beverage manufacturers, and its products	Approx. US$ 13.7 million in the 12-month period ending October 2015.	Inventive has a manufacturing, research and development, and marketing site at Zhàoqìng in southern China with excess production capacity, as well as an R&D and sales center in Shanghai which was merged with Frutarom's R&D and sales and marketing center at its new plant in Shanghai. Also, Inventive's production of flavors has already been transferred to Frutarom's new plant in Shanghai. Inventive also has sales and marketing offices in Hong Kong. Inventive's management maintains excellent long-lasting relationships with its customers and Frutarom is looking to utilizing these relations in favor of the abundant cross-selling opportunities and

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
			are sold in China, Southeast Asia, the Middle East and South America.		to link together the R&D and sales and marketing platforms.
January 2016	**AMCO –** Poland, 75% of the share capital	Cash payment of approx. US$ 22.4 million. The purchasing agreement includes an option for acquiring the remaining balance of shares starting three and a half years from the closing date of the transaction (January 11, 2016) at a price based on the company's business performance. The transaction was financed through bank debt.	Development, production and marketing of unique and innovative savory flavor solutions that include seasoning blends, marinades, and functional ingredients for the food industry.	Approx. US$ 19.5 million in September 2015	AMCO has an R&D and sales and marketing center and a state-of-the-art production site in Warsaw, Poland with large production capacity and significant room to expand. The activity of AMCO is synergetic to a large extent with Frutarom's activity and enables Frutarom to reinforce its supply of products in the field of savory and to continue expanding and deepening its activity and market share in Poland and neighboring countries. Following the acquisition Frutarom's Flavors activity in Poland was merged with Amco's, so that now for the first time Frutarom has a local production platform for shortening delivery times and improving customer service in the region. In Q3 2016 Wiberg's activity in Poland was also merged into Amco's. The company's founders who have been running AMCO successfully will continue in their managerial roles with the company and as shareholders.
January 2016	**Wiberg –** Austria and Germany Purchase of 100% of the share capital	Approx. US$ 129.9 million The acquisition was financed through bank debt	Founded in 1947, Wiberg is a leading international group in its field, with a reputation and strong brand name in the specialty and innovative savory solutions that include flavor	Approx. US$ 172 million, annually in 2015[9]	At the date of the acquisition Wiberg employed some 670 employees and operated a modern and efficient state-of-the art facility in Germany with extensive production capacity and substantial room for expansion, as well as additional

[9] The data for 2015, includes full integration of 50% held Wiberg Canada and its sales are not consolidated into the financial statements

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
			extracts, seasoning blends and functional ingredients for the food industry, with special emphasis on processed meats and convenience foods as well as activity focused on innovative culinary solutions for restaurants, catering firms and chefs which constitute an interesting and distinctive premium market.		production sites Austria, Canada, and Los Angeles in the USA. The company's headquarters in Salzburg, Austria, includes an innovative R&D center and advanced laboratories. Wiberg has sales and marketing platforms in some 70 countries, with a presence in Europe, North America, Africa and Asia. Wiberg's broad customer base encompasses thousands of food manufacturers, including some of the top in their fields. Wiberg's activity is largely synergetic with Frutarom's global savory activity and it has enabled Frutarom to reinforce its supply of savory products, with emphasis on the growing field of culinary solutions and on offering Wiberg's wide selection of products and solutions in this field to its customers throughout the world. Frutarom has taken, and is taking, action to make the most of its global sales and marketing infrastructure in leveraging and realizing the many cross-selling opportunities generated by this acquisition by expanding its customer base and product portfolio. Frutarom has taken, and is taking, steps to maximize the reaping of operational synergies between its own activities and those of Wiberg in the various countries

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					in order to achieve operational efficiencies and maximal savings estimated at more than USD 12 million (on an annual basis)[10], a substantial portion of which, has already been gradually manifest in 2017 and the rest will be attained in the following months. The merger plan is progressing successfully, and focuses on the retention of key customers and employees in the merged activity. As part of this merger, the Savory management of Frutarom Germany, Austria and other countries was merged with Wiberg's in Salzburg Austria and the headquarter activity, on all its parts, is performed on Wiberg's site in Salzburg Austria. In addition, the shut-down of the activity of Frutarom's main production plant for Savory products in Stuttgart, Germany, was completed, as it was transferred to Wiberg's efficient plant in Germany. The unification of the R&D, marketing, sales and fine ingredients purchasing platforms is still in progress, and it will continue. These measures allow Frutarom to significantly increase the offer of its products and technological solutions for its existing customers and significantly expand its portfolio to the new customers it has acquired following the acquisition. In Q3 2016, 49% of the share capital of Wiberg's Turkish subsidiary were purchased from the

[10] See footnote 6 above for forward looking statements

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
					Turkish partners and its commercial and operational activity was merged into Frutarom's activity in Turkey. In this unification process the harmonization of fine ingredients was emphasized to help reduce the number of fine ingredients and to add Wiberg's significant activity to the global purchasing platform Frutarom is building, with an emphasis on the purchase of raw materials, which it uses mainly in the production of its products in countries of origin, with maximal future capitalization of the economies of scale Frutarom has achieved in recent years. Wiberg has excellent professional human capital who are already contributing, and will continue to contribute, to a successful business unification between Frutarom and Wiberg, and help accelerate Frutarom's growth in Savory. This is yet another area in which Frutarom exhibits its multiple capabilities in joining together quality human capital from around the world in order to deliver to its customers the best solutions in the world in this field
January 2016	**Algalo –** Israel Purchase of 50% of the share capital	NIS 10 million (approx. US$ 2.56 million). The transaction was financed through bank debt.	A promising biotech startup enterprise that has developed a unique and innovative method for the efficient cultivation, harvesting and processing of a wide variety of algae		The payment was used to build a modern biotechnology facility that will specialize in the cultivation, harvesting and processing of algae, using unique advanced methods. Frutarom will have exclusive worldwide marketing rights to Algalo products.

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
January 2016	**Grow –** USA Purchase of 100% of the share capital	Approx. US$ 20 million and an additional performance-based payment of approx. US$ 10.8 million paid in 2017 for Grow's performance in 2016. The transaction was financed through bank debt.	Grow has accumulated many years of know-how and unique biotechnological production methods for producing natural nutritious fine ingredients with healthy qualities that are scientifically-proven and backed up by clinical studies. These ingredients improve the body's absorption of vitamins, minerals and other nutrients. Among its customers are leading dietary supplement, natural remedy, functional foods, cosmetic and flavors companies,		Grow's unique technology and products enhance Frutarom's technological infrastructure and portfolio of natural solutions in the food and health areas. Frutarom will work towards capitalizing on the many cross-selling opportunities arising from the acquisition and supporting the expansion of research, development and production of specialty natural solutions combining taste and health in response to consumer demand and the trends prevailing in the global food market calling for healthier and more natural food items. This is a fast-growing area in which Frutarom's unique capabilities give it a solid competitive edge. Grow has an R&D and marketing center and efficient production site in New Jersey.
May 2016	Extrakt Chemie (a partnership) – Germany Purchase of 100% of the German partnership as well as the property on which Extrakt Chemie's plant is situated	Approx. US$ 6.3 million in cash plus the assumption of debt (net) amounting to approx. US$ 1.4 million. The purchase agreement included a mechanism for future consideration conditional on the business performance of Extrakt Chemie during 2016 and 2017. And in view of the activity's good performance, an additional consideration of	Develops, produces and markets specialty solutions of natural extracts, some of which include plant-sourced enzymes, used mainly as raw materials (API) in the pharmaceutical market, with proven benefits in the treatment of liver diseases, digestive problems and the prevention of infections, just to cite a few examples.	Approx. US$ 10 million in February 2016	Extrakt Chemie was established in 1969 and has a long-standing reputation and knowhow in specialty ingredient extracts, primarily for pharma, natural medications, nutritional supplements, foods and cosmetics. Extrakt Chemie has a leading position in the German market. Its 150 customers include top global pharma companies with whom the company has long-lasting relationships. The company is also active in other Western European

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
		US$ 1.2 million will be paid in Q1 2018 The transaction was independently financed.			countries such as Denmark, Switzerland, France and Austria as well as in the Australian market, and maintains an efficient production site with significantly greater capacity then the current capacity scope and with GMP certification for pharmaceutical products in Stadthagen, close to Hannover in northwest Germany, which also includes a research and development laboratory. Extrakt Chemie has a staff of about 35 employees. The acquisition of Extrakt Chemie is a part of Frutarom's overall drive to substantially increase its production capacity, while attaining operational optimization and efficiency in its natural plants extracts operations of the Fine Ingredients Division. Frutarom is currently working towards increasing its production capacity and transferring the GMP products from its plant in Wadesnwil, Switzerland, as it will be shut down in Q2 2018, to attain significant operational savings
August 2016	**Redbrook –** Ireland Purchase of 100% of the share capital	Approx. US$ 44.8 million. The purchase agreement included a mechanism for an additional consideration based on Redbrook's future business performance, and in view of the activity's good performance, The Company estimates that it will pay an	Development, production and marketing of innovative specialty savory taste solutions, which include seasoning and functional blends, marinades, glazes, cures and functional ingredients for the food industry.	US$ 25.4 million in June 2016	Redbrook was founded in 1987 and has an R&D and sales and marketing center and an efficient production site near Dublin, Ireland as well as a production unit and R&D and sales and marketing center in Daventry, England, near Frutarom's site at Wellingborough, England. At the date of the acquisition Redbrook had 39 employees.

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
		additional consideration of US$ 2.2 million in 2018 The transaction was financed through bank debt.			
October 2016	**Nardi –** Brazil Purchase of 100% of share capital	Approx. US$ 1.6 million The acquisition was financed through independent sources	Development, production and marketing of natural traditional Brazilian flavors and plant-based herbal extracts for the alcoholic drinks and carbonated beverages markets.	Approx. US$ 1.5 million in August 2016	Nardi was founded in 1971 and has an efficient production site in the vicinity of the city of Sao Paulo and Frutarom's Brazilian production site. At the acquisition date Nardi had 14 employees. Nardi has dozens of longtime customers including leading Brazilian beverage companies. Nardi's unique products in the field of natural flavors and herbal extracts, based on unique raw materials originating in Brazil, have significant growth potential outside Brazil as well, and Frutarom intends to incorporate them into its broad products portfolio in the field of beverages while capitalizing on cross-selling opportunities and based on its global sales and marketing network.
November 2016	**Piasa –** Mexico Purchase of 75% of the share capital and acquisition of the real estate housing Piasa's main production site, located in Monterrey, Mexico, which also	Approx. US$ 15.1 million (including debt) and a deferred consideration of US$ 2.3 million. The purchase agreement also includes an option for the purchase of the balance of shares beginning five years after completion of the	Piasa has a leading position in Mexico's savory solutions market and its broad portfolio of solutions includes: flavors, unique spice mixes, sauces, seasonings, marinades, casings, chili based products, functional ingredients for meat products and vegetable	Revenues for Piasa Group over the 12 month period ending Septe mber 2016 stood at approx. US$	Piasa has three production sites having significant excess capacity and employs about 300 workers. Piasa has a broad sales and marketing network that includes around 30 employees and an R&D platform with about 50 employees. The company has hundreds of longtime customers which include some leading international restaurant chains and top

Date	Company/Activity Acquired	Consideration	Field of Business of Company/Activity Acquired	Revenues Prior to the Acquisition	Other Information on the Acquisition
	serves as its headquarters.	transaction (Dec. 5, 2016) at a price contingent on the company's future business performance. The transaction was financed through bank debt.	components aimed at the Mexican meat and snacks industries and the country's dining sector. All these will be united under the Flavors activity. Approx. a quarter of Piasa's activity is trade and marketing, in which, as part of its service and provision of comprehensive solutions to its customers, Piasa markets fine ingredients it does not produce. This activity will be united with Frutarom's trade and marketing activity (which is not one of its core business activities)	45 million after achieving average annual growth of approx. 8% over the past five years.	Mexican meat and snacks manufacturers. Frutarom is working towards integrating Piasa's activity with Frutarom's global activity, by, among other things, leveraging Frutarom's broad portfolio of Savory Solutions and other complementary areas, such as natural colors and antioxidants, while leveraging the numerous cross-selling opportunities in the Mexican market and integrating Piasa's purchasing platform with Frutarom's global purchasing platform, in order to contribute to the improvement in Piasa's purchasing costs and accelerating its growth.

1.8.11. Following is a description of the acquisitions executed by the Company during the reported period (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).

a. **Purchase of the balance of holdings in PTI by way of exercising an option** – Further to the purchase in November 2013 of approx. 75% of the share capital of Vantodio Holdings Limited ('**Vantdio**") owners of the Russian group Protein Technologies Ingredients ("**PTI**"), on February 1, 2017 the option granted under the original purchase agreement for the purchase of the remaining approx. 25% of Vantodio's share capital ("**the Option**") was exercised. Under its terms, the Option was exercisable starting from the end of the third year from the date of completion of the transaction at a multiple of between 6 and 7 of the average EBITDA attained during the three years prior to the exercise date plus other performance indicators. Following the substantial improvement in the activity's results and the capitalization of the cross selling synergies between the activities, the Option was exercised in exchange for the overall sum of approx. US$ 40 million which was financed through bank debt. As of the date of the exercise of the Option, the Company owns (indirectly) all of Vantodio's issued and paid-up capital. It should be noted that the acquisition of approx. 75% of Vantodio's share capital, as mentioned above, was in exchange for a cash payment of US$ 50.3 million (which at that time reflected a company value of US$ 67 million).

Founded in 1996, PTI engages 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, with special emphasis on processed meats and convenience foods. PTI also engages in trading and marketing activity under which, as part of its service and providing of overall solutions to its customers, it supplies ingredients that it does not itself manufacture. PTI has two production sites near Moscow and an R&D and marketing center in Moscow which includes development and applications labs, and approx. 20 distribution centers throughout Russia and other countries in the area. PTI employs about 520 people.

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 allowed, and continues to 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 of operational savings. As a result, in the three years that have passed since the acquisition, PTI has exhibited impressive profitable growth in its core businesses. The managing partner of the activity who has led it with great success is continuing in his role.

For further information on the exercise of the Option on PTI, see Note 5a(1) to the financial statements.

b. **Acquisition of Unique** – On February 8, 2017, Frutarom purchased 100% of the shares in the South African company Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited (collectively: "**Unique**"), in exchange for approx. US$ 6.4 million (ZAR 90 million). The purchase agreement includes a mechanism for future consideration contingent on Unique's future business performance – and in view of its good performance, on February 28, 2018, Frutarom paid US$ 493 thousand (ZAR 6.1 million). 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.

Unique's activity is synergetic to Frutarom's flavors activity in Africa which has grown in recent years at a rapid pace, and Frutarom is working towards merging the activities while exploiting the synergies, accelerating the growth with the support of its ability to expand the supply of its products and realize cross-selling opportunities, both by expanding the customer base and by expanding the product portfolio, while achieving operational savings. The merger is progressing successfully and according to plan.

Unique's sales volume in the 12 months ending January 31, 2017 amounted to approx. US$ 9 million (approx. ZAR 131 million), and it's been continuing to achieve a double-digit growth ever since.

For further information on the acquisition of Unique, see Note 5b to the financial statements.

c. **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 approx. US$ 21 million (Euro 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, as well as 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 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 René Laurent's activity with its own while leveraging the synergies and accelerating growth with the support of its ability to expand its supply of products and realize the cross selling opportunities by expanding its customer base and the product portfolio.

Rene Laurent estimates its sales volume in the 12 month period ended March 2017 is estimated at approx. US$ 13.2 million (approx. Euro 12 million).

For further information on the acquisition of René Laurent, see Note 5c to the financial statements.

d. **Acquisition of Control in WFF** – on April 5, 2017, Frutarom signed an agreement for the purchase of 60% of the share capital of Vietnamese company Western Flavors Fragrances Production Joint Stock Company ("**WFF**") for approx. US$ 1.1 million (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. The acquisition was completed on September 7, 2017 and was independently financed.

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, which has a research, development and applications laboratory, production site and local sales and marketing platform. Frutarom has purchased land and is working towards building 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. The construction of the plant is projected to be finished in 2018.

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

For further information on the acquisition of WFF, see Note 5d to the financial statements.

e. **Completion of acquisition of 100% of the shares in Nutrafur** - On June 12, 2017, Frutarom purchased 20.92% of the share capital of the Spanish company Nutrafur S.A.("**Nutrafur**") for approx. US$ 2.4 million (approx. Euro 2.1 million) such that Frutarom now holds 100% of Nutrafur's shares further to its purchase of approx. 79% of Nutrafur's share capital on September 3, 2015, as detailed in the table above.

For further information on the acquisition of Nutrafur, see Note 5a(2) to the financial statements

f. **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 approx. US$ 29.5 million (approx. BRL 98 million), plus future consideration based on SDFLC's future business performance. The agreement includes an option for the purchase of the balance of shares of SDFLC 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 this period. The transaction was financed through 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 a longstanding Italian tradition and technological specialization. SDFLC provides its customers support in product R&D, which rely on a full and high quality portfolio of solutions for ice creams and desserts based on natural ingredients and which includes: diverse taste solutions, texture solutions, casings 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 and texture solutions for ice creams adapted to consumer demand and Brazilian tastes. The mangers and founders of the SDFLC group continue to serve in their positions alongside their being shareholders in SDFLC.

SDFLC is currently finishing the construction of a new, modern site with R&D laboratories and an advanced automatic production platform, in which it will be able to double its production output without any additional workforce. Construction of the new site at an investment of approx. US$ 6 million, is expected to be completed in 2018.

SDFLC sales during the 12 month period that ended May 2017 were approx. US$ 22 million (approx. BRL 72 million), and it's been continuing to achieve a double-digit growth ever since.

For further information on the acquisition of SDFLC, see Note 5e to the financial statements.

g. **The Exercise of the Option to Acquire the Balance of Shares in BSA** – On July 5, 2017, Frutarom purchased the remaining approx. 5% balance of share capital of Les Ingredients Alimentaires BSA Inc. ("**BSA**") of Canada for approx. US$ 2 million (approx. CAD 2.75 million), thus completing its acquisition of 100% of BSA's share capital, further to the purchase of 95% of BSA's share capital in May 15, 2015, as described in the table above.

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 a particular focus on the areas of processed meats and convenience foods. BSA has a large and efficient production site in Montreal and around 150 employees. The acquisition of BSA has greatly strengthened Frutarom's position in the field of savory in North America.

For further information on the acquisition of BSA, see section 1.8.11) of Chapter A of the Periodic Report

h. **Acquisition of F & E** – On August 14, 2017, Frutarom purchased 100% of the share capital of UK company Flavours and Essences (UK) Ltd. ("**F&E**") for approx. US$ 20.3 million (£ 15.6 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 approx. 41 people, and has a broad customer base in Europe, particularly in the UK and Ireland. F&E's activity is synergetic with Frutarom's activity in the field of flavors, activity which has grown in recent years by rates considerably higher than the market growth rate, as well as with Frutarom's developing activity in the field of natural food colors.

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

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

For further information on the acquisition of F&E, see Note 5f to the financial statements.

i. **Acquisition of Muhlehof** – On August 21, 2017 Frutarom purchased 100% of the share capital of the Swiss company Muhlehof Gewurz AG

("**Muhlehof**") for approx. US$ 7 million (CHF 6.7 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 that are tailor-made for its customers and Swiss tastes that is based on considerable know-how and experience, and a broad customer base which includes leading Swiss retail chains. Joining together Muhlehof's and Frutarom's diverse customers creates a large number and variety of cross-selling opportunities.

Muhlehof’s activity is synergetic with Frutarom’s activity in Europe in the field of savory, which has grown significantly grown in recent years, particularly with Frutarom's activity in Switzerland. The acquisition of Mühlehof allows Frutarom to continue to expand and deepen its activity and market share in Switzerland and to generate and exploit synergies in the areas of R&D, sales, operations, purchasing and logistics and attaining significant savings from the merger.

According to Muhlehof management reports, its sales turnover for the 12 months ending in June 2017 totaled approx. US$ 3.4 million (approx. CHF 3.35 million).

For further information on the acquisition of Muhlehof, see Note 5g to the financial statements.

j. **Acquisition of Control in Turpaz** – On September 6, 2017, Frutarom purchased approx. 51% of the share capital of Turpaz Perfume and Flavor Extracts Ltd.("**Turpaz**") and BKF Perfume Compounding Ltd. (a company owning 80% of the share capital of Turpaz, "**BKF**") in return for a total sum of approx. US$ 11.5 million (approx. NIS 41.5 million). 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 agreement includes an option for Frutarom to purchase the remaining shares of Turpaz and BKF starting 4 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. The Frutarom intends to carry out further acquisitions in the Fragrances field.

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, in the state of New Jersey, and an R&D center in the south of France. 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.

According to Turpaz's management reports, its sales turnover for the 12 months ending in June 2017 totaled approx. US$ 6.2 million (approx. NIS

23.3 million) and it has exhibited higher profitability margins than the current margins of Frutarom's Flavors division, which it was added to.

For further information on the acquisition of Turpaz, see Note 5h to the financial statements.

k. **Acquisition of 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. (including the activity of Maharaj Food Co. Ltd. and Mighty International Co. Ltd., and hereinafter collectively: "**Mighty**") for approx. US$ 12 million (approx. THB 393 million) (net debt) and at a valuation of approx. US$ 20 million (THB 655 million) (net debt).

In the framework of the transaction, on February 1, 2018, Frutarom initially acquired 49% of Mighty and at a later stage, subject to a number of conditions precedent and regulatory approvals in Thailand, it will raise its holdings to 60%. The transaction includes an option to purchase the balance of holdings in Mighty in two stages in periods beginning three years and five years from the date the transaction is completed, at a price based on Mighty's future business performance. Frutarom estimates that raising its holdings to 60% will be completed within the coming months. The acquisition was financed through bank debt.

Mighty, which was founded in 1989, engages in the development, production and marketing of flavors, including savory taste solutions. The company has a leading position in Thailand's flavors market where there are very few producers of taste solutions, and is among the most innovative flavors companies in Southeast Asia, which is based on 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 an emphasis on the field of convenience foods, snacks, noodles, fish, meat, baked goods, beverages and dairy, and it has a portfolio of unique products and solutions adapted to Asian tastes based on the vast knowledge and experience of its managers. Mighty's activity also includes unique solutions for producing raw materials for the fields of infant nutrition and elderly clinical nutrition, and Frutarom intends to continue developing this activity in Thailand and in the countries of the region.

Approximately 60% of Mighty's activity consists of manufacturing 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 months ended August 2017 totaled approx. US$ 15 million (approx. THB 500 million) after having registered average annual growth of 12% over the past four years.

For further information on the acquisition of Mighty, see Note 23c to the financial statements.

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

In the framework of the merger transaction, and after the balance sheet date, the remaining balance (aprox. 81%) of Enzymotec shares were purchased 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 became an indirectly fully owned subsidiary of Frutarom, with Enzymotec becoming a wholly owned subsidiary of Frutarom and being delisted from trading on NASDAQ and ceased being a public company. On January 17, 2018 Frutarom sold Enzymotec's krill oil business, which is not a core activity, to Aker BioMarine of Norway for approx. US$ 26.4 million. The overall net consideration (offsetting the cash, cash equivalents, deposits and tradeable securities in Enzymotec's treasury and net of the Krill transaction payment) that was paid by Frutarom for 100% of Enzymotec's shares stands at approx. US$ 184 million (including cost of redeeming of vested options, RSU's and estimated transaction expenses). The merger transaction was completed on January 11, 2018 and financed through debt from banks, as detailed in the Section of the Directors' Report chapter titled "Events Subsequent to the Date of Report on Financial Condition Mentioned in the Financial Statements".

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 element, 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 essential to the human body.

Enzymotec has two main divisions of activity: the nutrition activity and the VAYA Pharma activity. The nutrition activity which includes the production of the company's leading product - InFat, used as a supplement in baby formulas. InFat is produced through modifying the molecular structure of fatty acids found in vegetable oils, so that they closely mimic the composition, structure and nutritional value found in human breast milk and are beneficial for proper infant health, development and comfort. This product is supported by clinical and preclinical studies demonstrating its positive effects on bone strength, reduced crying, infant stool, building up the immune system, etc. It is currently sold to top multinationals in the infant nutrition industry through a joint venture between Enzymotec and AAK, a leading Swedish manufacturer and laboratory for vegetable oils and fats with extensive global activity. In the field of infant nutrition (InFat), 2018 has begun on a positive note with the support of new regulatory guidelines taking effect in China which provide an advantage to international manufacturers and to leading local manufacturers of infant formula, many of whom are important customers for this activity.

Another activity in the nutritional segment is the PS activity - a line of nutritional ingredient products with Phosphatidylserine, which plays an important part in cell membrane activity and as a building block for human brain cells. These products, supported by clinical studies, were shown to improve cognitive functions, mood and skin health.

The activity of Enzymotec's nutrition segment is highly synergetic with Frutarom's Specialty Natural Fine Ingredients activity it was united with.
Frutarom is focusing Enzymotec's activity on growing and profitable areas which Frutarom views as its main core activities, with emphasis on the fields of infant formula, elderly clinical nutrition, dietary supplements and pharmaceuticals, and is working towards accelerating growth in these fields which have significant business potential. As part of these measures, on January 17, 2018 Frutarom, as mentioned above, sold Enzymotec's krill oil business, which is not a core activity of Frutarom, to Aker BioMarine of Norway, as detailed in the section of the chapter of the Directors' Report titled "Events Subsequent to the Date of Report on Financial Condition Mentioned in the Financial Statements"

According to Enzymotec's announcements, sales for the nutrition segment for the 12 month period ended September 2017 totaled approx. US$ 37.0 million, with adjusted EBITDA of approx. US$ 16.1 million.

VAYA Pharma represents Enzymotec's second segment. Through this segment Enzymotec develops, manufactures and sells medical foods for the dietary management of certain medical conditions or diseases in the areas of adult early memory impairment, attention deficit hyperactive disorder (ADHD) in children, and hypertriglyceridemia (excess triglycerides in the bloodstream associated with increased risk of heart disease). Supported by clinical studies, the products are marketed in the United States, Singapore, Turkey and Israel. This segment first recorded income in 2011 and has grown since then, but it still generates losses for Enzymotec. Since the transaction was completed, Frutarom has been taking action to attain substantial savings, and to add Frutarom's unique products to VAYA Pharma's sales organization in the U.S., in order to accelerate growth and make the activity profitable. At the same time Frutarom continues to explore strategic alternatives for this activity.

Enzymotec, with approx. 169 employees, mainly in Israel and the United States, including 30 in R&D, has an advanced GMP certified factory Migdal HaEmek, Israel, which includes an R&D center, laboratories, a production plant and offices.

Frutarom is taking steps to accelerate the growth of Frutarom and Enzymotec's joint activity, taking full advantage of the significant cross-selling opportunities inherent in the acquisition, significant business development that will enable to expand Enzymotec's business to additional countries where Frutarom had a presence and expand its product portfolio to Enzyomtec's and Frutarom's existing customer base. In addition, Frutarom seeks to obtain maximal business and operations efficiency, to improve the cost structure and tap the great potential from the significant investments made in Enzymotec, with an emphasis on optimal utilization of its modern facility, into which US$ 40 million were invested and a pipeline of the new products developed in recent years with an investment of approx. US$ 30 million in Enzymotec's R&D labs.

In the framework of the merger and maximal efficiency, Frutarom's management has been replaced and the headquarters in Israel has already been connected to the Enzymotek's headquarters in its modern facility in Migdal HaEmeq and a full merger of Enzymotec's activities with Frutarom's Natural Fine Ingredients activity has begun, connecting the managerial, R&D, marketing, sales and operations platforms.

Frutarom sees Enzymotec as a significant basis for building an excellence center of R&D and innovation in Israel, concentrating the two companies' existing R&D activity, and becoming a global base for the development of innovative technologies for natural specialty fine ingredients for the food and health spheres while combining and making maximum use of Enzymotec's R&D infrastructure, as well as the innovation incubator currently being established by Frutarom after winning a tender of the Israel Innovation Authority.

For further information on the acquisition of Enzymotec, see Note 23b and Note 15b(2) to the financial statements.

m. **Acquisition of the Activity of AB-Fortis** – 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 sources. The AB-Fortis activity has joined 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 backed by clinical trials to tens of thousands of customers throughout the world.

n. **Acquisition of Pollena-Aroma, Poland** – On 19 December, 2017 Frutarom acquired the Polish company Fabrya Substancji Zapachowych "Pollena-Aroma" Sp, z.o.o. ("**Pollena-Aroma**") for approx. US$ 8.4 million (approx. PLN 29.2 million). The transaction independently financed.

Pollena-Aroma, established in 1956, engages in the development, production and marketing of flavors, fragrances and specialty ingredients for the aromatherapy and natural cosmetics industries. Pollena-Aroma holds a leading position in Poland's flavors and fragrances market as the former leading Polish government company in this field which was privatized in the early 1990s. Pollena-Aroma operates a modern advanced production site near Warsaw which includes an R&D center and labs, and state-of-the-art production plant with robotic equipment among the most advanced worldwide, built four years ago at a total investment of approx. US$ 8 million. The plant has substantial excess production capacity and will become a significant R&D, production, and sales and marketing center for Frutarom's European fragrances activity. Pollena-Aroma has 64 employees, including highly educated scientists, flavorists and perfumers with extensive experience in the industry, and a large customer base in Europe, particularly in Poland and Ukraine.

According to Pollena-Aroma's managerial reports, its sales turnover in the 12 month period ending September 2017 totaled approx. US$ 5 million (approx. € 4.5 million).

For further information on the acquisition of Pollena-Aroma, see Note 5i to the financial statements.

o. **Acquisition of Control in Bremil, Brazil** – On December 20, 2017 Frutarom signed an agreement for the purchase of 51% of the shares of the Brazilian company Bremil Indústria De Produtos Alimenticios Ltda. ("**Bremil**"), in exchange for approx. US$ 31 million (approx. BRL 103 million) (including estimated asset adjustments to the date of completion). The transaction includes a mechanism for future consideration based on Bremil's future business performance in 2017 and 2018. The purchase agreement includes an option for the purchase of the balance of shares of Bremil to take effect starting five years from the date of the transaction's completion at a price based on Bremil's business performance during that period. The transaction is expected to be completed over the next few weeks and will be financed through bank debt.

Bremil was established in 1987 in the city of Passo Fundo in the Brazilian state of Rio Grande do Sul and holds a leading position in Brazil's savory solutions market, with an emphasis on convenience foods, prepared foods and processed meats. Bremil provides its customers with a complete excellent portfolio of solutions based on natural raw materials and a broad range of flavor solutions and unique functional solutions, which include spice blends, marinades, flavors, casings, texture solutions and preservation solutions. In addition, Bremil is also active in the field of manufacturing taste solutions and functional solutions for baked goods. Bremil, which employs about 250 workers, serves about 450 customers in Brazil and countries of the region, with substantial presence among top meat producers, and has two production sites, in southern and central Brazil, with significant excess production capacity which Frutarom intends to utilize towards raising output and growth in Brazil and neighboring countries.

The Bremil acquisition fits in well with Frutarom's expanding global activity in savory solutions, strengthens its global leadership in this field and provides Frutarom market leadership in Brazil and Latin America. By leveraging Bremil's specialized know-how and technology along with Frutarom's expansive sales and marketing platform in Brazil and Latin America, Frutarom will work on expanding Bremil's activity into additional countries as well as capitalizing on the many cross-selling opportunities for Frutarom products among Bremil customers.

Bremil’s founders and managers will continue managing the activity and will become part of Frutarom’s management structure in Latin America along with continuing on as shareholders with 49% of Bremil’s capital equity.

According to Bremil’s managerial reports its revenues over the 12 month period ending October 2017 stood at approx. US$ 47 million (approx. BRL 150 million).

For further information on the acquisition of Bremil, see Note 23d to the financial statements.

p. **<u>Acquisition of IBR, Israel</u>** – on February 1, 2018, after the balance sheet date, Frutarom purchased 100% of the share capital of the Israeli company I.B.R - Israeli Biotechnology Research Ltd. ("**IBR**") in exchange for approx. US$ 21 million. The transaction was financed through bank debt.

Established in 1995, IBR researches, develops, manufactures and markets innovative and proprietary natural active ingredients for the cosmetics and dietary supplements industries, mainly for cellular anti-aging, skin protection from UV rays and air pollution, skin whitening and pigmentation prevention. IBR has R&D labs and a production facility in the town of Yavne, Israel, and it employs approx. 30 employees, many of them with advanced scientific degrees and a long-standing industry experience. IBR has a broad customer base in the U.S., Europe and Asia, including some of the world's leading cosmetic and personal care companies. IBR's activity will be added to Frutarom's existing activities in the fields of algae-growth and active ingredients extraction, for skin care and protection, and its results will consolidated with the natural specialty fine ingredients Division.

IBR's sales turnover in 2017 totaled approx. US$ 7.4 million, and in the past 4 years it has exhibited an average annual growth rate of approx. 20%, and an approx. 40% growth this past year.

For further information on the acquisition of IBR, see Note 23e to the financial statements.

q. **<u>Acquisition of Meroar</u>** - On March 13, 2018, subsequent to the date of the balance sheet Frutarom signed an agreement for the purchase of 70% of the shares of the Argentinian company Meroaromas S.A. and Meroar S.A ("**Meroar**") in exchange for approx. US$ 11.2. The purchase agreement includes an option to purchase the balance of Meroar's shares, starting from the elapse of 3 years of completion of the transaction, at a price based on Meroar's business performance during this period. The transaction is expected to be completed during the coming months and it will be financed through bank debt.

Established in 1980, Meroar researches, develops, manufactures and markets flavors and fragrances. The group has a workforce of 40 employees and a manufacturing site in Buenos Aires, the capital of argentina, with R&D and application labs, and separate production facilities for flavors and fragrances. Meroar has a broad portfolio of solutions, which include perfume extracts for the cosmetics, personal care and household products industries, and flavors mainly for the beverage, sweets, baked goods and pharmaceutical industries. Meroar has a broad customer base in Argentina which includes leading cosmetics and food companies. Meorar's founders and managers have decades-long experience, some of it acquired in leading global companies in the flavors and fragrances industry.

According to its management reports, Meroar's sales turnover in 2017 totaled approx. US$ 7.4 million. The managers and founders of Meroar will continue managing the activity and will become part of Frutarom's management structure in Latin America. They will also remain on as shareholders with 30% of the Meroar's group's capital equity.

The Meroar acquisition constitutes a significant first entry for Frtuarom into Argentina, which is an important market, and is a continuation of the implementation of Frutarom's strategic plan to develop worldwide business of fragrances. Frutarom projects accelerate growth in Meorar's activity, supported by, among other things, the various cross selling opportunities generated by this acquisition and it intends to further expand its activities in the field of fragrances.

For further information on the acquisition of Meroar, see note 23f to the financial statements.

1.8.12. ***Frutarom is well positioned business-wise and competitively to continue implementing its rapid and profitable growth strategy through, among other things, carrying out further strategic acquisitions in its core business fields and main target markets. Frutarom's proven track record in successfully executing and integrating its acquisitions 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[11].***

The consolidation trend in the industry Frutarom operates in continues to persist. 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.

11 See footnote 6 above on forward looking statements.

1.8.13. **<u>Increase in profit and profit margins</u>** – In recent years Frutarom has succeeded in attaining, along with revenue growth, a significant rise in profits and in gross and operating margins. Frutarom strives and will continue to strive to strengthen its competitive abilities while raising its profits and margins by focusing, among other things, on the following objectives:

a. **<u>Successful integration of acquisitions while maximizing synergies</u>** – Frutarom continues working towards capitalizing on the abundant cross-selling opportunities arising from these acquisitions, gaining maximum advantage from the many technological capabilities brought to the Company, and realizing the savings resulting from the integration of R&D, sales, marketing, supply chain, operations and purchasing systems. The acquisitions contribute and will keep contributing towards continued growth in Frutarom's sales and profits this year and in the coming years. The successful integration of the 32 acquisitions performed since the beginning of 2015 is contributing, and will continue to contribute, towards the continuing improvement trend in Frutarom's results[12]. Following are highlights of the progress being made in the merging of companies recent acquired by Frutarom:

   - The overall move to expand the activity and production capacity through optimization and operational streamlining in the natural extracts from plants platform of the Specialty Fine Ingredients division is progressing successfully and according to plan – the significant increase in production capacity of natural extracts following the acquisitions of Vitiva, Ingrenat, Nutrafur and Extract Chemie enabled and is enabling substantial streamlining. At the same time efforts continue for increasing production capacity at the Vitiva, Ingrenat, Nutrafur and Extract Chemie (which has a significantly larger production capacity than utilized, for GMP pharma products as well) plants, and for optimizing production between the various sites according to their varying technological extracting specializations, while significantly boosting their operational efficiency. As part of this overall optimization and operational streamlining effort in the plant extraction platform, Frutarom's natural extraction plant in Wadenswil, Switzerland, is scheduled to be shut down at the end of Q2 2018. These actions, which will contribute to significant improvement in cost structure and competitive ability in the field of natural extracts from plants, 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); most of these savings will already take place over the following months[13].

   - Following the acquisition of Wiberg, Frutarom has combined and streamlined its management, R&D, marketing, sales, procurement and production platforms in Germany and various countries to strengthen its market leadership position and achieve maximum operational efficiencies and savings which are estimated at over US$ 12 million (on

12 See footnote 6 above on forward looking statements.

13 See footnote 6 above on forward looking statements.

an annual basis)[14], a substantial part of which has gradually started to manifest in 2017, and more will appear in the upcoming months. The merger plan is progressing successfully with a focus on the retention of customers and key employees in the merged activity. As part of these efforts, the management of Frutarom Savory in Germany, Austria and other countries has been united with the activities of Wiberg, and all of the HQ activities are performed from Wiberg's site in Salzburg, Austria. In addition the transfer of production activity from Frutarom's main plant in Stuttgart, Germany to Wiberg's modern and efficient plant in Germany has been completed. At the same time, the merging of the R&D, marketing, sales, IT, logistics and raw materials purchasing activities from different plants and countries in Europe took place, and the process is still ongoing, with focus placed on maintaining a high level of service, innovation and high quality to the Company's customers. Thanks to these actions Frutarom can significantly increase its offer of products and technological solutions to its existing customers and to substantially expend its offer to the many customers that joined as a result of the acquisition.

- Frutarom's Savory activity in Poland (including Weiberg's activity) has been merged with that of AMCO in its new modern plant, such that for the first time Frutarom has a local production site in Poland which allows it to improve its service and delivery times to its customers.

- The effort to combine Piasa's activity with Frutarom's global activity continues. This effort relies on, among other things, leveraging Frutarom's broad portfolio of savory solutions and other complementary areas such as natural colors and natural antioxidants, exploiting cross-selling opportunities in the Mexican market, and combining Piasa's purchasing platform with Frutarom's global purchasing platform which will contribute towards improving Piasa's purchase costs and accelerate its growth.

- The effort to merge Unique with Frutarom South Africa's activities is being carried out successfully, with the integration of management, R&D, sales, marketing and purchasing platforms. During 2018 production will transfer from Unique's plant to Frutarom's new site, recently built in Johannesburg, South Africa.

- The merger between Rene Laurent's and F&E's R&D, sales, marketing and purchase activities with Frutarom's flavors activity in Europe is progressing well.

- Frutarom is working on integrating SDFLC Brazil with Frutarom's activity in Latin America, with the support of Frutarom's extensive infrastructure of R&D, marketing and sales, and local and global production activity of Frutarom Brazil and in other countries in Latin America. In addition Frutarom is working on the development of a future portfolio of solutions for ice creams and desserts, based on SDFLC's technology and know-how with a focus on Latin American countries. SDFLC is currently building a new production site, with labs and an automatic production

14 See footnote 6 above on forward looking statements.

platform, enabling it to double its production capacity. The construction of the new site, at an investment of USD 6 million, is expected to be competed over the next few months.

- Frutarom is working to implement the full merger plan of all of Enzymotec's activities with the full, quick and efficient integration of both companies' global activities in the fields of management, R&D, marketing, sales, production and supply chain. As part of the merger and maximal streamlining, Frutarom is working to focus Enzymotec's activity on the profitable and growing core business activities. Frutarom's headquarters in Israel has already been connected with the Enzymotec headquarters in Enzymotec's new plant in Migdal HaEmeq and the management has been replaced. In addition, the full merger of Enzymotec's activity with Frutarom's global Specialty Nnatural Fine Ingredients Division, while combining R&D, sales and operations platforms, while fully tapping the numerous synergies between the activities, in a way that will accelerate growth, improve cost structure and significantly improve the profitability of Enzymotec's activity, has begun. In the field of clinical nutrition (VAYA Pharma) measures are being implemented that will bring about significant cost saving along with the addition of Frutarom's specialty products to VAYA's sales platform in the US, that will contribute to accelerating the activity's growth. In the meanwhile, Frutarom continues looking into strategic alternatives to this activity.

- Frutarom will work to implement Bremil's full merger into Frutarom's global Savory activities and turning it into a production and R&D center for savory solutions in Barzil and South America, while exploiting the numerous cross-selling opportunities between Bremil's and Frutarom's customers

b. **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.

c. **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.

d. **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.

e. **Resource optimization** – Frutarom is continuing to implement additional projects for combining and consolidating production sites and activities towards achieving utmost efficiency in the areas of purchasing, logistics and supply chain as well, which will contribute over the coming years to strengthening its competitive position and improving its profits and margins.

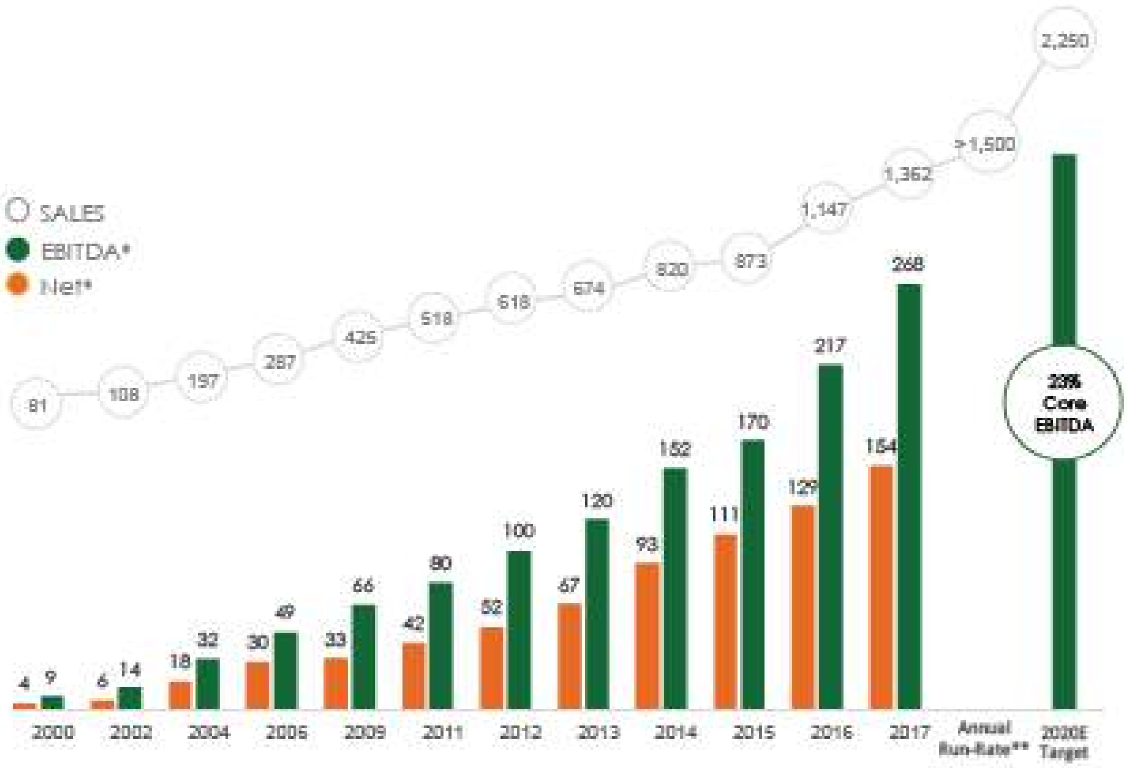
Frutarom expects that fulfilling its rapid and profitable growth strategy combining profitable internal growth with strategic acquisitions, along with the contribution from continuous fulfillment of streamlining processes and its improved cost structure, with maximum utilization of its sites around the world, the enhancement of its global procurement platform, and the successful integration of the latest acquisitions made and those that lie ahead, will result in the continuing trend of improvement in profits and profit margins. Frutarom's annual sales rate has reached over US$ 1.5 billion and upon examining its powerful competitive positioning, internal acceleration of growth rate, its recent acquisitions and future acquisitions in the pipeline, and the contribution of its streamlining, following the global purchasing activity, the Company has raised its sales target to US$ 2.25 billion with an EBITDA margin of 23% from its core businesses by 2020[15,16].

15 Assuming the current product mix

16 The assessment concerning continued growth in sales, the improvement in profit and profit margin, the achieving of operational savings and reaching the targets specified above as a result of fulfilling the Company's strategy, constitutes a forward-looking statement as defined in the Securities Law, that rests upon estimates by Company management at this time. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected as a result of, *inter alia,* factors not dependent on the Company, including the realization of any of the risk factors in section 41 below. There is no certainty that Frutarom can continue identifying suitable acquisitions under satisfactory conditions, obtain the financing required to fund them, and to manage its activity and the acquired activities in an efficient manner in order to ensure that the financial benefits, capitalization on the synergy and the economies of scale become realized.

Continuing growth in sales, profits, and profit margins

(In millions of dollars)

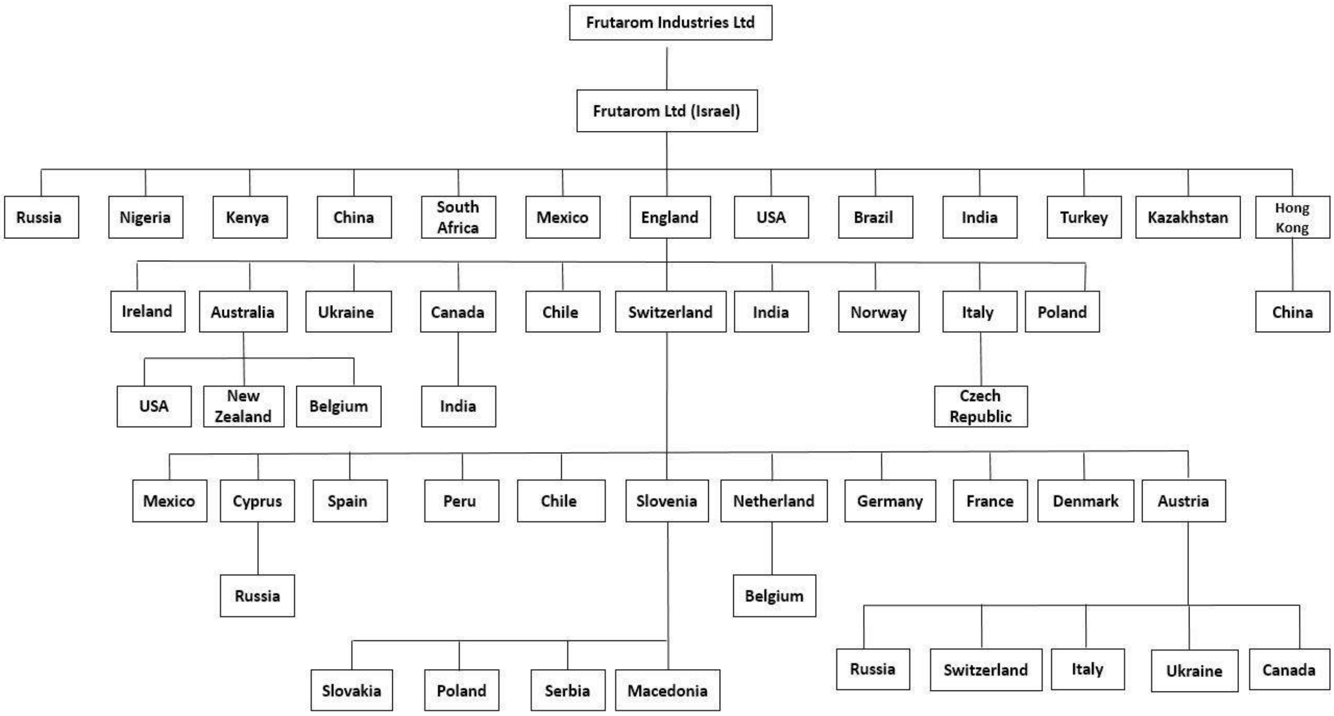


* Data is adjusted for non-recurring expenses

** Assuming the acquisitions performed in 2017 (including Enzymotec, Bremil and Mighty) were consolidated in the reports of January 1, 2017.

For further information on the Company's growth strategy, see section 39 below.

1.9. **The Group Structure as of the date of publication of this report**[17]



2. *The Group's Fields of Activity*

For information on the Group's fields of activity, see chapter 3 below.

3. *Investments in the Company's Capital and Transactions in its Shares*

3.1. To the best of the Company's knowledge, no material investments in the Company's capital or any material transactions in the Company's shares were performed outside the stock exchange during the years 2016 – 2017 by any related party in the Company.

3.2. For further information on the Company's reacquisition of its own shares as part of the compensation plans for Company employees, see section D of the chapter titled Aspects of Corporate Governance of the Directors' Report.

4. *Distribution of Dividends*

4.1. Following are details on dividends declared by the Company and distributed to its shareholders in the past two years:

17 The Group Structure is presented according to the main countries in which Frutarom operates (the **"Main Countries**"). Except for subsidiaries in Israel, Brazil, Vietnam, South Africa, Turkey, Ukraine, Cyprus, India, Poland and Mexico, the percentage held in all Group companies in the Main Countries is 100%. For further details regarding Frutarom's significant subsidiaries see Note 24 to the financial statements.

Year	Dividend Per Share (NIS)	Total Sum (NIS 000's)	Total Sum (US$ 000's)	Distribution Date
2016	0.41	24,156	6,380	May 8, 2016
2017	0.44	26,008	7,234	May 7, 2017

The above-stated dividend distributions did not require obtaining court approval.

4.2. Distributable retained earnings as of December 31, 2017 amount to US$ 783,029 thousand. Upon approval of the financial statements for the period ended December 31, 2017 the Board of Directors declared a dividend of NIS 0.50 per share, an increase of approximately 13.6% over the previous year's dividend.

4.3. The Company does not have a dividend distribution policy. The Company's decisions on the distribution of dividends depend on several factors including, among other things, the Company's level of profitability, investment, and strategic acquisitions plans. The Company intends to continue distributing dividends to its shareholders in the future. However, there can be no certainty that any such dividend will be declared and distributed in the future or that any dividend distributed in the future will be in accordance with the above.

4.4. On February 16, 2012 the Company undertook a limitation on its distribution of dividends, under which it will be permitted to distribute:

(A) Up to 50% of retained earnings accumulated up to December 31, 2011 as presented in the Company’s balance sheet for December 31, 2011 (i.e. US$ 270.3 million).

(B) Up to 50% of the Company’s annual income in each calendar year as presented in the Company’s financial statement relating to the same calendar year in which this income was accrued.

CHAPTER 2 – OTHER INFORMATION

5. *Financial Data Regarding the Company's Fields of Activity*

5.1. Sales for Frutarom as reported in USD grew by approx. 18.8% in 2017 to reach an annual record of US$ 1,362.4 million and reflect a currency adjusted growth in pro-forma terms[18] of 6.4% compared with 2016. Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a positive impact on sales growth of approx. 1.9% in pro-forma terms.

For a breakdown of Frutarom's sales by field of activity, see chapter C to the Board of Directors' Report (Results of Operations in 2017).

5.2. Following are the Group's financial figures in US$ thousands for 2015 through 2017 by field of activity:

2017 (US$000)		**Field of activity**		**Consolidation Adjustments**	**Total core business**	**Trade & Marketing**	**Consolidated**
		Flavors	**Fine Ingredients**				
Sales	From external customers	1,025,359	246,075	-	1,271,434	90,962	1,362,396
Sales	From other fields of activity	-	14,047	(14,047)	-	-	-
Total Sales		1,025,359	260,122	(14,047)	1,271,434	90,962	1,362,396
Expenses	Expenses constituting sales for other fields of activity	14,047	-	(14,047)	-	-	-
Expenses	Expenses not constituting sales in other fields of activity	833,632	228,484	16	1,062,132	89,298	1,151,430
Total Expenses		847,679	228,484	(14,031)	1,062,132	89,298	1,151,430
Operating Income [19]		177,680	31,638	(16)	209,302	1,664	210,966
Operating income attributed to non-controlling interests		2,474	710	-	3,184	-	3,184

18 Assuming that the acquisitions carried out and completed in 2016 and 2017 were consolidated in the reports from January 1, 2016 ("**Pro-forma Terms**").

19 Total consolidated operating income includes operating income attributed to non-controlling interests.

<table>
<tr><th colspan="2" rowspan="2"><u>2016</u>
(US$000)</th><th colspan="2">Field of activity</th><th rowspan="2">Consolidation Adjustments</th><th rowspan="2">Total core business</th><th rowspan="2">Trade & Marketing</th><th rowspan="2">Consolidated</th></tr>
<tr><th>Flavors</th><th>Fine Ingredients</th></tr>
<tr><td rowspan="2">Sales</td><td>From external customers</td><td>846,517</td><td>221,030</td><td>-</td><td>1,067,547</td><td>79,494</td><td>1,147,041</td></tr>
<tr><td>From other fields of activity</td><td>-</td><td>6,830</td><td>(6,830)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total Sales</td><td>846,517</td><td>227,860</td><td>(6,830)</td><td>1,067,547</td><td>79,494</td><td>1,147,041</td></tr>
<tr><td rowspan="2">Expenses</td><td>Expenses constituting sales for other fields of activity</td><td>6,830</td><td>-</td><td>(6,830)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Expenses not constituting sales in other fields of activity</td><td>713,862</td><td>206,311</td><td>56</td><td>920,229</td><td>77,556</td><td>997,785</td></tr>
<tr><td colspan="2">Total Expenses</td><td>720,692</td><td>206,311</td><td>(6,774)</td><td>920,229</td><td>77,556</td><td>997,785</td></tr>
<tr><td colspan="2">Operating Income [20]</td><td>125,825</td><td>21,549</td><td>(56)</td><td>147,318</td><td>1,938</td><td>149,256</td></tr>
<tr><td colspan="2">Operating income attributed to non-controlling interests</td><td>1,633</td><td>964</td><td>-</td><td>2,597</td><td>-</td><td>2,597</td></tr>
</table>

<table>
<tr><th colspan="2" rowspan="2"><u>2015</u>
(US$000)</th><th colspan="2">Field of activity</th><th rowspan="2">Consolidation Adjustments</th><th rowspan="2">Total core business</th><th rowspan="2">Trade & Marketing</th><th rowspan="2">Consolidated</th></tr>
<tr><th>Flavors</th><th>Fine Ingredients</th></tr>
<tr><td rowspan="2">Sales</td><td>From external customers</td><td>607,534</td><td>180,918</td><td>-</td><td>788,452</td><td>84,344</td><td>872,796</td></tr>
<tr><td>From other fields of activity</td><td>-</td><td>4,026</td><td>(4,026)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total Sales</td><td>607,534</td><td>184,944</td><td>(4,026)</td><td>788,452</td><td>84,344</td><td>872,796</td></tr>
<tr><td rowspan="2">Expenses</td><td>Expenses constituting sales for other fields of activity</td><td>4,026</td><td>-</td><td>(4,026)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Expenses not constituting sales in other fields of activity</td><td>494,757</td><td>166,044</td><td>267</td><td>661,068</td><td>81,474</td><td>742,542</td></tr>
<tr><td colspan="2">Total Expenses</td><td>498,783</td><td>166,044</td><td>(3,759)</td><td>661,068</td><td>81,474</td><td>742,542</td></tr>
<tr><td colspan="2">Operating Income [21]</td><td>108,751</td><td>18,900</td><td>(267)</td><td>127,384</td><td>2,870</td><td>130,254</td></tr>
<tr><td colspan="2">Operating income attributed to non-controlling interests</td><td>1,580</td><td>503</td><td>-</td><td>2,083</td><td>-</td><td>2,083</td></tr>
</table>

20 Total consolidated operating income includes operating income attributed to non-controlling interests.
21 See footnote 17 above.

5.3. Nature of consolidation adjustments: Intercompany purchases, sales, and profits and losses are eliminated in adjusting for consolidated results.

5.4. Explanation of developments: For an explanation on developments occurring in the data shown above, see the explanations appearing in the Directors' Report.

5.5. Allocation of costs shared jointly by the Flavor and Specialty Fine Ingredients activities is performed at the site level where resources are shared between both activities and according to the relevant load parameters for each of the shared resources. Any change to the load parameters requires the preapproval of Company management. There have been no significant changes in the allocation rates for shared costs in recent years.

6. Market Environment and the Effect of External Factors on Company Activity

Market Environment – Global Flavor and Fragrance Industry

6.1. Frutarom operates in the global flavors and specialty fine ingredients markets. The global market for flavors, fragrances, and raw materials for these industries was estimated at approx. US$ 24.5 billion[22] in 2016. Except for the flavors and fragrance markets, in which Frutarom has started to develop global activity this year, as well as the field of raw materials for these industries, Frutarom is active in the natural functional food ingredients market as well as the natural colors and natural antioxidants market (which are not included in the above estimate). Accordingly, the Company believes that the scope of sales in the markets in which it operates stands at approximately US$ 29 billion[23]. Based on data from Leffingwell & Associates, Frutarom ranks among the top ten companies worldwide in the field of flavors and fragrances.

6.2. The research firm IAL Consultants[24] projected sales in the flavors and fragrances markets of industrialized countries (Central and North America and Western Europe) will increase at an annual rate of about 3% from 2015 to 2020. According to these projections, the growth rate in emerging markets such as Asia, Central and South America, Eastern Europe and Africa is expected to be higher as a result of changes in consumer preferences in these markets and a shift to processed foods, and may reach an average annual rate of approx. 5.1% between 2015 and 2020.

6.3. Flavor and Fragrance (F&F) markets are commonly viewed as one market where manufacturers can be divided into three main groups: 1. Large global companies; 2. Medium sized global companies; 3. Small and locally-based companies.

The large global companies operate all over the world and have a sales turnover higher than US$ 2.5 billion each. As of the date of this report, four

22 December 2016, Leffingwell & Associates, Frutarom estimations

23 NATCOL – Natural food Colors Association , NBJ's Nutritional Raw Material & Ingredient Supply Report, FICCI -Global Nutraceutical Industry: Investing in Healthy Living, Canadian database, and Frutarom estimations as of the end of 2016

24 IAL Consultants, December 2015, and Frutarom estimations

companies are known to be part of this group of large global companies: Givaudan, Firmenich, IFF and Symrise, who mainly sell to customers that are large multinational food and beverage manufacturers. According to estimations and based on figures published by Leffingwell & Associates, it is believed this group covers about 56% of the market.

The medium-sized global companies, Frutarom also among them, generate between US$ 400 million and US$ 1.5 billion in sales turnover. About eight medium-sized companies are known to be in the global Flavor and Fragrances market. Some operate in the global market and some focus on a specific geographic region (such as Japan). This group of companies makes up, according to estimations and based on data published by Leffingwell & Associates, about 22% of the market.

It should be pointed out that the vast majority of small locally-based companies which have sales turnover of less than US$ 400 million are companies whose sales revenue range from several million to several tens of millions of US dollars. These companies generally focus on small local customers and have limited capabilities in the areas of R&D, innovation, and in providing customized services to their customers. This group numbers over 800 companies and is estimated to make up about 22% of the market based on figures published by Leffingwell & Associates.

6.4. The flavors and fine ingredients market in which the Company operates is characterized by high entry barriers, the main ones being:

- Long-term relationships - The market is characterized by long-term relationships between manufacturers and their customers, which include mostly the food and beverage, flavor and fragrance extracts and pharmaceutical/nutraceutical industries. Much importance is given in these industries to supplier reliability, quality of service, and the manufacturers' understanding of their customers' needs.
- Research and development - Since end user preferences are constantly changing and the markets in which customers operate (particularly the foods and beverages market) are dynamic and competitive, the market is characterized by an abundance of new and innovative products. Manufacturers therefore need to invest heavily in R&D and offer a wide range of new products, either at the initiative of the flavor manufacturer or at the initiative of the customer (the food or beverages manufacturer) and in collaboration with them.
- Compliance with quality and regulatory standards - Flavor and fine ingredients products are mainly intended for use by the food and beverage and pharmaceutical/nutraceutical industries which are subject to strict quality and regulatory standards. Manufacturers are therefore required to meet the same strict standards. Recent years have seen a trend towards increasingly stringent quality and regulatory standards which could even further impair the competitiveness of small flavors manufacturers and raise the entry bar to new players.
- Importance of flavorings in the final product - Flavor determine the taste of the end product and therefore play a critical role in its success. Moreover, flavor cannot be precisely replicated and their cost is marginal compared

with the end product's overall cost, so customers usually tend to avoid switching flavor manufacturers.

- Investment in production capacity for specialty ingredients -Considerable capital investment is required for building up production capacity for specialty ingredients. Such investment constitutes a significant entry barrier for new manufacturers in the industry.

In light of the entry barriers described above, penetration into the market by new manufacturers is mainly accomplished through mergers and acquisitions. Overall, the market is in the process of consolidation with a diminishing number of manufacturers.

CHAPTER 3 – DESCRIPTION OF THE COMPANY'S BUSINESS BY FIELD OF ACTIVITY

7.1. Frutarom is a global company that develops, manufactures, markets and sells comprehensive solutions in the field of flavors and specialty fine ingredients used in the production of food and beverages, flavors and fragrance essences, pharma/nutraceuticals, cosmetics, and personal care and other products.

7.2. Frutarom has two principal fields of activity that are reported as a business segment in the Company's consolidated financial reports (see also Note 6 to the financial statements), and considered by Company management as being Frutarom's **core businesses**: its Flavors activity and its Specialty Fine Ingredients activity. In addition to the aforementioned core businesses, Frutarom also engages in the import and marketing of various raw materials that it does not manufacture itself. This activity is not reported as a business segment in the Company's financial reports. For information on this activity, see section 1.7.3 above.

7.3. 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. This shift has also been due to the evolution of regulatory standards in many countries throughout the world that limit the use of certain materials and lead to improved nutritional properties in foods and beverages, resulting in manufacturers needing to employ innovative technologies and solutions based on natural products. 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. Frutarom identified these trends and uniquely positioned itself as a supplier of comprehensive solutions combining taste and health (as shown by the diagram below), providing substantial added value to its customers and creating a strategic advantage for Frutarom and differentiation from its competitors.

7.4. The Company’s various activities are largely complementary and synergetic. This synergy is expressed in a number of areas:

- Offering its customers comprehensive solutions – Frutarom has a comprehensive product portfolio, allowing Frutarom to offer to its customers products combining flavors, texture materials, natural raw materials with nutritional and health values, natural colors, natural solutions for food protection, etc., all under one roof. The possibility to work with one vendor offering comprehensive solutions is a significant advantage, in particular for the small – midsize customers, who currently constitute 70% of Frutarom's customers.
- Sales and marketing - Each of the Flavors and Specialty Fine Ingredients activities has a separate team for marketing, sales and customer support. Nonetheless, Frutarom designates a dedicated salesperson to each of its customers to cater to the needs of the customer and sell them from the full range of Frutarom products. This activity through one salesperson per customer enables the Company to react better to the customer’s needs and identify and exhaust the selling possibilities for the full wide variety of Frutarom products to that customer. The Trade & Marketing activity is also synergetic with Frutarom’s core businesses, supporting it by leveraging its sales, supply chain, procurement and global management systems, allowing it to offer a wider variety of products, solutions and added value to its customers and deepen cooperation with these customers.

- Research and development - The know-how of the personnel in the Flavors activity and their familiarity with the needs of the food and beverage manufacturers enables the Company to develop new unique and innovative natural specialty fine ingredients for the food and beverages industry.

- Operations - Some of Frutarom's production sites and supply chain system are jointly used by Frutarom’s different activities and shared resources.

- Specialty Fine ingredients - Most of the specialty fine ingredients produced by Frutarom are sold to third parties. However, part of the fine ingredients are used by Frutarom's own Flavors activity, and some are used exclusively by Frutarom for the development and production of unique taste and health solutions, giving the Company a competitive advantage.

In light of the considerable synergy between its activities and Frutarom's focus on providing comprehensive solutions combining flavor solutions and specialty fine ingredients, some possessing healthful qualities, along with ingredients for helping create richness and texture in the food product, it is not always possible to separate the fields of activity on the basis of their various attributes.

Flavors

8. *Overview of the Flavors Market*

General

8.1. Flavor products are the key foundations for providing taste in processed foods and beverages, and as such play a significant role in determining acceptance by the end customer of the products in which they are used.

8.2. Global sales in the field of flavors in 2016 amounted to approximately US$ 12.5 billion.[25] Flavor products are sold primarily to manufacturers of prepared foods, beverages, dairy products, bakery products, processed meat and fish products, confectionery products, oral hygiene products, pharmaceuticals, pet food and tobacco products.

8.3. The global market for flavors has expanded rapidly over the last 60 years, mainly a result of growing demand as well as an increasing variety of consumer end products containing flavors. Increasing demand for consumer goods containing flavor products is due to global population growth along with changing consumer preferences resulting from rising personal income, demographic changes, the rise of leisure pastimes, growing awareness of health issues and urbanization. These factors have led to an overall increase in the number of food and beverage products containing flavor additives and to significant growth in demand for convenience foods and products containing natural and health-promoting elements.

8.4. The following table shows projected average annual growth rates sales in the flavors and fragrances market by geographic region in 2015-2020[26]

Region	Average annual growth expected for 2015-2020
Western Europe	2.2%
North America	4.1%
Latin America	4.7%
Asia	7.2%
Middle East and Africa	4.5%
Total	**4.9%**

8.5. In terms of projected growth percentages between 2015 and 2020, the Asian market is expected to grow at the highest rate (about 7.2%), followed by the South American, African and Middle Eastern markets, with projected annual growth rates of about 4.7% and 4.5% respectively. Frutarom has successfully increased its penetration into the growing markets of Asia, North and South America, Eastern Europe, the Middle East and Africa, and will continue

25 Allied Market Research, April 2017 , and Frutarom's estimation

26 IAL Consultants January 2015

working on increasing its penetration into these markets by, among other things, focused strengthening of its R&D, production, and sales and marketing platforms in important target markets while exploiting synergies from the acquisitions completed in recent years and the further carrying out of more strategic acquisitions. Similarly, the Company is working on continuing to expand its activity in Western European markets as well through leveraging its broad product portfolio and continuing to exploit cross selling opportunities.

Characteristics of the Flavors Market

8.6. Reliable and quality service: Food and beverage producers, the main customers of flavor manufacturers, expect reliable and quality service to meet their needs in terms of support and lead time while also maintaining high quality, regulatory standards, and strict safety criteria. These expectations entail the formation of long-term relationships between flavor producers and their customers. As a result, large multinational customers as well as more and more medium-sized customers, have been steadily reducing the number of their flavor suppliers to a select list of authorized suppliers, thereby creating an entry barrier for small manufacturers of flavors.

8.7. Research and development: Development of flavor products in general, and of new flavors in particular, is a complex, creative and technological process that calls for knowledge and skills on the part of a flavor manufacturer's R&D personnel. Effective R&D is critical in ensuring a continuous stream of innovative new products and in maintaining profitability and growth for any flavor manufacturer.

The initiative for developing new flavor products can originate from the flavor manufacturer itself or from a customer in need of a certain flavor for an end product under development. So in order to anticipate market demand, the flavor manufacturer's R&D team needs to be very familiar with taste preferences in target markets as well as with the end products. In addition, as most flavors are tailor made for specific customers, close cooperation with the customer is required. The formulas for these flavor products are commercial secrets, usually remaining the property of the flavor manufacturer. Since most flavor products are customized for the needs of the specific customer, customers will usually refrain from switching flavor suppliers over the lifespan of the end product.

8.8. Low price sensitivity: Since flavor products determine how the end product tastes, they play a vital role towards its success. Flavor products also cannot be precisely copied, and their cost compared to the overall cost of the end product is negligible. Therefore, when selecting a flavor supplier, the customer will place greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of the flavors, so demand for flavor products is generally less sensitive to changes in their price.

8.9. Production processes: Flavor products in general and flavor extracts in particular tend to contain many different ingredients (typically dozens of ingredients per flavor) which are blended according to unique formulas created by the manufacturer's R&D team. The production processes involved in the manufacture of flavor products are less complex and capital intensive than those used in producing fine ingredients, but producing flavor products demands skill and know-how to achieve the required level of quality and consistency.

8.10. High and relatively stable profitability: As the flavors market tends to be characterized by long-term relationships and relatively low price sensitivity, along with relatively uncomplicated production processes, it generally enjoys high and stable profit margins (also in comparison to the fine ingredients market).

8.11. Entry barriers: For details regarding the entry barriers characterizing the flavor market, see section 6.4 above.

Characteristics of the Food and Beverage Market

8.12. The main customers of flavors manufacturers are food and beverage producers, and therefore the flavors market is generally driven by trends characterizing the demands and needs of the end consumers in the food and beverages market. According to Frost & Sullivan, global sales in the food and beverage market amounted to approx. US$ 4,601 billion in 2015[27]. Frutarom estimates that medium-sized, local and small food and beverage producers (having annual turnover of less than US$ 1 billion) comprise over 60% of global sales[28]. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom believes that mid- and small sized food and beverage producers and local food and beverage producers will continue to comprise a considerable share and play a significant role in this market.

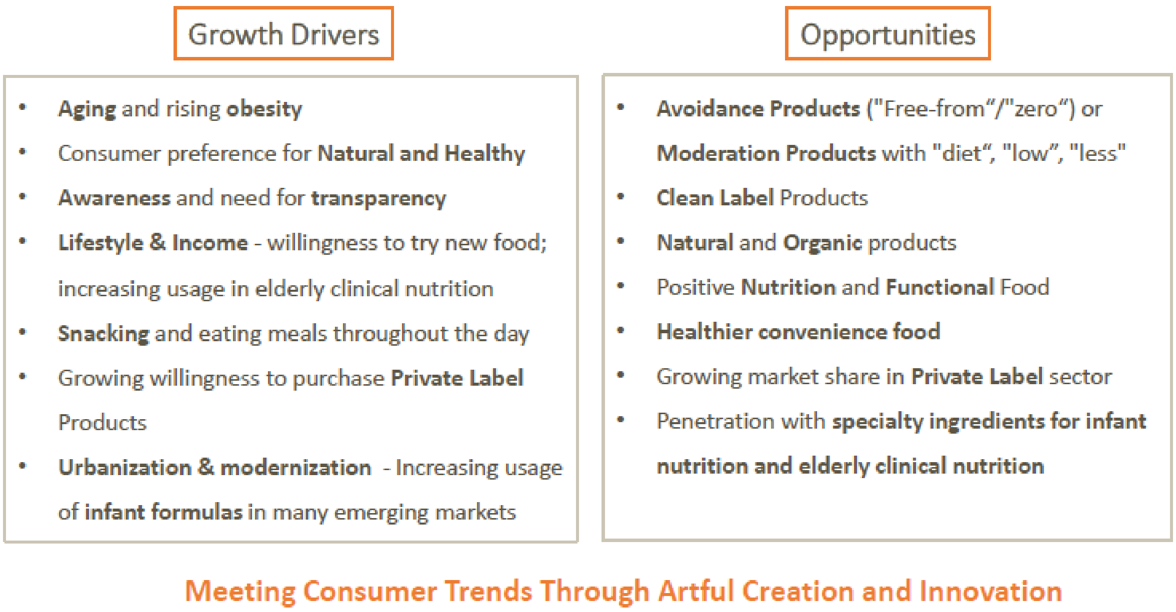
8.13. The large flavor manufacturers (having annual sales turnover exceeding US$ 2.5 billion) tend to focus mainly on large multinational food and beverage producers, offering these customers a high level of service and the development of flavors specifically tailor-made to their needs. Frutarom believes these large flavor producers give less attention to medium-sized and local customers, offering such customers limited service, and do not devote considerable resources towards developing flavors customized to fit their needs. However, the Company believes medium-sized and local food and beverage producers require the same high level of service and the tailoring of products to their needs as the large multinational producers, as well as short lead times and flexibility in order quantities. Small and local flavor producers often do not have the product variety and service capabilities for providing the support needed to answer their varied needs. A specific example of this type of customer is the private label customer, whose market share is growing at a faster rate than the branded manufacturers' rate (see section 8.14.3 below). This situation creates a business opportunity for flavor producers not included in this group to focus more on servicing this large market segment. For details regarding Frutarom's Favors activity with medium-sized food and beverage producers, see section 1.8.6 above.

8.14. The food and beverages market is characterized by several main trends that affect the flavors market, as follows:

27 Frost & Sullivan, 2017.
28 Datamonitor, Frutarom estimation

8.14.1 Local and global tastes: Taste preferences vary geographically and between different cultures so flavor manufacturers must have a thorough knowledge of the local tastes in each of the countries where they operate. It is therefore important for a global flavor manufacturer to maintain a physical presence in its target markets and direct contact with local customers in order to understand local tastes and to be able to respond quickly and efficiently to changing consumer preferences. At the same time, globalization is also having an impact on the flavor industry as multinational food and beverage customers launch the same brand in a number of different markets simultaneously, often changing the taste profile to adapt it to the differing preferences of varied populations worldwide. For details regarding Frutarom's global geographic reach and familiarity with local flavors, see section 9.1 below.

8.14.2 Preference for natural products: Demand is on the rise for food and beverage products containing natural ingredients and possessing dietary and nutritional value (reduced fat, salt, sugar, etc.) since natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. There has also been growing demand for "clean label" and organic products. As a result, natural food and beverage products are viewed as premium products that command higher prices. This trend has created new opportunities for flavor manufacturers in developing new and innovative natural flavor products that combine solutions for both natural colors and for use in Natural Solutions for Food Protection and extending shelf life. Frutarom focuses on developing and producing natural products and over 70% of its products are now natural. In developed markets most of the growth derives from a shift by consumers to products considered healthier and more natural and their willingness to continue purchasing such products even during an economic slowdown. The trend of awareness on this subject and a desire to improve the quality of consumed foods is also notable in the emerging markets.



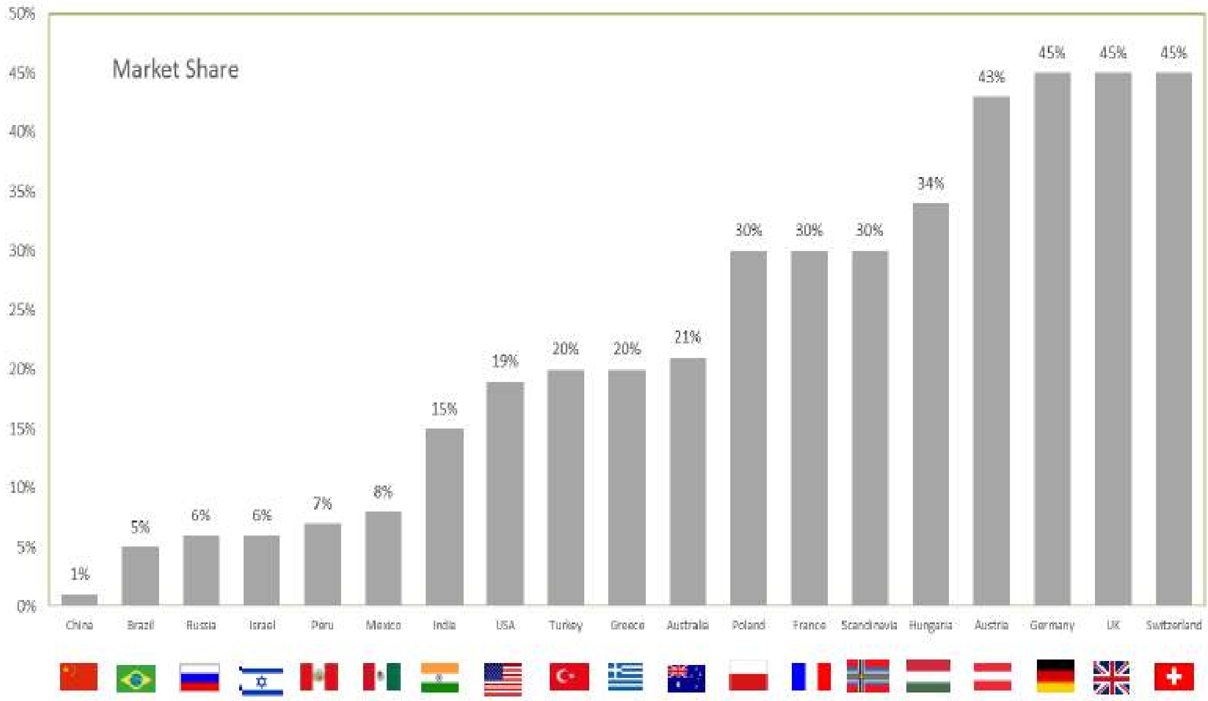
8.14.3 Private label: Private label manufacturers, mostly medium-sized, local or small food manufacturers, constitute a growing segment in the flavor market. Over the last decade, with the strengthening of supermarket chains and growing consumer price consciousness, demand and consumption of private label products has grown at a faster rate than the brand food industry rate. This trend, which gained momentum in 2009 due to the global economic crisis, has continued over the following years as well, and is expected to continue in the years ahead. Consumers who have tried out private label products tend to continue using them after enjoying a positive experience. In addition, the growing power of supermarket chains and their determination to increase their operating margins have led them to push towards strengthening their private label sales by, among other things, allocating large amounts shelf space and broadening the range of products. Supermarket chains, grocers and other retailers have also become aware of the importance of supporting their own private brand image. This trend has been further enhanced this past year, as retailers such as Aldi and Lidl are rapidly increasing the number of stores and grocery stores, which are mainly based on private labels, they operate across the globe. Private labels' growth rate reflect the growth of online retail in the field of food, and the entrance of players like Amazon to the food market by acquiring Whole Foods. In markets where private labels are especially strong, such as Germany, the UK, Switzerland, Spain, Austria, Belgium and Portugal their market share has reached 40% to 52%.[29] The market share of private labels in the U.S. is already 19.7%[30]. The demand from grocery chains and retailers for private label products that are similar to existing products in the market and distinctive premium products, and their willingness to launch more innovative products has provided flavor and specialty fine ingredients manufacturers with new business opportunities. The beginning of a trend towards penetration by private labels in emerging markets is evident as well. For example, from 2012 to 2014 private label activity in India rose by approx. 27%[31], while based on estimates from the business sector, private label market share in India has already reached about 10% and is expected to grow significantly over the next two decades[32]. Frutarom focuses on private label manufacturers and establishes strategic cooperative ventures with them in which Frutarom provides such private label manufacturers with added value. Frutarom intends to continue expanding its market share among customers, both in emerging markets and in developed markets.

The following graph shows the rates of penetration by private label products in various countries (by quantity):[33]

[29] According to Private Label Manufacturer's Association (PLMA) quoting the Nielsen Yearbook, market share (by scope) of private labels in 2016 was approx. 52% in Switzerland, approx. 50% in Spain, approx. 45% in the UK, approx. 45% in Germany and approx. 43% in Austria.
[30] 2017 Nielsen Sales and market share statistics, referring to the year that ended on December 2016
31 The Nielsen Company, November 2014

32 Based on estimates by Aditya Birla Group as published in an article in May 2016.
http://www.indiaretailing.com/2016/05/02/fashion/the-business-of-private-labels-in-indian-retail

33 The Nielsen Company, November 2014



Frutarom's Flavors activity provides an efficient, high quality solution towards the accelerated growth of its customers' private label products, whilst also providing assistance and support in developing the products and from a marketing perspective. Frutarom offers these customers technological support, assistance in developing innovative products and lowering costs, marketing assistance and a wide selection of products, along with service suited to their particular needs and flexibility in minimum order quantities and lead delivery times. Frutarom's acquisitions over the last few years have considerably expanded the portfolio of products that it can offer private label manufacturers and also expanded its global reach, bringing it closer to such customers.

8.14.4 Increasing consumption of convenience foods: Demand is on the rise for processed foods providing a greater degree of convenience (used for both home and away) such as "ready to eat" meals, fresh pasta, fresh ready-to-cook seasoned or marinated meat and poultry, salads and dressings. This has created new opportunities for flavor manufacturers, particularly those in the fields of savory flavors and functional fine ingredients which are responsible for giving food products their texture and extending their shelf life, to develop and market flavor products and specialty fine ingredients for this large market segment.

8.14.5 Emerging markets: Over the last few years the increase in consumption of flavored products in emerging markets, such as Asia, Central and South America, Central and Eastern Europe and Africa has been higher than the average growth rate for the global flavors industry. These markets have also been experiencing rising consumption of processed foods which has driven the growth of medium-sized, local and small food companies and created new market opportunities for flavor manufacturers. It can be expected that the continual shift to processed foods and changes in consumer habits in these markets will bring about continued growth in these markets at a higher rate than the expected pace of growth in developed markets.

Critical Success Factors in the Flavors Field

8.15. Company management believes that the critical success factors in the field of its flavor activities are:

- Long-term relationships – Long-term relationships with customers and collaboration in the development of new products;

- Global and local presence in target markets – Familiarity with the various taste preferences in the various markets and the ability to provide global and local support to customers. For details regarding Frutarom's expansive geographic reach, see section 9.1 below;

- Superior and reliable service – The flavor manufacturer's reliability and ability to provide first-rate service are critical for medium-sized and local customers as well as multinational customers;

- Presence in emerging markets – Many emerging markets are growing at considerably higher rates than developed markets. A presence in these key regions, an understanding of their special needs, and the ability to provide support to manufacturers in these markets all constitute critical success factors;

- Research and development and innovation – The ability to develop new products, whether at the flavor manufacturer's initiative or in collaboration with customers, has enormous importance;

- Compliance with quality, regulatory and safety standards – Since flavor extracts are intended mainly for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards;

- Purchase of raw material – It is becoming increasingly important to direct resources towards focused procurement from countries that are major sources for numerous natural raw materials used in producing specialty fine ingredients, such as China, India and Brazil, while expanding the pool of suppliers, maximizing the potential for reducing costs through a global purchasing system, and tightening ties with raw material manufacturers, processers and growers, particularly in the area of natural raw materials, in order to ensure their continuous and reliable supply over time and improve purchasing costs. Sourcing quality raw materials and timing their purchase correctly is the key to keeping up with short lead times to customers and requests for varying quantities and levels of quality.

9. <u>Products, Services and Added-Value Provided from Flavors Activity</u>

9.1. As of December 31, 2017 Frutarom markets and sells over 60,000 products to more than 25,000 customers in more than 150 countries. The success of many of the flavors developed by Frutarom depends on its familiarity with local tastes and adapting its products to these tastes. As of the publication of this report the Company's Flavors activity maintains an extensive distribution of 68 R&D laboratories and 87 marketing and sales offices in close proximity to its customers in its strategic target markets. In addition, Frutarom's global reach allows it to fill the needs of food and beverage producers on simultaneously launching global brands in various markets.

9.2. Frutarom's Flavors activity offers a wide variety of flavor solutions designed to create new tastes, enhance existing tastes, and/or mask certain tastes in processed foods and beverages.

9.3. Most flavor products consist of numerous raw materials (flavors, for example, typically contain dozens of raw materials including, among others, fruit extracts, vegetables and spices) combined according to unique formulas developed in Frutarom laboratories by the Flavors activity's R&D team. The development of a new flavor may be undertaken either at Frutarom's own initiative or based on specific requirements of its customers and in close collaboration with them. Frutarom also offers its customers solutions that include, besides flavors, natural functional ingredients that contribute to the product's nutritional value and the health of the consumer, help extend the product's shelf life, as well as natural colors (for more information, see section 16.6.2 below). These ingredients are the basis for the branding of the end product and thereby tighten the Company’s long-term relationships with its customers.

9.4. Frutarom's flavor products can be divided in different ways: by application (beverage, dairy, snacks, confection, processed meat and fish, etc.), by source of raw materials (natural, organic, artificial), by taste (sweet, savory), by texture (liquid, powder, emulsion, granulated, paste), and by other methods.

9.5. Type of Application: The flavors produced by the Company are used primarily as ingredients in consumable goods manufactured by food and beverage producers and are suited for different types of applications such as soft drinks, juices, dairy products, ice cream, pastries, confectionery, chewing gum, and a variety of savory foods including snacks, convenience foods, ready-made soups, and salad dressings, as well as processed meat and fish, meat substitutes, pharmaceuticals and pet food.

9.6. Source: Frutarom offers natural, organic, nature-identical and artificial flavor products. The natural flavors are produced strictly from natural ingredients which include, among other things, natural extracts, essential oils spices and fruit and vegetable components. Nature-identical and artificial products include synthetic raw materials. Some Frutarom flavor products contain specialty fine ingredients made by the Company's Specialty Fine Ingredients activity exclusively for the Flavors activity.

9.7. Taste: Frutarom produces both sweet and savory flavors. The sweet flavors are used primarily for beverages, dairy products, ice creams, pastries and confections. The savory flavors are used primarily in the production of snacks, salty pastries, processed meat and fish, and convenience foods. Frutarom also produces unique seasoning blends and functional ingredients for producers of processed meat, poultry and fish, as well as a variety of flavors for meat substitutes designed to help give a meaty flavor to products that contain no meat.

9.8. Texture: Frutarom sells its flavor products in liquid, powder, emulsion, granulated, or paste form, sometimes blended with stabilizers and emulsifiers (ingredients which alter texture and other properties of the products to which they are added).

9.9. Composition: Frutarom produces both flavors which do not contain any fruit or vegetable matter or such, as well as a wide variety of Food System products which do include, among other things, fruit ingredients, vegetable, and other natural components combined with flavorings. Food System products also include sweet and savory sauces such as pizza sauces and salad dressings, pre-made pasta fillings and other ready-made dishes plus other preparations based on sweet fruits for use in a wide range of food products such as dairy products (yogurts, ice cream, chilled desserts, butter and cheese), breakfast cereals, nutritional bars, confectionery and sweet or salty pastries, ready-to-eat meals and other convenience foods. Frutarom's capabilities in the Food Systems business enable it to combine a number of its fields of expertise since Food Systems usually combine flavors, natural flavor extracts, and natural functional food ingredients produced in the framework of its Specialty Fine Ingredients activity, enabling the Company to offer its customers comprehensive solutions tailored to their needs. Frutarom recently gained innovative capabilities in this area with its acquisition of Taura (for information, see section 1.8.10 above), which specializes in the production and marketing of innovative solutions combining fruits and flavors through its unique Ultra Rapid Concentration (URC®) technology for delivering natural fruit ingredients to a wide range of food products, particularly health snacks, breakfast cereals, confectionery, convenience foods and baked goods, raising the percentage of the final product's fruit content, improving and enhancing their flavor and texture, and lengthen shelf life through the use of strictly natural ingredients and flavors. Further capabilities were gained by Frutarom in this field with its acquisition of Inventive which engages in the development, production and marketing of flavors and flavor inclusions through the application of innovative solutions and unique technologies for combining flavors with fruit components, chocolate, grains and nuts in many food products, particularly dairy products, ice cream, pastries and beverages. (For further information, see section 1.8.10 above, and following the acquisition of SDFLC which specializes in solutions for ice creams and desserts, based on natural raw ingredients, offering taste, texture, casing and glazing solutions.

10. Breakdown of Revenues and Profitability from Products and Services

Following are figures (in US$ thousands) reflecting the Group’s revenues for 2015 through 2017 deriving from Flavors activity sales and their percentage of total Group revenues:

	2017	2016	2015
Total Group revenues	1,362,396	1,147,041	872,796
Revenues from Flavors activity	1,025,359	846,517	607,534
% of Total Group revenues	75.3%	73.8%	69.6%

Frutarom’s Flavors activity revenues rose by approx. 21.1% in comparison to last year, and reached a record of approx. US$ 1,025.4 million compared with approx. US$ 846.5 million in 2016, reflecting an approx. 7.2% growth against 2016 in pro-forma terms on a constant-currency basis. Currency effects had approx. a 2.0% impact on sales in pro-forma terms.

Sales from Flavors activity accounted for approx. 75% of Frutarom’s overall sales.

11. ***New Products***

As part of its ongoing Flavors activity, Frutarom is constantly developing a variety of innovative and new products. New products are generally developed in collaboration with individual customers and adapted to their needs. None of the new products developed by the Company can be deemed material in terms of expected sales turnover and/or development costs.

12. ***Customers***

12.1. The flavors manufactured by Frutarom are sold to an extensive customer base comprised of tens of thousands of large multinational, medium-sized, local and small customers. The customers are mostly food and beverage manufacturers spread out in over 150 different countries worldwide. For further information on the Company’s customers and the services they are provided, including with regards to the private label market, see section 8.14.3 above.

12.2. During the reported year there has also been no customer with purchases accounting for over 2% of Frutarom’s sales turnover. Company management believes the Company is not dependent on any particular individual customer.

13. ***Competition***

13.1. Frutarom's competitors in the flavors market are the multinational, medium-sized, and small local flavor manufacturers. Competition is largely based on the ability to be innovative, product quality, ability to provide value-added service to the customer, building and maintaining long-term relationships, reliability, and the development of products tailor-made to the customer's needs and aligned with future market trends. As the cost of flavors constitutes a negligible part in the overall cost of the end product, flavor market customers tend to be less sensitive to price when choosing their supplier. Flavor manufacturers must differentiate themselves by building close relationships with their customers, gaining familiarity and a thorough understanding of target markets, maintaining top-level R&D capabilities and capacity for innovation, and establishing a reputation for giving customers consistent, reliable and efficient service.

13.2. For further information on manufacturers operating in the flavor and fragrance market and Frutarom’s position among them, see section 6.3 above. For information on factors influencing Frutarom’s market position in the flavors industry, see section 8.15 above (Critical Success Factors in the Flavors Field).

14. *Production Capacity*

For information on the Group's production capacity in its Favors activity, see section 25 below.

Specialty Fine Ingredients

15. *Overview of the Specialty Fine Ingredients Market*

General

15.1. The specialty fine ingredients market in which the Company operates produces a wide range of products for a variety of industries. Frutarom's Specialty Fine Ingredients activity is focused mainly on developing, producing and marketing natural fine ingredients for the food and beverage, flavor and fragrance, pharma/nutraceutical, cosmetic and personal care industries. Fine ingredients are often sold directly to food and beverage manufacturers who use them in producing consumer products. Flavor and fragrance manufacturers use fine ingredients products as a foundation in producing their flavor and fragrance substances.

15.2. Frutarom operates in areas of the specialty fine ingredients market that include natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, algae, natural colors for food, natural antioxidants used in providing Food Protection solutions, specialty fine ingredients for infant nutrition, especially infant formula, and elderly clinical nutrition, citrus products, aromatic chemicals, and natural gums and resins.

15.3. According to estimates by Markets and Markets,[34] sales of specialty fine ingredients to food and beverage industries around the world (including sales of flavors and other ingredients) are expected to grow at an annual rate of 5.9% during the period of 2018 – 2023.

Characteristics of the Specialty Fine Ingredients Market

15.4. Research and development: Innovation is a key factor to success in the specialty fine ingredients market. R&D for new specialty fine ingredients products is a complex process requiring high levels of expertise, experience and investment. Developing a new ingredient often takes longer than developing a flavor product. Natural specialty fine ingredients are sometimes tailor-made to a customer's needs and require a long-term relationship with the customer and collaborative efforts in the product's development.

34 Mordor Intelligence, November 2017

15.5. Production: The production of specialty fine ingredients tends to be more sophisticated and complicated than the production of flavors, requiring extensive know-how. In addition, the production of specialty fine ingredients requires a large capital investment for building manufacturing facilities as well as for expanding production capacity when necessary. Production of specialty fine ingredients must also comply with stricter environmental and regulatory standards.

15.6. Supply chain: Customers constantly seek ways to optimize their levels of inventory so ingredient manufacturers must adhere to shorter lead times and maintain stocks locally in the main markets. Additionally, medium-sized and local customers purchase hundreds of ingredients in variably small quantities, whereas the large multinational makers of ingredients have strict policies concerning minimum order quantity and the use of standardized packaging while smaller manufacturers lack the sufficient operational flexibility and global supply chain needed to meet such needs. This creates a market opportunity for medium-sized fine ingredients producers.

15.7. High entry barriers: An established reputation and branding, which take many years to develop, are key success factors for manufacturers in the specialty fine ingredients market. Customers require a high degree of reliability and consistency, considering that once an ingredient is incorporated into a food or beverage flavor they will rarely risk replacing the fine ingredients supplier in order to avoid impairing the quality of the flavor. A multinational fine ingredients manufacturer seeking to build up a competitive advantage also needs to comply with stringent regulatory, environmental, and inspection standards and demonstrate strong capabilities in research and development, production and its global supply chain, including capital investment in the construction of production facilities and the expansion of production capacity whenever necessary.

15.8. Growing demand for natural products: The rise in consumer demand for natural products has brought about increased demand for a variety of natural fine ingredients such as natural flavor extracts, natural colors, natural solutions for Food Protection, and natural specialty essential oils for use in the end products. Natural fine ingredients tend to be more unique and less interchangeable, resulting in increasing customer loyalty. The lion's share of natural fine ingredients is tailor-made to customer needs. Frutarom focuses on developing natural products in addressing this global trend. For further details, see section 1.8.3 above.

15.9. Growing demand for natural functional food ingredients: Functional food is food with certain added ingredients which provide, or are perceived as providing, health benefits, such as juices or dairy products with health additives. Changing consumer preferences towards foods with health benefits are leading to a rise in demand for functional food. The dairy and beverage markets exhibit the highest growth in the use of natural functional; food ingredients. Many of the active ingredients used in functional foods are derived from plants and herbs under processes similar to those used in producing flavor extracts. Manufacturers of natural functional food ingredients are often required by food and beverage makers to provide a proven scientific basis, such as clinical studies, for the health benefits attributed to the ingredients.

15.10. Regulation, health, safety and certification: Fine ingredients used in both the food and beverage and pharmaceutical/nutraceutical industries are increasingly subject to strict health and safety standards and regulations. This trend is part of an overall trend of increased regulation in those industries. At the end of 2006 the European Commission published the REACH regulations for the registration, evaluation, authorization and restriction of all chemicals produced in or imported into the EU market. In 2011 new regulations went into effect in the EU defining BAPs (Biologically Active Principles) and setting their labeling requirements and maximum quantities. Regulation 1334/2008 for food flavorings, setting the definition for natural products and how they should be labelled, also went into effect in the EU in 2011.

Customers buying ingredients, especially specialty fine ingredients, require the manufacturers to provide certification that their products are in compliance with regulations and standards. Also, there is growing demand for products with certain proven qualities such as being GMO-free (free of any genetically modified organisms) or pesticide free (not containing any element sprayed with pesticides). Demand for Kosher and for Halal certified products is also increasing as the demographic base of consumers for such products expands. As a result, fine ingredients manufacturers need to document their production processes and adhere to strict standards. In addition, ingredients manufacturers are required to hold certification relating to various manufacturing standards such as ISO 22000, the British food standard BRC (British Retail Consortium) Issue 7, IFS, SQS, and other standards for permissible labelling such as EU Food information for Consumers which sets rules for product labelling and for providing information on the subject of allergies, including on products that do not come packaged, and the Global Harmonized System (GHS).

As of the date of this report, Frutarom's Specialty Fine Ingredients activity is in compliance in every material way with the strict health, safety, and quality requirements that apply to it. For further details, see section 16.3 below.

15.11. Sourcing: Long term relationships with suppliers, growers and/or producers are of fundamental importance for maintaining a high degree of product quality and ensuring the availability of raw materials used in the production of specialty fine ingredients. This is particularly true for natural raw materials which, being derived from agricultural crops, are seasonal in their supply.

15.12. High volume production of fine ingredients with low margins: Over recent years there has been an increase in production of many fine ingredients in certain countries such as China and India, where the cost structure for manufacturers tends to be lower. Many such manufacturers are technically less sophisticated with limited R&D capabilities and focus more on large volume production with low profit margins. They also generally lack global marketing and sales platforms, brand recognition and approved supplier status. This has led certain fine ingredients' manufacturers to differentiate themselves from such low-cost manufacturers by developing close collaborative relationships with customers, providing higher added-value products and services, and investing in R&D with an aim to develop specialty fine ingredients products with higher margins. Over this past year, following the Chinese government's initiative to reduce pollution levels and raise safety, hundreds of small plants manufacturing raw materials at low costs, have been shut down. This creates an opportunity and a preference for well-known producers of raw materials who the customers find reliable.

Critical Success Factors in the Specialty Fine Ingredients Field

15.13. Company management estimates that the critical success factors in the field of Specialty Fine Ingredients are:

- Positioning and reputation as a reliable supplier – It is critical for suppliers to establish a solid reputation in the market, to develop and maintain strong ties with their customers and provide reliable service;
- Research and development, innovation and a supply of new and unique products – See section 15.4 above;
- Compliance with regulatory, quality and safety standards – See section 15.10 above;
- Raw material procurement – See section 15.12 above;
- Wide geographic deployment for supporting multinational customers – The wide geographic spread of the support systems that provide the Company's multinational customers with assistance throughout their operating hours in their own language and location is of critical importance.

16. Products, Services and Added-Value Provided by Fine Ingredients Activity

16.1. Specialty Fine Ingredients are sold mainly to the food and beverage, flavor and fragrance, pharma/nutraceutical, cosmetics and personal care industries. Frutarom is working towards expanding the portfolio of products offered to its customers in the fields of food, health, and cosmetics while entering and expanding its activity in other growing fields including natural colors, natural solutions for Food Protection, and natural protection solutions for livestock feed and for pet food, natural fine ingredients for cosmetics, and specialty fine ingredients for infant nutrition in the category of infant formulas and elderly clinical nutrition .

16.2. Frutarom has an established reputation in the market for fine ingredients and a broad customer base of both multinational and locally-based medium-sized customers which are supported by Frutarom's sales and marketing team and the Company's efficient global supply chain. Frutarom has local warehouses on six continents, allowing it to supply customers quickly – usually within days. Although most of the fine ingredients made by Frutarom are sold to customers (including competing flavor manufacturers), some are set aside for internal use and certain types such as in the citrus and natural health fields are reserved exclusively for use by Frutarom in developing and producing unique taste and health solutions to give the Company a competitive edge.

16.3. Frutarom's specialty fine ingredients meet strict health, safety and quality standards such as ISO 22000, FSSC 22000, FDA, NSF, Pharma, GMP, BRC. Most of Frutarom's fine ingredients are also GMO-free and pesticide-free as well as being kosher and/or meeting halal requirements. In addition, Frutarom is developing organic extracts, which comply with European and American rules relating to organic products.

16.4. Frutarom focuses on the development of natural products in response to the growing trend globally towards consumption of natural products, considered to be healthier. Frutarom management believes the Company is one of the world leaders in this field and successfully combines its experience and reputation of over 80 years of research, development, production, and marketing of natural specialty fine ingredients, natural colors and natural protection substances. Frutarom's in-depth knowledge of the flavors market and food industry customers' requirements as well as the specialty fine ingredients market allows it to be positioned at a unique junction for delivering solutions that combine taste and health.

16.5. Frutarom believes that its relationship and close familiarity with the foods and beverages market give it a competitive advantage in the functional foods market. This advantage is backed up by its R&D capabilities, proprietary production methods, and experience in conducting clinical studies.

16.6. Frutarom's Specialty Fine Ingredients activity is divided into several main categories:

16.6.1 **Natural Flavor Extracts**: Frutarom is a leading manufacturer of a wide variety of natural flavor extracts produced from fruits, plants and other botanical material. The main customers for natural flavor extracts produced by the Company are food and beverage manufacturers, flavor and fragrance companies (including the Company's own Flavors activity) and, to a lesser extent, tobacco companies. The natural flavor extracts are generally products tailor-made to customer specifications and the Company works in close collaboration with its customers in developing and manufacturing the desired flavor extract.

16.6.2 **Natural Functional Food Ingredients**: The Company offers a variety of natural extracts used as raw materials in the manufacture of functional food ingredients. Functional foods are foods such as breakfast cereals, health drinks and yogurts which contain specialty fine ingredients that provide them with healthy properties. Natural functional food ingredients require various certifications but are subject to fewer restrictions than herbal extracts. The main customers for the natural functional food ingredients are in the food and beverage industry.

16.6.3 **Natural Pharma/Nutraceutical Extracts**: Frutarom manufactures a wide variety of natural herbal extracts with certain medicinal and health benefits used in the manufacture of prescription drugs, non-prescription medications, and natural dietary supplements. The main customers for natural herbal extracts are pharmaceutical and nutraceutical companies and the makers of dietary supplements.

16.6.4 **Specialty Essential Oils and Citrus Products**: Frutarom produces a wide range of specialty essential oils and is a leading producer of specialty citrus products. Specialty essential oils produced by Frutarom include those derived from citrus (such as orange, grapefruit, lemon and tangerine), mints, flowers, spices, herbs and from trees. These products are used in food and beverage, flavor and fragrance, pharmaceutical, and cosmetic and other personal care products.

Company management considers Frutarom to be a global leader in the field of specialty citrus products used in creating citrus flavoring in foods, beverages, perfumes and other personal care products. Frutarom has been active in the field of specialty citrus extracts since 1933. Frutarom continuously invests in unique innovative technologies for the processing, extraction and distillation of specialty citrus products. A number of Frutarom's specialty citrus products are reserved for the exclusive use of the Flavors activity and are not sold to other parties, thereby giving the Company a competitive advantage in the production of citrus flavors.

In February 2014 Frutarom acquired the activity of CitraSource, specializing in the research and development, production, marketing and sales of specialty solutions in the field of citrus. CitraSource has a state-of-the-art plant in Florida and global purchase capabilities in this field which strengthen Frutarom's position as a leading player in the development, production and sales of specialty citrus products. Also, in July 2015 Frutarom acquired the business activity and assets of Florida-based Scandia which specializes as well in the research and development, production, and sales and marketing of specialty solutions in the field of citrus for leading global customers in the flavors and food and beverage markets, and its activity is largely synergetic with that of CitraSource. Scandia's activity was successfully merged with CitraSource's activity, and together they form an excellence center for Frutarom in Florida in the field of citrus. For further details on the acquisition of CitraSource and of Scandia's activity, see section 1.8.10 above.

16.6.5 **Natural active ingredients for skin care and protection (cosmetics)** - In recent years Frutarom has expanded its activities in the field of patented active natural ingredients for the cosmetics and dietary supplement industries, specifically for anti-aging, skin protection from UV and air pollution, skin whitening and pigmentation prevention. In this framework Frutarom invested together with Israel's Ben Gurion University in the field of algae, considered worldwide to be very attractive as a dietary supplement (a source of Omega 3), medicinal agent, and as an element in various cosmetic products, as well as being a powerful antioxidant from a natural source. The specialty algae are grown on a farm in the south of Israel and in Haifa. Frutarom extracts the active substance from the algae using natural processes and markets these to leading food, dietary supplement, cosmetics, skin protection, and personal care companies around the world. In addition, on February 4, 2018 Frutarom acquired IBR (for additional information on the IBR acquisition see section 1.8.11 (p) above), whose product are sold to the leading cosmetics companies in the world.

16.6.6 **Natural Solutions for Food Protection**: In recent years Frutarom has expanded its activity in the field of natural solutions for Food Protection which ensures the protection of the consumer's health and the extension of the product's shelf life. This line of solutions includes antimicrobial components and antioxidants based on natural materials. Frutarom has made three acquisitions in this field – Vitiva in Slovenia, Ingrenat and Nutrafur in Spain – which contribute and will keep contributing towards the continued development of this growing and important area of activity. For further information, see section 1.8.10 above.

16.6.7 **Natural Colors**: Frutarom utilizes its R&D, production, and marketing infrastructures in the field of food and beverages to develop natural color solutions based on natural extracts from vegetables, fruits, and other natural substances. Natural colors can be sold to food and beverage customers as part of taste solutions or on a standalone basis. The cosmetics and pharma industries are also customers for natural colors. Frutarom made three important acquisitions in this field – Montana Food, Vitiva and Ingrenat (For further information on the aforementioned acquisitions, see section 1.8.10 above) – which are helping, and will keep helping, to significantly expand its activity in this important and growing field over the coming years. The Company is working on seeking out and executing further acquisitions in this field. In addition, Frutarom is making substantial investments in the establishment of an applications and formulations center for colors in its plant in Slovenia. This center is expected to serve Frutarom's thousands of food and beverage customers all over Europe and the Middle East. The center is scheduled to start operating in the second half of 2018.

The shift in consumer trends towards clean label products and to healthier and more natural products has led to sustained growth in the natural food ingredients market, and this includes the market for natural colors. The use of natural colors has grown in light of the trend of discontinuing the use of synthetic colors and replacing them with natural colors in new products being developed by food and beverage makers as well as in existing and familiar products. The natural colors market is expected to grow at a rate of 6%-7% a year [35] (double the rate of the synthetic colors market) and reach US$ 1.7 billion by 2020 with over 20% to the natural colors industry for beverages. Most of this growth is due to rising demand by a majority of consumers in developed countries like the US, the UK, Germany and Japan to switch to the use of natural colors.

16.6.8 **Aroma chemicals**: Frutarom produces about 700 types of aroma chemicals which are used in the manufacture of flavors and fragrances, foods, animal feed, cosmetics, oral hygiene products and other products. Frutarom is a leading global player in the field of unique aroma chemicals, focusing on R&D, manufacturing and selling of high-added-value specialty aroma chemicals, and continuously changing its product mix in this area towards low volume, high margin products. The variety of aroma chemicals produced by Frutarom for use by the flavor and fragrance industry includes diketones and pyrazines used for creating aromas of roasting and toasting. Frutarom also produces unsaturated aldehydes which impart a cool freshening sensation when used orally or applied to the skin and are used, among other things, in the manufacture of candy, chewing gum, skin care products and oral hygiene products.

35 NATCOL - Natural food Colors Association , NBJ’s Nutritional Raw Material & Ingredient Supply Report, FICCI -Global Nutraceutical Industry: Investing in Healthy Living, Canadean database, Frutarom estimations as of Oct 2016

17. ***Breakdown of Revenues and Profitability from Products and Services***

Following are figures (in US$ thousands) reflecting the Group's revenues for 2015 through 2017 deriving from Specialty Fine Ingredients activity and their percentage of total Group revenues:

	2017	2016	2015
Total Group revenues	1,362,396	1,147,041	872,796
Revenues from Specialty Fine Ingredients activity	260,122	227,860	184,944
% of Total Group revenues	19.1%	19.9%	21.2%

Sales for Specialty Fine Ingredients in 2017 grew by 14.2% to reach approx. US$ 260.1 million compared with US$ 227.9 million the previous year, reflecting growth in pro-forma terms on a constant-currency basis of approx. 11.8% versus 2016. Currency effects had a positive 0.4% impact on Frutarom results in pro-forma terms.

As part of its strategic program to enhance its global market leadership in the field of natural plant extracts, Frutarom is making a comprehensive effort to expand activity and production capacity of the Specialty Fine Ingredients activity through optimization and operational streamlining in the natural extracts from plants platform. This is progressing successfully and according to plan: a significant increase in production capacity of natural extracts following the acquisitions of Vitiva, Ingrenat, Nutrafur and Extract Chemie has provided for substantial streamlining. At the same time efforts continue for increasing production capacity at the Vitiva, Ingrenat, Nutrafur and Extract Chemie (which has significantly greater production capacity than utilized, for GMP Pharma products as well) plants 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, at the end of Q2, Frutarom's natural extracts plant in Wadenswil, Switzerland will be shut down. These actions, which will contribute to significant improvement in cost structure and competitive ability in the field of natural extracts from plants, 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) most which will already begin to come about over the following months[36].

Frutarom is taking action to guarantee the supply of unique raw ingredients by developing long term collaborations with farmers across the globe. As part of this agricultural collaboration, Frutarom supplies the farmers with unique patented

36 See footnote 4 above on forward looking statements.

varieties developed in collaboration with agricultural research institutions and cultivation companies from all over the world - these varieties have a higher content of the active materials responsible for flavor and color attributes, natural preservatives and health – and it also provides them with agricultural know-how and instruction. These collaborations ensure a regular ongoing supply of important natural raw materials, at prices beneath the market, with a concentration of active ingredients which is higher than the level found in nature. As part of this endeavor, which is expanding year by year, collaborations of this nature are taking place in Peru, Brazil, Guatemala, Spain, Poland, Israel, Morocco, South Africa and more, with the intention that within several years approximately 50% of the raw material consumption for Frutarom's main natural extracts will be from self-cultivation.

18. New Products

Frutarom develops new Specialty Fine Ingredients as part of its ongoing activity in order to continue strengthening its position and improve its product mix, including the replacement of low margin products with new innovative and unique products with higher profit margins. In this regard, Frutarom is focused on expanding its supply of natural products and this includes natural colors, natural solutions for Food Protection, specialty citrus extracts, active natural fine ingredients for cosmetics, algae, specialty fine ingredients for infant formulas and clinical nutrition for the elderly etc. None of the new products developed by the Company can be deemed material in terms of expected sales turnover and/or development costs.

19. Customers

19.1. The specialty fine ingredients manufactured by Frutarom are sold to an extensive customer base comprised of a vast number of large multinational, medium-sized, local and small customers in the food and beverage, pharma/nutraceutical, flavors and fragrance, cosmetics and personal care industries.

19.2. The Specialty Fine Ingredients activity does not have any individual customer accounting for over 2% of Frutarom’s sales turnover. Company management believes the Company is not dependent on any particular individual customer.

20. Competition

20.1. Competition In the specialty fine ingredients market varies by product category.

20.2. In natural flavor extracts the Company's competitors are manufacturers specializing in the production of natural flavor extracts, such as Naturex, pharma/nutraceutical manufacturers, and multinational and medium-sized producers of flavors and fragrances that manufacture specialty fine ingredients mainly for their own use, such as Givaudan, IFF, Symrise, Sensient, Robertet and Mane.

20.3. In the natural functional food ingredients and the pharma/nutraceutical categories, Frutarom's competitors are mainly pharma/nutraceutical companies specializing in this area, such as Indena S.P.A., Naturex, and

Martin Bauer GmbH & Co. and KG, as well as start-up companies that specialize in unique and innovative products and technologies.

20.4. Frutarom's competitors in the essential oils field include companies such as Treatt plc, which focus on the manufacture of essential oils including specialty essential oils, and large and medium-sized multinational flavor manufacturers that produce specialty essential oils primarily for their own use. There are also growers and processors of essential oils, mainly in developing countries, represented by traders and distributors of specialty essential oils also competing in the essential oils market.

20.5. In the field of natural solutions for Food Protection, Frutarom’s competitors are multinationals that target the food, animal feed and nutrition, and nutritional supplements markets, such as Naturex, which emphasizes low costs and attractive prices to customers, Kemin, and DuPont which put their emphasis on providing technological solutions to their customers.

20.6. In natural colors Frutarom’s competitors are multinationals like Chr. Hansen (Denmark) and Sensient (USA), Naturex and D.D. Williamson which target the global market, and a number of smaller local companies. Frutarom’s main competitors focus mostly on formulations for customers while Frutarom emphasizes the entire value chain, starting with extraction from the plant from which the color is derived until its inclusion in the product formula as part of the full portfolio of solutions that Frutarom provides to pharma/nutraceutical and to food and beverage manufacturing customers.

20.7. In aroma chemicals the Company competes with large multinational flavor & fragrance manufacturers that produce specialty aroma chemicals for their own use and sale into the market. Other competitors in this field are highly specialized manufacturers in the production of aroma chemicals based in Europe and the U.S. Other manufacturers of aroma chemicals are generally low cost producers, mostly located in Asia, with limited direct sales and marketing platforms and often reliant on dealers for marketing and selling their products. There are also chemical companies that produce aroma chemicals in high volumes as part of their wider product offering, but in most cases they do not produce specialty aroma chemicals. Frutarom, for the most part, does not compete with these, but focuses rather on low-volume specialty aroma chemicals with relatively higher margins due to the unique manufacturing facilities required in their production.

For further information on manufacturers operating in the specialty fine ingredients market, see section 6.3 above. For details on factors affecting the Group's position in the specialty fine ingredients market, see section 15.13 above (Critical Success Factors in the Specialty Fine Ingredients field”).

21. <u>Production Capacity</u>

For information on the Group’s production capacity for specialty fine ingredients, see section 25 below.

22. Frutarom's Trade and Marketing Activity

22.1. As mentioned, in addition to its core businesses, as part of its service and the furnishing of comprehensive solutions to its customers to help strengthen its ties and promote sales of its core products while maintaining long lasting and closer relations with the customers, Frutarom also engages in the importing and marketing of various raw materials it does not produce on its own, for the food, pharmaceutical, chemicals, cosmetic, and detergent industries.

22.2. The raw materials sold and marketed by Frutarom under its Trade and Marketing activity mainly include raw materials that the Company purchases for the manufacture of its specialty fine ingredients and flavors. As Frutarom imports and purchases these materials in bulk or in large quantities, it purchases them at attractive prices and sell them at a premium to third parties. The Trade and Marketing activity is synergetic with and supports Frutarom's core businesses – Flavors and Specialty Fine Ingredients – since it leverages its sales structure, supply chain, procurement, and global management, and enables it to offer a wider variety of products and solutions and to add value to its customers, especially medium-sized and locally-based customers in emerging markets, and deepening the cooperation with these customers.

22.3. Frutarom does not consider the Trade and Marketing activity part of its core businesses and this activity does not amount to a reported business segment in the Company's financial reports. In 2017 this activity totaled approx. US$ 90,962 thousand. Most of the growth in this activity in recent years was due to the acquisition of Etol in 2012, PTI in 2013, Montana Food in 2014 and Piasa in 2016 (for further information, see sections 1.8.10 and 1.8.11 above) and it focuses in Eastern Europe, Latin America and Israel.

CHAPTER 4 – DESCRIPTION OF THE COMPANY'S BUSINESS:

MATTERS CONCERNING THE COMPANY'S OVERALL ACTIVITY

23. *Marketing and Distribution*

23.1. Frutarom maintains a global marketing, sales and customer technical support structure which is based on local R&D, sales and marketing personnel in its main target markets. The Company believes its global presence gives it a competitive edge and is a key part of its growth strategy. As of the date of this report, Frutarom had 1,964 people working in sales, marketing and R&D, – 109 sales offices, and 89 R&D labs located in its main target markets in close proximity to its customers, including in the US, Canada, the UK, Ireland, Germany, Switzerland, France, Italy, Slovenia, Denmark, Belgium, Holland, Poland, Romania, Turkey, Russia, Ukraine, Kazakhstan, Israel, Mexico, Costa Rica, Brazil, Guatemala, Peru, Chile, China, Japan, Hong Kong, Indonesia, New Zealand, India, Belarus, Austria, Spain, Hungary and South Africa. The Company markets and sells its products primarily through its own marketing and sales personnel. In some countries Frutarom retains third party local agents and distributors to sell its products.

23.2. Frutarom's global sales and marketing organization is a key component of its strategy to supply products tailor-made to its customers' needs, along with specialized products and services and high quality customer support to both large multinational and medium-sized locally-based customers.

23.3. Frutarom differentiates itself from its competitors by, among others things, offering its medium-sized and local customers the same level and quality of service and customization of products to customer needs as it provides to large multinationals. Frutarom's sales and marketing staff and R&D personnel work closely with both large multinational and medium-sized and local customers to offer the same timely and accessible individualized development services, including the development of custom flavors and specialty fine ingredients tailor-made to their specific needs.

23.4. The Flavor and Specialty Fine Ingredients activities each have their own separate sales, marketing and customer support teams. However, Frutarom assigns a dedicated salesperson to any customer purchasing the products of both activities, enabling the Company to better respond to the customers' needs and to identify and capitalize on opportunities for selling the wide range of its products to that customer.

23.5. Frutarom's sales and marketing team constitutes an important link between the Group's customers and its R&D team. Work is done in close collaboration with customers in order to understand their particular needs while relaying the information and fully cooperating with the R&D team which develops the products custom-made to the customer's specific needs, in some instances in close cooperation with the customer's development staff.

23.6. In certain cases, particularly in emerging markets, Frutarom offers its customers technological and marketing support in order to help them expand and improve their product offering and quality and their manufacturing processes. Frutarom believes this approach strengthens its relationships with these customers and helps boost demand for its products.

23.7. Company management believes that Frutarom is not dependent on any specific channel out of its marketing channels.

24. Seasonality

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

24.1. Following is the quarterly profit and loss reports for 2016-2017 (in US$ millions):

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales*	357.5	358.8	343.6	302.5	289.0	300.1	300.2	257.7
Gross Profit **	138.8	138.4	132.2	115.7	110.2	114.0	114.3	99.1
Selling, marketing, R&D, G&A and other expenses	86.7	81.1	77.0	70.8	78.7	69.0	73.1	68.7
Share in profits of affiliated companies net of tax	0.5	0.4	0.05	0.4	0.3	0.3	0.4	0.2
Operating income **	52.7	57.8	55.2	45.3	31.8	45.3	41.6	30.5
EBITDA**	65.8	71.1	66.9	55.7	43.2	55.6	54.3	40.1
Financial expenses	8.8	5.6	8.0	2.2	0.0	5.1	3.2	4.5
Income before taxes	43.8	52.1	47.2	43.2	31.8	40.2	38.3	26.0
Net income **	39.8	40.8	37.2	33.7	27.0	32.2	30.3	21.5

* Currency effects impacted Frutarom's overall 2017 sales by 1.9%.

** Net non-recurring expenses were recorded in 2017 for acquisitions and activities carried out by Frutarom for attaining optimization and efficiency, mainly in its Natural Extracts activity in the Fine Ingredients division. These nonrecurring expenses reduced reported gross profit by approx. US$ 4.7 million, and reported operating profit and EBITDA by approx. US$ 7.9 million. In Q4 2017 a nonrecurring tax revenue was recorded, mainly owing to a tax reform in the US, so the overall net non-recurring expense in 2017 reduced net income by approx. US$ 2.7 million. In 2016 net non-recurring expenses were recorded for the acquisitions and steps being taken by Frutarom towards optimizing its resources, amalgamating plants, attaining maximal operational efficiency which reduced reported gross profit by approx. US$ 10.4 million, reported operating profit by approx. US$ 24.9 million, reported EBITDA by approx. US$ 23.4 million and reported net income by approx. US$ 18.1 million.

25. ***Fixed Assets, Land, Facilities and Production Capacity***

As of date of the publication of the report Frutarom operated 74 production sites throughout the world. The following table outlines Frutarom's main production sites and the activity performed at each of the sites (in alphabetical order):

<table>
<tr><th>Country</th><th>Location</th><th>Field of activity</th><th>Property size (m^2)</th><th>Buildings – Ownership/ Lease/Rent</th><th>Land – Ownership/ Lease/Rent</th></tr>
<tr><td>Austria</td><td>Salzburg[37]</td><td>Flavors</td><td>7,421</td><td>Rent</td><td>Rent</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 5 days a week in 1-3 shifts (as needed). It has additional potential production capacity of approx. 30% were it to switch to operating 7 days a week.</td></tr>
<tr><td>Belgium</td><td>Olen (Taura)</td><td>Flavors</td><td>11,990</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 5 days a week in 3 shifts. It has additional potential production capacity of 15%.</td></tr>
<tr><td>Brazil</td><td>Porto Feliz, Sao Paulo</td><td>Flavors</td><td>8,346</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 5-6 days a week on 1-3 shifts (as needed). It has no additional potential production capacity.</td></tr>
<tr><td>Brazil</td><td>Diadema, SP Nardi</td><td>Flavors</td><td>1,962</td><td>Lease</td><td>Lease</td></tr>
<tr><td colspan="6">Production capacity and shifts – the plant runs 5 days a week in 1 shift. It has additional potential capacity of approx. 50% were it to switch to continuous operation using 3 shifts</td></tr>
<tr><td>Brazil</td><td>SDFLC – Sete Lagos</td><td>Flavors</td><td>6,867</td><td>Lease</td><td>Lease</td></tr>
<tr><td colspan="6">Production capacity and shifts - the plant runs 5 days a week in 1 shift. It has additional potential capacity of approx. 100% were it to switch to continuous operation using 3 shifts and 7 production days.</td></tr>
<tr><td>Brazil</td><td>Citromax - Sao Paulo Guarulhos</td><td>Flavors</td><td>3,926</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts - the plant runs 5 days a week in 1 shift. It has additional potential capacity of approx. 50% were it to switch to continuous operation using 3 shifts</td></tr>
<tr><td>Canada</td><td>Montreal (BSA)</td><td>Flavors</td><td>12,946</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 6 days a week on 3 shifts. It has additional potential production capacity of approx. 10% were it to operate production an additional day a week.</td></tr>
<tr><td>China</td><td>Qing Pu, Shanghai [38]</td><td>Flavors</td><td>14,500</td><td>Ownership</td><td>Lease</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to operating in shifts 5 days a week, and an even greater capacity were it to switch operating 7 days a week.</td></tr>
<tr><td>China</td><td>Zhaoqing, Guang Dong (Inventive)</td><td>Flavors</td><td>25,000</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 7 days a week in 3 shifts, throughout most of the year. Its production capacity can be increased were an investment be made.</td></tr>
<tr><td>China</td><td>Pucheng, Fujian Province Co. Ltd</td><td>Fine ingredients</td><td>30,000</td><td>Ownership</td><td>Ownership</td></tr>
<tr><td colspan="6">Production capacity and shifts – The plant runs 7 days a week on 3 shifts. It has an expansion plan that will significantly increase its production capacity.</td></tr>
</table>

37 The land and buildings are rented from a third party in the framework of a rental agreement for a period ending December 31, 2029.

38 The consolidated company in China has land usage rights for a period of 50 years ending in 2062. The discounted leasing fees are presented in the financial statements under property, plant and equipment.

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land – Ownership/ Lease/Rent
France	Rene Laurent - LE CANNET	Flavors	7,920	Lease	Lease
<u>Production capacity and shifts</u> – The plants (2) run 5 days a week in 1 shift. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts.					
Germany	Emmerich	Flavors	19,250	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 2 shifts. It has additional potential production capacity of approx. 25% were it to switch to continuous operation using 3 shifts.					
Germany	Sittensen	Flavors	13,000	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week in 2 shifts. It has additional potential production capacity of approx. 25% were it to switch to continuous operation using 3 shifts.					
Germany	Freilassing	Flavors	24,900	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week in 2.5 shifts. It has additional potential production capacity of approx. 25% in some production lines were it to run 7 days a week.					
Germany	Bramstad	Flavors	3,000	Lease	Lease
Production capacity and shifts - *The plant runs 5 days a week in 1.5 shifts. It has additional potential production capacity of approx. 50% in some production lines were it to run continuously in 3 shifts.*					
Germany	Blessing	Flavors	1,600	Lease	Lease
Production capacity and shifts - *The plant runs 5 days a week in 1-1.5 shifts. It has additional potential production capacity of approx. 40% in some production lines were it to run continuously in 3 shifts.*					
Germany	Stadhagen (Extrakt-Chemie)	Fine ingredients	18,000	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week in 2 shifts. It has additional potential production capacity of approx. 40% were it to switch to operating 5-7 days a week in 3 shifts.					
Guatemala	Guatemala City	Flavors	1,629	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5.5 days a week on 1 shift. It has additional potential production capacity of approx. 50% were it to switch to operating in 3 shifts, 7 days a week.					
India	Bangalore (Sonarome)	Flavors	24,104	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5.5 days a week on 1 shift. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts.					
India	Rajasthan (BSA)[39]	Flavors	7,110	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 1 shift (as needed). It has additional potential production capacity of approx. 50% were it to switch to operating 7 days a week in 2 shifts.					
Ireland	Redbrook - Athlone & Dublin	Flavors	1,435	Lease	Lease
<u>Production capacity and shifts</u> – the plants run 5 days a week on 1 shift. They have additional potential production capacity of approx. 100% were it to switch to continuous, 2-shift operation, 7 days					

39 Leasing rights for the land were given for a period of 99 years ending in 2106. Capitalized lease payments are presented in the financial statements under fixed assets

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land – Ownership/ Lease/Rent
Israel	Haifa [40] [41]	Flavors and Fine Ingredients	35,490	Ownership	Lease
<u>Production capacity and shifts</u> – Flavor extracts production is done 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to working 3 shifts 5-7 days a week. Fine ingredients production is done 5 days a week in 3 shifts.					
Israel	Acco	Flavors	6,462	Ownership	Lease
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to 3 working shifts.					
Israel	Turpaz - Holon	Fine Ingredients	580	Lease	Lease
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to 3 working shifts 5-7 days a week.					
Israel	Enzymotec - Migdal H'aemek	Fine Ingredients	10,000	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 7 days a week on 3 shifts. It has additional potential production capacity of approx. 30%.					
Israel	IBR - Yavne	Specialty Fine Ingredients	1,543	Lease	Lease
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 3 shifts. It has additional potential production capacity of approx. 70% were it to switch to 3 working shifts 5-7 days a week.					
Italy	Parma	Flavors	16,000	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to continuous operation using 2 shifts, 7 days a week.					
Mexico	Apodaca, Nuevo León[42]	Flavors	15,323	Ownership	Ownership
<u>Production capacity and shifts</u> – The plant runs 6 days a week. Production of powders – the plant runs in 2 shifts and there is additional potential production capacity of approx. 30% were it to switch to working 3 shifts a day. Production of liquids – the plant runs in 3 shifts.					
Mexico	Piasa SLP – San Luis Potosi	Flavors	4,000	Ownership	Ownership
<u>Production capacity and shifts</u> - *The plant runs 6 days a week, in 1 shift. It has additional potential production capacity of approx. 50% were it to switch to operating 5-7 days a week, using 3 shifts.*					
Mexico	Apodaca, Piasa STIVA	Flavors	8,885	Lease	Lease
<u>Production capacity and shifts</u> - *The plant runs 6 days a week, in 3 shifts. It has additional potential production capacity of approx. 15% were it to switch to 7 days a week.*					
Morocco	Rene Laurent	Flavors	2,107	Lease	Lease

40 Rights to land located in the Acre industrial zone and in the Haifa Bay section of Haifa. The land leasing rights are for 49 year periods ending 2032 -2042. Frutarom Ltd. has the right to extend the leasing for an additional 49 year period. The land on which the Company's plant in Haifa is located is subject to long-term lease agreements with the Israel Land Authority (excluding that stated in footnote 37 below). The net discounted value of the leasing fees appears in the financial statements under property, plant and equipment.

41 The total size of the Haifa site is 35.5 dunams and includes within it a 7.3 dunam area rented from a third party under an operating lease ending August 31, 2018.

42 The land and buildings are rented from a third party for an undefined period of time.

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land – Ownership/ Lease/Rent
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts.					
New Zealand	Mount Maunganui (Taura)	Flavors	8,681	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week in 2 12-hour shifts (as needed). It has additional potential production capacity of approx. 25% were it to switch to operating 7 days a week.					
Peru	Lima[43]	Flavors	19,645	lease	lease
Production capacity and shifts – The plant runs 5 days a week on 1-2 shifts. It has additional potential production capacity of approx.30% - 50% were it to switch to 7 days a week in 3 shifts. In colors the plant runs 6 days a week, 2-3 shifts a day, the plant has additional potential capacity of 50% - 80% were it to switch to operating 7 days a week in 3 shifts.					
Poland	Radzymin (AMCO)	Flavors	10,000	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100% were it to switch to working 7 days a week.					
Poland	Polena	Specialty Fine Ingredients	1,703	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1.5 shifts. It has additional potential production capacity of approx. 100% were it to switch to working 5-7days a week in 3 shifts.					
Russia	Moscow – Chekhov	Flavors	17,304	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week in 2-3 shifts (as needed). It has additional potential production capacity of approx. 15% were it to switch to working 5-7 days a week.					
Russia	Moscow - Lytkarino	Flavors	1,090	Ownership	Ownership
Production capacity and shifts – The plant runs 7 days a week in 2 shifts. It has additional potential production capacity of approx. 10% were it to switch to working 7 days a week.					
Slovenia	Škofja (Etol)	Flavors	63,000	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1.5 shifts. It has additional potential production capacity of approx. 40% by adding 2nd and 3rd shifts,					
Slovenia	Markovci (Vitiva)	Fine ingredients	42,000	Ownership	Ownership
Production capacity and shifts – The plant runs 7 days a week in 3-4 shifts. The plant exhausts its full production capacity.					
South Africa	South Africa – Midrand, Guateng	Flavors	4,735	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts, 5-7 days a week.					
South Africa	Unique Flavors – Centurion, Tswane	Flavors	2137	Lease	Lease
Production capacity and shifts - *The plant runs 5 days a week in 1 shift. It has additional potential production capacity of approx. 100% were it to run continuously with 3 shifts, 5-7 days a week.*					
Spain	Murcia (Ingranat)	Specialty Fine ingredients	44,000	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week in 3 It has additional potential production capacity of approx. 20% were it to switch to working 7 days a week.					

43 The land and buildings are rented from a third party until 2030.

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land – Ownership/ Lease/Rent
Spain	Murcia (Nutrafur S.A)	Fine ingredients	43,000	Ownership	Ownership
Production capacity and shifts – The plant runs 6 days a week in 3 shifts. It has additional potential production capacity of approx. 15% by operating 7 days a week.					
Switzerland	MÜHLEHOF GEWÜRZE	Flavors	1,020	Ownership	Ownership
Production capacity and shifts - *The plant runs 5 days a week in 1 shift. It has additional potential production capacity of approx. 40% were it to run 7 days a week in 2 shifts.*					
Switzerland	Wädenswil	Fine ingredients	13,464	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week in 3 shifts. It has additional potential production capacity of approx. 30%-40% were it to work 7 days a week in 3 shifts.					
Switzerland	Reinach	Flavors	43,500	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week in approx. 2 shifts per day. It has additional potential production capacity of approx. 40% were it to switch to continuous operation using 3 shifts, 7 days a week.					
Thailand	Mighty - Bangkok	Flavors	13,697	Ownership	Ownership
Production capacity and shifts – The plant runs 6 days a week in 1 shift per day. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts, 7 days a week.					
Turkey	Kocaeli	Flavors	5,000	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week in 1-3 shifts per day. It has additional potential production capacity of approx. 40% were it to switch to continuous operation using 3 shifts, 7 days a week.					
UK	Hartlepool, Teesside	Fine ingredients	48,971	Ownership	Ownership
Production capacity and shifts – The plants runs 5 days a week in 3 shifts. They have additional potential production capacity of approx. 25% - 40% were they to switch to continuous operation 7 days a week.					
UK	Wellingborough	Flavors	15, 230	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift for producing flavor extracts. It has additional potential production capacity of approx. 100% were it to switch to work in shifts.					
UK	Aromco	Flavors	3,005	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week on 1 shift for producing flavor extracts. It has additional potential production capacity of approx. 100% were it to switch to work in shifts.					
UK	Savory Flavors	Flavors	3,005	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week on 1 shift for producing flavor extracts. It has additional potential production capacity of approx. 100% were it to switch to work in shifts.					
UK	F&E - Blackburn	Flavors	1,060	Lease	Lease
Production capacity and shifts –the plant runs 5.5 days a week in one shift. It has additional potential production capacity of approx. 70% were it to switch to work 5 days a week in 3 shifts.					
UK	EAFI - Clacton	Flavors	5,530	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift for producing flavor extracts. It has additional potential production capacity of approx. 100% were it to switch to work in shifts.					
UK	Market - FoodBlenders Harborough	Flavors	1,230	Lease	Lease

Country	Location	Field of activity	Property size (m^2)	Buildings – Ownership/ Lease/Rent	Land – Ownership/ Lease/Rent
Production capacity and shifts – The plant runs 5 days a week on 1 shift for producing flavor extracts. It has additional potential production capacity of approx. 50% were it to switch to work in shifts.					
UK	Daventry - RedBrook	Flavors	475	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 50% were it to switch to work in shifts.					
USA	Cincinnati OH	Flavors and fine ingredients	50,500	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift for most of the year, and during the summer months it runs on 1.5-2 shifts. It has additional potential production capacity of approx. 70% were it to switch to continuous operation using 3 shifts.					
USA	Corona CA[44]	Flavors	14,000	Lease	Lease
Production capacity and shifts – The plant runs 5 days a week most of the year, and during the summer months it runs on 1.5-2 shifts. It has additional potential production capacity of approx. 50% were it to switch to continuous operation using 3 shifts.					
USA	Winter Haven FL (CitraSource)	Fine ingredients	50,000	Ownership	Ownership
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 100%-200%.					
USA	*GROW – Ridgefield, New Jersey*	*Fine Ingredients*	*41,000*	*Lease*	*Lease*
Production capacity and shifts – The plant runs 5 days a week on 1 shift. It has additional potential production capacity of approx. 80% were it to switch to 3 shifts, 5-7 days a week					
Vietnam	*WFF*	*Flavors*	*6,150*	*Lease*	*Lease*
Production capacity and shifts - *The plant runs 5.5 days a week in 1 shift. It has additional potential production capacity of approx. 50% in some production lines were it to run continuously with 3 shifts.*					

The facilities and properties owned by the Group are presented in the financial statements under the Group's property, plant and equipment within the line item for land and buildings. All of the Group's rental agreements are defined as operational rent and therefore are not included and are not presented as part of its assets. The group is looking into adopting the IFRS 16 standard and examining its impact. For further information see Note 32w(3)

26. Research, Innovation and Development

26.1. Frutarom considers its research, innovation and development system one of its key core proficiencies and channels substantial resources towards researching and developing new and innovative products. As of December 31, 2017, 781 of the Company's employees were engaged in research, innovation and development. Frutarom has over 80 years of experience in research and development in the field of flavors and specialty fine ingredients, with particular attention given to natural flavor extracts and natural specialty fine ingredients. Frutarom's research, innovation and development is crucial to its future

44 The land and buildings of Company plants in Corona are rented by the Company from a third party until February 28, 2025.

success. Most of its products, and natural products in particular, are tailor-made and customized in accordance with its customers' needs. As part of its research, innovation and development activities, and in order to broaden its lineup of natural, innovative and unique products, Frutarom strives to create cooperative ties with academic institutions, research institutes, and start-up companies in Israel and throughout the world. Frutarom has created a number of such bonds which serve to beef up and strengthen its pipeline of new innovative products it intends to launch over the coming years. Frutarom is currently establishing an innovation incubator in its facility in Migdal HaEmeq, Israel, after it won a tender issued by the Israel Innovation Authority

26.2. In many cases the development of fine ingredients is initiated by the Company after analyzing market trends and needs, while focusing on the development of products with higher profit margins in order to continue improving the product mix and ensure that its production capabilities and capacity are put to optimal use.

26.3. The development of new or customized flavor products is a complex process that calls for the combined knowledge and expertise of the Company's scientists and flavorists. Scientists from various disciplines work in project teams that include flavorists to develop new flavors whose qualities reflect consumer preferences. The development of new flavor compounds is as much an art as it is a science, requiring an in-depth understanding of the characteristics and features of the flavor and of the various ingredients used in creating it. To a large extent the process of developing a new flavor involves trial and error.

26.4. As of the date of this report, Frutarom's Flavors activity has 68 R&D laboratories, with the main ones located in the United States, Canada, United Kingdom, Switzerland, Germany, Italy, France, Belgium, Slovenia, Russia, Poland, Israel, Turkey, China, Brazil, Peru, Guatemala, New Zealand, South Africa, Ireland and Mexico. For its Fine Ingredients activity, Frutarom has 21 R&D facilities located, among other places, in Israel, the UK, Switzerland, the United States, Peru, Slovenia, Spain, China and Germany.

26.5. The Company recognized all research and development costs in its books as current expenses when incurred. For more information see Note 2f(6), Note 2f(6), Note 11a(2), and Note 21b to the financial statements.

27. <u>Intangible Assets</u>

27.1. Frutarom's intellectual property mainly includes the formulas used in creating its flavors and the development and production processes for fine ingredients. Frutarom does not register its formulas as patents, but nevertheless they are highly confidential and considered trade secrets that are restricted to a minimal number of people within the Group. Protecting formulas as trade secrets and not registering them as patents is common industry practice since patent registration would involve turning the formulas into public information, and the protection given to the manufacturer on them would end when the patent expires.

The Company does have registered patents which mainly concern production processes for ingredients developed by the Group and for products in the fields of pharma/nutraceutical, cosmetics, and specialty fine ingredients for infant nutrition in infant formulas. The Company also registers trademarks on some of its products in some of the countries in which it operates. To protect its intellectual property, the Company includes confidentiality, non-competition, and transfer of intellectual property rights clauses in its personal employment contracts with employees, contracts with consultants, and in agreements with suppliers and customers. Frutarom believes itself not materially dependent on any single intellectual property right, product formula, patent or license.

27.2. It should be noted that the “Frutarom” trademark is not registered in all the countries where the Group operates. There are countries with registered trademarks similar to the name “Frutarom” on goods similar to the Group's products. In the view of the Company's management, not having the "Frutarom" trademark registered in all countries in which it operates does not constitute a significant risk to the Group and its activities.

27.3. For details on amounts recognized as assets in the financial statements with regards to intangible assets, see Note 2(f) and Note 8 to the financial statements.

27.4. Intangible assets representing know-how and product formulas are amortized according to Group management’s assessment of how long they can be useful since for most know-how and product formulas there is no technical or regulatory period of obsolescence, as well as in light of the Group’s experience concerning its periods of use from the know-how and formulas in its possession and according to the industry in which the Group operates.

28. <u>Human Resources</u>

28.1. As of December 31, 2017 Frutarom has about 5,223 employees. The following table provides a breakdown of employees by country in the past two years:

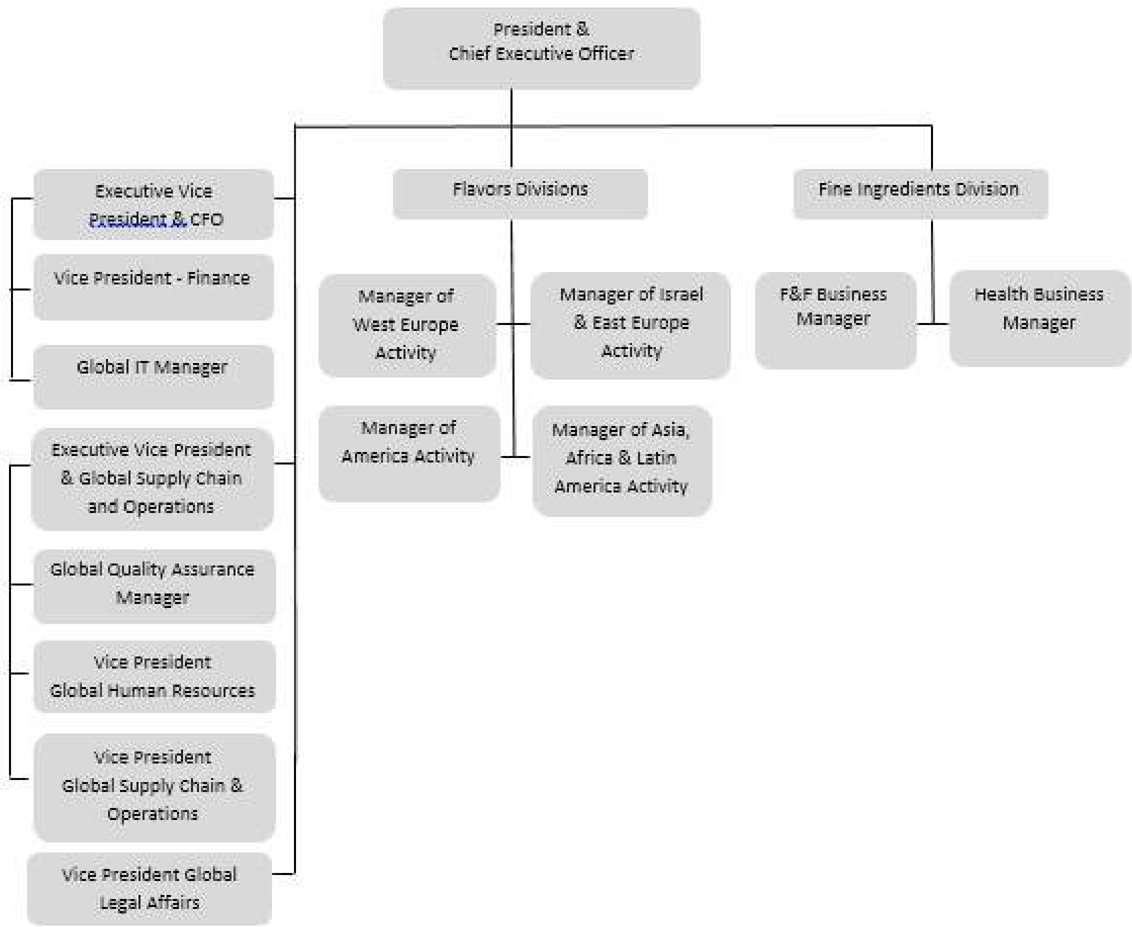
Country	31.12.2017	31.12.2016
Germany	622	654
Russia and CIS	589	593
China and Hong Kong	461	418
United Kingdom	432	363
Slovenia and Balkans	328	328
Mexico	355	303
United States	247	257
Israel	254	236
Peru	229	230
Austria	219	228
Switzerland	160	169
Canada	160	151
Spain	133	126
India	131	123
Belgium	99	110
Brazil	212	84
Poland	137	70
Guatemala	57	59
New Zealand	57	57
Turkey	42	45
Italy	35	42
Ireland	32	32
South Africa	93	31
Chile	26	23
France	111	13
Scandinavia	2	3
Total	**5,223**	**4,748**

28.2. The following table shows the breakdown of the Group's employees by field of activity in the past two years:

Field of activity	31.12.2017	31.12. 2016
Sales and marketing	1,183	1,049
R&D	781	607
Operations	2,553	2,397
Management	706	695
Total	**5,223**	**4,748**

The change in the number of employees and their breakdown by country and by their various fields of activity stems mainly from the addition of employees as a result of the acquisitions made.

28.3. Frutarom's organizational chart:



28.4. Most of Frutarom's workforce is employed based on personal employment agreements. These agreements vary from country to country according to the laws in force in each jurisdiction.

There are employees, mainly at the Company sites in Germany, Slovenia, Israel (Haifa) and Italy, who are employed under collective bargaining agreements. These agreements vary from country to country and deal principally with terms of employment, salaries, pension schemes, other benefits, hiring and dismissal of employees and procedures for settling labor disputes.

Directors and Senior Management of the Company

28.5. As of December 31, 2017 the Group's senior management includes five senior officers. In addition, the global management group includes around 10 additional members besides the members of senior management. The Company has personal employment contracts with members of management. As is customary in the industry in which the Company operates, these contracts include standard clauses covering non-competition, confidentiality, and transfer of intellectual property rights to the Company.

28.6. Several members of the Company's senior management are entitled to extensions ranging between six and twelve months in their advance notice periods if their employment with the Company is terminated within a period of 12 months from the date when ICC Handels AG[45] holds less than 26% of the Company's share capital or of the voting rights in the Company. In such a case, furthermore, some of the members of senior management are entitled to the immediate exercise of all options granted to them in the past even if they have not yet been fully vested.

28.7. Company officeholders are entitled to be included in the framework of the Company's insurance, exemption[46] and indemnification arrangements. For further information on remuneration to officeholders and their terms of service, see regulation 21 in Chapter D ("Additional Information on the Corporation") of the Company's Annual Report.

28.8. On January 10, 2017 a new compensation policy for the Company's senior officers was approved by the Company's General Meeting after being approved by the Compensation Committee and the Company's Board of Directors. For information on the Compensation Policy, see the Company's report on the matter dated November 29, 2016.

29. Employee Incentive Plans

For information on the Company employee incentive plans, see Note 12(b) to the Financial Statements.

30. Raw Materials and Suppliers

30.1. Frutarom purchases thousands of raw materials that go into its products from a very wide range of suppliers, having more than one supplier for most raw materials. The main raw materials purchased by Frutarom include plants, leaves and roots for producing natural flavor extracts, natural functional food ingredients and pharma/nutraceutical extracts. The Group also purchases essential oils for producing specialty essential oils such as citrus oils and mint oils. Other raw materials purchased by the Group include natural and synthetic chemicals, spices, fruit components, alcohol, esters, acids and oleoresins.

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45 To the best of the Company's knowledge, ICC Handels AG is a fully-owned subsidiary of ICC Industries Inc., Frutarom's principal shareholder.

46 Except for controlling shareholders.

The Group's global and local supply chain managers and purchasing departments continually monitor raw material price trends, and action is taken to adjust the Group's selling prices accordingly when necessary. In recent years Frutarom has allocated many resources towards building a global purchasing unit to centrally manage the purchase of raw materials classified as being strategically important, and which serves the Group's two main fields of activity.

30.2. During the reported period no individual Frutarom supplier has supplied more than 2% of its raw material needs. There are exclusive suppliers for a small number of raw materials, but since these raw materials go into only a limited number of Frutarom products (none of which is substantial) out of its wide range of over 70,000 products, in the view of Company management Frutarom's dependence on these suppliers is not material.

30.3. Frutarom seeks to reduce costs of raw materials used for the manufacture of its products and secure their ongoing supply by purchasing raw materials directly from the source through strengthening its global procurement capabilities in countries abounding with the necessary resources, like China, India and Brazil, expanding its pool of suppliers, and tightening its ties with manufacturers, processors and growers of raw materials. In addition, Frutarom is taking action to guarantee the supply of unique raw ingredients by developing long term collaborations with farmers across the globe. As part of this agricultural collaboration, Frutarom supplies the farmers with unique patented varieties developed in collaboration with agricultural research institutions and cultivation companies from all over the world - these varieties have a higher content of the active materials responsible for flavor and color attributes, natural preservatives and health – and it also provides them with agricultural know-how and instruction. These collaborations ensure a regular ongoing supply of important natural raw materials, at prices beneath the market, with a concentration of active ingredients which is higher than the level found in nature. As part of this endeavor, which started more than a year ago and is expanding rapidly collaborations of this nature are taking place in Peru, Brazil, Guatemala, Spain, Poland, Israel, Morocco, South Africa and more, with the intention that within several years, approximately 50% of the raw material consumption for Frutarom's main natural extracts will be from self-cultivation.

Procurement of raw materials used in manufacturing the products of both of the Group's business activities is done with the support of the global headquarters supply chain unit, leveraging the purchasing power inherent in bulk purchasing to score favorable prices. Frutarom is working on reinforcing its global purchasing system and exploiting the growth of its purchasing power that has ensued largely from its recent acquisitions which have significantly increased its scope of activity.

30.4. The Group carefully manages its global supply chain and works towards strengthening its relations with manufacturers, processors and growers of raw materials, particularly natural raw materials, in order to ensure availability of raw materials at its various production facilities. Frutarom maintains relatively large inventories of certain raw materials as most of the natural substances used by Frutarom derive from field crops. Delivery times are also usually longer than those to which Frutarom has committed to its customers, making it necessary for Frutarom to hold enough raw material inventory to fill its customers' orders on short notice. On the other hand, Frutarom generally maintains very limited finished goods inventory. Furthermore, the availability and prices of many of the raw materials, especially natural materials, used by Frutarom to manufacture its products, are exposed to fluctuations due to global supply and demand.

Frutarom closely monitors the prices of raw materials used in the manufacture of its products and, when the need arises, takes measures to prevent increases in raw material prices from impacting on its operating results. These might include adjustments to sale prices of products affected by the rise in raw material prices, expanding its pool of suppliers, and making full and optimal use of the capabilities of its production sites around the world.

31. Working Capital

Frutarom’s working capital is made up of cash and cash equivalents, accounts receivable, debit balances and inventories; less short-term bank credit and loans and current maturities of long-term loans, and accounts payable and credit balances. For further information see the Company’s balance sheet in its financial statements.

32. Investments

32.1. The Group's capital expenditures go primarily towards enlarging and expanding existing facilities, developing new cutting-edge and more efficient manufacturing facilities, investing in environmental protection, and for establishing new sales and marketing offices and R&D laboratories.

32.2. Most of the investments planned by the Group in upcoming years are meant for building new modern manufacturing sites due to substantial growth of the scopes of activities for upgrading existing production facilities and improving their efficiency, and amalgamating production sites, along with continued implementation of a new company-wide IT system and improving and expanding production capacity at Frutarom facilities, as well as investing in the areas of ecology, energy conservation and environmental protection.

33. Financing

33.1. Frutarom's activity is financed by equity and long- and short-term loans from banking corporations and financial institutions. The average and effective interest rate on the loans in force during the reported period was approx. 1.47%.

33.2. During 2017 the Group took on credit from banks and financial institutions for financing acquisitions it has made in recent years. As of December 31, 2017 the net balance of debt to banks and financial institutions stood at approx. US$ 516 million. For further information on loans taken by the Group from banking corporations and financial institutions in 2017, see Notes 9 and 14 to the financial statements and the Company's immediate report from January 11, 2018 on the engagement of subsidiaries in material loan agreements.

33.3. Frutarom is taking action to improve the terms of loans it has taken in line with changing market conditions. In this regard, there has been no material change in the conditions of loans or any changes to the Company's financial covenants except as described in section 33.4 below.

33.4. In order to secure long term loans taken from banks and financial institutions in Israel and all over the world, the company has committed to meet the financial covenants as follows:

- The Group's equity will at no point of time amount to less than US$ 375 million. As of December 31, 2017 the Company's equity stood at US$ 879 million.

- The Company's equity will at no point of time be equal to less than 25% of the Company's balance sheet. As of December 31, 2017 the Company's equity was equal to approximately 45% of the Company's total balance sheet.

- The ratio of the Company's total financial liabilities, less cash, to operating profit on a pro-forma basis from ongoing activity plus depreciation and amortization ("**EBITDA**") shall not exceed 4, whereas the EBITDA calculation shall be done on a pro-forma basis and net of nonrecurring expenses[47]. As of December 31, 2017, the ratio of the Company's total financial liabilities less cash to EBITDA stood at 1.85, whereby the EBITDA calculation was done on a pro-forma basis and net of nonrecurring expenses.

It should be noted that all of the Company's financial covenants prior to the aforementioned update had been met, and that as of December 31, 2017 and at the date of this report the Company's financial covenants are being met.

33.5. In addition, the Company has a negative pledge on its assets (in addition to the existing negative pledge on the assets of the subsidiary Frutarom Ltd. and other subsidiaries). The Company has also committed to a restriction on dividend distributions as described in section 4.4 above.

33.6. For further information on the aforementioned commitments to meet financial covenants, negative pledge and restrictions on dividend distributions, see Note 14 to the financial statements.

33.7. In light of Frutarom's capital structure and solid balance sheet, supported by the strong cash flow generated over recent years and together with the backing of banks, as of the date of this report, Frutarom is not engaged in contractual credit facility agreements with banks and has no floating charges on its assets.

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47 In calculating EBITDA, nonrecurring expenses shall be negated, as agreed, and in the case of the acquisition of a company and/or activity by a company in the Group, EBITDA shall be calculated on the basis of the financial statements which include the results of the activity of the acquired Company for the relevant period as if they had been consolidated from the outset.

The Group has understandings with leading banks around the world for being able to finance rapid growth and strategic acquisitions as the need arises.

33.8. For further details on loans, currencies and interest rates, see Note 9 to the financial statements.

34. Taxation

34.1. For details of tax provisions applicable to the Company, including tax benefits to which it is entitled, see Note 13 to the financial statements.

34.2. The Company has received final tax assessments in Israel for up to and including 2009.

34.3. The Group operates throughout the world and, as of the date of publication of this report, the applicable tax rates in the countries in which it operates range from 7.5% to 34%. For further information on the Company's affiliated companies incorporated abroad see Note 13 to the financial statements.

34.4. The effective tax rate (on a consolidated basis) for 2017 was 18.7%. For information on the difference between the Company's statutory tax rates and its effective tax rates see Note 13 to the financial statements.

35. Environmental Risk Management

Environmental Hazards

As of the date of this report Frutarom has 74 plants worldwide engaged in producing of flavors and specialty fine ingredients, which includes the use and production of substances considered hazardous. These plants are therefore subject to various local legislation and regulations related to the environment and prevention of environmental hazards.

35.1. Environmental hazards which may materially affect the Group are:

35.1.1. The emission of substances from the manufacturing activity at a number of production facilities of the Group companies - if these substances reach the surroundings in excess of permitted volumes or concentrations, could harm humans and the environment, including odors that could reach the point of becoming an odor nuisance as defined by relevant local legislation. The Group takes the necessary measures to prevent uncontrolled emissions of such substances in accordance with provisions of the applicable law in each country in which it operates.

35.1.2. Production, maintenance and use of materials defined as hazardous by the applicable local legislation (including flammable substances) at a number of production facilities of the Group companies which, if uncontrolled for any reason, may harm humans or the environment. The Group handles these substances in accordance with the provisions of applicable law and takes the necessary safety precautions in using these substances.

Material Implications of Regulations

35.2. The IPPC directive (96/61/EC) ("**the Directive**") went into effect in the European Union on October 30, 2007. The Directive establishes strict standards for all matters relating to the prevention of environmental hazards and is enforced on the Group's sites in Europe.

On January 1, 2008 the Clean Air Law 5768 – 2008 ("**Clean Air Law"**) came into effect in Israel, adopting the principles of the Directive and applying them to plants defined as "emissions sources that require a permit." As the Company's plant in Haifa is presumably an "emissions source that requires a permit," as defined in the Clean Air Law, Frutarom Ltd. submitted an application for an emissions permit, and on March 1, 2015 the Company received a draft of the emissions permit for review. As of the date of this report and in light of the Company's actions to eliminate environmental hazards at the plant, the Ministry of Environmental Protection accepted Frutarom Ltd's position that the plant's activity no longer needs an emissions permit and as of January 1, 2017 this requirement has been cancelled.

Material Legal and Administrative Proceedings Related to the Environment

35.3. During the period of the report and until the date of its publication, no material legal or administrative proceedings were pending against the Company, or to which a Company officeholder was party, in connection with environmental issues.

The Group's Policy on Environmental Risk Management

35.4. Frutarom has acted, and continually acts, in order to prevent environmental hazards and protect the environment. The Company has been certified within the framework of the Responsible Care program. Company management keeps constant watch over the issue of environment protection and acts to reduce environmental risks at all Group locations.

Environmental trustees have been appointed at Frutarom's key production sites around the world as part of the implementation of the Group's strategic program for environmental protection. The trustees have undergone training for raising involvement and awareness for environmental protection by the workforces at all Group sites.

All of the Group's sites hold the licenses materially relevant to the legislative systems in their countries and, in the Company's assessment, are acting in accordance with the law.

35.5. Following is a list of the main actions taken by Frutarom in 2017 for reducing the risk of environmental hazards:

- According to the addendum to the Environmental Arrangement Document agreed upon in Israel between the Ministry of Environmental Protection and the Company in June 2011, in 2016 the Company completed the process of transferring the production of a number of materials, which have an odor potential, from the Company's site in Haifa to production sites outside of Israel.

- At the Company's sites in Wellingborough, UK and Reinach, Switzerland, all types of solid waste (organic waste, waste from the packing stage, plastic, cardboard and wood) are sent for recycling and reuse.

- The Company's site in Wädenswil, Switzerland has an electric power station that operates on natural gases produced from the organic waste resulting from the production process.

- At the company's site in Reinach, Switzerland a heat recycling system has been operating for a number of years, leading to a significant reduction in energy consumption. Over the past 2 years, a facility improving the quality of the plant's outbound water was installed at the site.
- At the Company's sites in Northern UK a great emphasis is placed on the recycling of methanol and ethanol in production processes and thus a significant reduction in the volume of waste is achieved. In addition, organic materials are sent to compost production, thus helping the environment.

- At the Company's site in Markovci, Slovenia (Vitiva) the waste materials are used to generate steam for the heat treatment of rosemary and other plant extracts.

Material Environmental Amounts, Provisions and Costs

35.6. During the period of the report and until the date of its publication, no significant sums were awarded against the Company in connection with environmental matters.

35.7. The total amount spent by the Company in 2017 on environmental costs stood at approx. US$ 4.1 million, compared with USD 3.24 million last year. This was spent on preventing and reducing environmental hazards and does not include investments carried out by the Company at its facilities as stated above. The Company does not foresee a significant change in these costs in 2018.

36. Limitations and Supervision of the Company's Business

36.1. The Group develops, produces and markets its products in a number of countries throughout the world and is subject to the legislation, regulations and supervision applicable to its activities in each of the various countries. These laws and regulations include, among others, the U.S. Food and Drug Administration's (FDA) regulations regarding activity in the United States, EU directives implemented in the European Union's member countries, in which the Company operates, CODEX in South America and other countries, and regulations set by the Ministry of Health in Israel. These laws and regulations determine standards relating to food production and labelling, as well as to the production facilities, equipment and personnel required to produce products for human consumption.

36.2. The Group is also subject to various rules relating to health, work safety and environment at the local and international levels in the various countries where it operates. The Company's production facilities in the various countries are subject to environmental regulations concerning air pollution, sewage treatment, the use of hazardous materials, waste treatment and clean-up of existing environmental contamination. Environmental law and enforcement throughout the world have become more stringent in recent years and the costs of abiding by these laws have risen significantly.

36.3. Frutarom believes the Group has all of the material permits required for its activities and that it currently operates its facilities, in every material way, in compliance with the relevant laws and regulations for food manufacturing, work safety, health and the environment in the countries in which it operates.

36.4. For further information on regulation, health, safety and permits, see section 15.10 above.

37. <u>Material Agreements and Cooperation Agreements</u>

37.1. For information regarding the Company's commitment to meet its financial covenants towards financing banks and financial institutions, see section 33.4 above.

37.2. For information on subsidiaries engaging in material loan agreements during the reported period, see Note 9 and Note 14 to the Company’s financial statements and the Company’s reports from January 11, 2017.

37.3. For information on the acquisition of the Wiberg Group in December 2015, see section 1.8.10 above.

37.4. For information on the acquisition of Enzymotec, see section 1.8.11(l) above.

38. <u>Legal Proceedings</u>

38.1. For details regarding legal proceedings in which the Company is involved, see Note 11(b) to the financial statements.

38.2. The Company is not involved in any significant legal proceedings in which the amount claimed (without interest and expenses) exceeds 10% of its current assets based on its consolidated financial statements.

39. Goals and Business Strategy

39.1. Frutarom works towards achieving rapid and profitable growth, combining rapid profitable internal growth of its core businesses along with carrying out strategic acquisitions and strengthening its position as one of the world's top companies in the field of flavors and specialty fine ingredients while fulfilling its vision:

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

In November 2017 Frutarom revised its strategic sales target to US$ 2.25 billion by 2020 while attaining a targeted EBITDA margin of over 23% of sales of its core products (from its Flavors and Specialty Fine Ingredients activities) based on its existing product mix.[48]

In Frutarom's estimation, meeting its strategic goals can be attained through the continued combination of the following factors:

39.2. Frutarom's ability to **maintain organic growth at a rate higher than the industry average**, supported by: (1) maintaining the Company's differentiation from its competitors in providing value to its customers by offering solutions combining taste and health under one roof; (2) maintaining a focus on the SMB (small and medium-sized business) and private label segments of the market that are characterized by higher growth rates than those of brand-name food companies; (3) capitalizing on the cross-selling opportunities that grow in number with the expansion of the Company's product portfolio and customer base; and (4) improving the geographic mix while focusing growth on markets with higher than average growth rates with an emphasis on North America and the emerging markets.

39.3. Continued **execution of strategic acquisitions:** Frutarom has a quality pipeline of potential acquisitions in all markets relevant to the Company's activity, and it also has experience and accumulated knowledge in spotting acquisition opportunities, efficient management of negotiation processes and feasibility studies, quality global infrastructures with the appropriate physical capital and human resources for continued absorption and assimilation of acquired activities along with proficiency in PMI (post-merger integration) processes and financial flexibility. The Company's acquisition policy is focused: ongoing expansion of its activity in the field of flavors, the expansion of its specialty fine ingredients activities with an emphasis on natural products based on specialized R&D that will enable the Company to continue improving its offer of value to its customers with an emphasis on providing a comprehensive portfolio of solutions and continued improvement and balance in the geographic mix.

39.4. Continued **improvement to Frutarom's profitability** supported by: (a) a focus on a profitable product mix that includes natural products, combined taste and health solutions, and specialized R&D-based products that improve the offer of value to the customer; (b) savings made `possible in light of the expansion and spread of the Company's global infrastructures and the

48 See footnote 14 above on forward looking statements.

exploiting of economies of scale along with operational synergies considering the optimization of development, sales and production processes (also due to the acquisitions) and improvement of the global supply chain; and (c) the building of a global purchasing platform for raw materials with the purpose of buying raw materials directly from their countries of source rather than from agents and distributors and the exploiting of economies of scale.

For information on the key components of Frutarom’s growth strategy, see section 1.8 above.

40. Financial Data Regarding Geographic Regions

The Group manufactures, markets, and sells its products throughout the world.

40.1. Following is the distribution of the Company's consolidated revenues by sales from unaffiliated end customers according to their geographic location (in US$ thousands): 2015-2017

	2015	2016	2017	% of total 2017 Sales
Emerging markets*	384,804	470,247	585,619	43.0%
Western Europe**	281,745	424,292	494,149	36.3%
North America ***	136,633	173,216	195,280	14.3%
Other	69,614	79,286	87,348	6.4%
Total	872,796	1,147,041	1,362,396	100%

* Sales in Russia reached US$ 160,363 thousand, US$ 150,370 thousand, US$ 142,885 thousand in 2017, 2016 and 2015 respectively.

** Sales in Germany amounted to US$ 134,964 thousand, US$ 121,261 thousand, and US$ 66,018 thousand in 2017, 2016 and 2015 respectively.

*** Sales in the United States amounted to US$ 149,579 thousand, US$ 132,649 thousand, US$ 111,767 thousand in 2017, 2016 and 2015 respectively.

Since over 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Mexican Peso, Brazilian Real, South African Rand, Peruvian Nuevo Sol), changes in exchange rates have an effect on Frutarom's reported results in US dollar terms.

40.2. Data according to geographic location of main production sites

40.2.1. Following is a breakdown of sales according to geographic location of main production sites (in US$ thousands): 2015-2017

	2015				2016				2017			
	Flavors	Raw Materials	Elimin-ations	Total	Flavors	Raw Materials	Elimin-ations	Total	Flavors	Raw Materials	Elimin-ations	Total
Europe	390,887	49,322	(1,208)	439,000	574,799	47,715	(11,942)	610,572	612,621	45,565	(9,370)	648,816
North America	95,160	37,440	(150)	132,450	109,293	53,563	(106)	162,750	111,242	68,035	(125)	179,152
Israel	42,964	37,029	(1,370)	78,623	40,185	36,231	(1,138)	75,278	40,231	37,955	(1,817)	76,369

* Sales are presented according to Geographic location of the manufacturing site net of sales of products manufactured at other Frutarom sites in other geographic regions.

As mentioned above, the dollar reported figures were affected by significant changes in the exchange rates.

40.2.2. Following is a breakdown of operating margins by division and geographic location of main production sites, 2015 - 2017 ($ 000):

Flavors Division	2017	2016	2015
Divisional operating margin	17.3%	14.9%	17.9%
Europe	24.1%	22.4%	26.5%
North America	24.5%	20.1%	21.9%
Israel	17.6%	18.6%	20.1%

Specialty Fine Ingredients Division	2017	2016	2015
Divisional operating margin	12.2%	9.5%	10.2%
Europe	10.8%	4.3%	11.3%
North America	22.8%	19.3%	6.9%
Israel	32.0%	24.4%	21.7%

Operating margins were impacted by non-recurring expenses relating to measures being taken by Frutarom to optimize its resources, join factories together, attain maximum operational efficiency and relating to the acquisitions.

40.2.3. Total assets (without intercompany balances) by geographic location of main production sites (in US$ thousands), 2015 - 2017 ($ 000):

	2017	2016	2015
Europe	746,035	669,205	483,319
North America	295,691	292,477	243,948
Israel	67,626	66,371	70,761

40.3. For further information on geographic segments see Note 6 to the Financial Statements.

41. Discussion of Risk Factors

Following is an outline of the main risk factors:

Macroeconomic Risk Factors

- **Effect of the global economy on Group activities**

  Due to the nature and type of its global activity, Frutarom is exposed to fluctuations in the global economy. Economic crisis and recession in important target countries could curb demand for the Company's products (mainly premium products) and significantly slow down the development and launch of new products by Frutarom customers. A global financial crisis could impair Frutarom's ability to raise funds for executing its strategic acquisitions.

- **Stability in emerging markets**

  Frutarom operates in a number of countries besides the United States and Western Europe, such as Russia, Ukraine, Turkey, Slovenia, Kazakhstan, China, countries in South and Central America (Brazil, Guatemala, Peru, Chile and Mexico) and countries in northern, southern and western Africa, and is therefore exposed to political, economic and legal developments in these countries which are generally less predictable than in developed countries. The Group's facilities in these countries could be subject to disruption as a result of economic and/or political instability as well as from nationalization and/or expropriation of assets situated there. There is also substantial risk relating restrictions on the Company to collect payment from its customers, distributors, or agents, as well as foreign exchange restrictions which could impede the Company's ability to realize its profits or to sell its assets in these countries. While none of the emerging market countries in which Frutarom operates impose foreign exchange restrictions that affect the Group, such restrictions did exist not long ago and there is no certainty that they will not be reinstated sometime in the future.

- **Currency fluctuations**

  Over 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand, Peruvian Nuevo Sol and Mexican Peso) and changes in exchange rates affect Frutarom's reported results in US dollar terms. However, exposure to currency fluctuations is reduced by the fact that Frutarom's raw materials purchases and operational expenditures in the various countries in which it operates are also paid for in most cases in the various currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms (and not to the profitability of its various activities and/or the group's profitability). Nonetheless, in cases of extreme fluctuations in exchange rates, and since a large part of the raw materials used in the manufacture of Frutarom's products are paid for in US dollars, in Euros, or other currencies, there is no certainty that the Company can completely update its selling prices denominated in local currency (which is different from the currency used in buying the raw material) and maintain its margin. Most non-US dollar monetary balances derive from the local activity of subsidiaries in countries where the functional currency is not the US dollar, and therefore the translation differences on the local currency balances of each company do not affect the Group's financial expenses and are directly attributed to the translation differences equity fund. Monetary balances in other currencies are attributed to financial expenses. Currency exposure is reviewed as necessary from time to time. The Company does not generally undertake external hedging action nor does it use other financial instruments for protection against currency fluctuations. For further information see Note 3(a) of the Company's financial statements.

  For information regarding risks from fluctuations in exchange rates, see the description of Currency Risks in section B of the chapter of the Directors' Report titled "Exposure to and Management of Market Risks", and Note 3(a) to the financial statements.

- **Changes in interest rates**

  For information regarding risks from changes in interest rates, see the description of Interest Rate Risk in section B of the chapter of the Directors' Report titled "Exposure to and Management of Market Risks", and Note 3(a) to the financial statements.

<u>Industry-Related Risk Factors</u>

- **Competition in markets where the Group operates**

  Frutarom faces competition from large multinationals as well as medium-sized, small and local companies in many of the markets in which it operates. Some of the Company's competitors have greater financial and technological resources, larger sales and marketing platforms and more established reputations, and may therefore be better equipped to adapt to changes and industry trends.

The global market for flavors is characterized by close relations between flavor manufacturers and their customers, particularly with regard to large multinationals. Furthermore, large multinational customers, along with medium-sized customers too of late, limit the number of their suppliers and work exclusively with a list of "approved suppliers." To compete more effectively under these conditions, Frutarom must invest more resources in customer relations, in R&D and in matching products to customers' needs in order to provide good and efficient service. Any failure to maintain good relations with its customers, forge strong relations with new customers, or secure the status of "approved supplier" with some of its customers could lead to substantial adverse effects on the Group's business, operating results and financial condition.

The specialty fine ingredients market is more price sensitive than the flavors market and is characterized by relatively lower profit margins. Some fine ingredients products manufactured by the Company are less unique and more replaceable by competitors' products. Production overcapacity for fine ingredients globally could also negatively impact Frutarom's sales and profitability. Although, as part of its strategy, the Company focuses on specialty fine ingredients with higher profit margins, there is no certainty that operating margins will not erode in the future, something which could substantially impact the Group's business, operating results and financial condition.

- **Effect of regulatory changes on the Group**

  Frutarom is subject to a variety of international and domestic health, safety and environmental statutes in the various countries in which it operates. In general there is a trend towards increased regulation in the fields of the Group's activities. This trend stems from, among other things, growing consumer sensitivity concerning the inclusion of flavor additives in food products and the fact that regulators perceive nutraceuticals, medical food and functional food products as having medicinal attributes. In some countries such products may be subjected to the same standards and regulations as applied to drugs or targeted regulation for these categories. In addition regulators in different countries can change regulation applying to infant nutrition of clinical nutrition for the elderly in a way that might affect Frutarom sales in these categories. Frutarom has identified the nutraceutical, functional food, specialty fine ingredients for infant nutrition, especially infant formulas and clinical nutrition for the elderly markets as important to its future growth. The subjecting of these markets to increased regulation could give rise to additional expenses which might have an adverse effect on the Company's business, operating results and financial condition.

- **Compliance with environmental, health and safety regulations**

  Companies like Frutarom that operate in the flavor and fine ingredients industry make use of, manufacture, sell, and distribute substances that are sometimes considered hazardous and are therefore subject to extensive regulation concerning the storage, handling, manufacture, transport, use and disposal of such substances and their components and byproducts. Frutarom's production and R&D activities in the various countries where it operates are subject to various regulations and standards relating to air emissions, sewage treatment and the use, handling and discharge of hazardous material as well as clean-up of existing environmental contamination. Any further tightening of such laws and regulations could have a substantial adverse effect on the Group's business, operating results and financial condition.

In addition to covering its ongoing environmental compliance costs, the Company might also incur nonrecurring charges associated with remedial action needed to be taken at its production sites. As environment-related incidents cannot be foreseen with any certainty, the sums that the Company allocates or will allocate for such matters may turn out to be inadequate. Ongoing and nonrecurring environment-related expenses could both have substantial adverse effects on the Company's business, operating results and financial condition.

Frutarom is required to obtain various environmental permits concerning operations at its various production facilities and to meet the conditions set by these permits. The expansion of existing plants is also subject to securing necessary permits. Such permits might be unilaterally revoked or modified by the issuer, or might be for a limited amount of time. Any cancellation, modification and/or failure to renew or obtain a permit could have a significant adverse effect on the Company's business, operating results and financial condition.

- **Exposure to civil and criminal liability with respect to environmental, health and safety laws and regulations applicable to the Group**

  The laws and regulations concerning the environment, health and safety may involve Frutarom in civil and/or criminal liability for non-compliance or environmental pollution. Environmental, health and safety laws may include criminal sanctions (including substantial penalties) for violating them. Some environmental laws also include provisions imposing complete responsibility for the release of hazardous substances into the environment which could result in Frutarom becoming liable for clean-up efforts without any negligence or fault on its part. Other environmental laws impose liability jointly and severally, something which could expose the Group to responsibility for cleaning up environmental pollution caused by others.

  In addition, some environmental, health and safety laws are applied retroactively and could impose responsibility for acts done in the past even if such acts were carried out in accordance with the relevant legal provisions in force at the time. Criminal or civil liability under such laws may have significant adverse effects on the Company's business, operating results and financial condition.

  Frutarom may also become subjected to claims for personal injury or property damage arising from exposure to hazardous substances. Laws in the major countries where the Group operates permit legal proceedings to be instituted against it if personal injury or environmental contamination was ostensibly caused by activity at its production sites in these countries. Such legal proceedings could also be instituted by private individuals or non-governmental organizations.

- **Fluctuations in prices of raw materials needed for producing the Group's products**

  The price, quality and availability of the main raw materials that Frutarom uses, especially in the field of natural products, are subject to fluctuations arising from global supply and demand. Many raw materials used by the Group are agricultural products whose prices, quality and availability could be affected by, among other things, poor weather conditions. Frutarom does not normally conduct futures transactions in raw materials and is exposed to price fluctuations in the raw materials it uses according to changes in global trends for prices of these raw materials. Monitoring of raw material prices is performed on an ongoing basis by the Executive Vice President Global Supply Chain and Operations and by the Vice President for Global Procurement.

As of the date of this report and during the two months preceding its publication, there has been a certain rise in the prices of a number of principal raw materials that serve the Company. At this stage the Company cannot estimate the scope of this trend, its duration or its effects.

- **Reliance on exclusive raw material suppliers and availability of natural raw materials**

  Frutarom is dependent on third parties for the supply of raw materials needed for manufacturing its products. Although the Group purchases raw materials from a very wide range of suppliers and no individual supplier accounts for more than 3% of its total raw material usage, and even though there is more than one supplier for most of the raw material bought by the Group and they are usually readily available, there is no certainly that this will also continue to be the case in the future. Severe weather conditions may cause a significant shortage for natural raw materials used by the Company. A shortage of these raw materials could impair Frutarom sales for a certain period of time.

- **Damages awarded from possible claims due to product warranty**

  Frutarom is exposed to product liability risk, particularly due to the fact that it supplies flavors to the food and beverage, flavor and fragrance, functional food, pharma/nutraceutical and personal care industries. Should the Company be found responsible in a large claim of this type, its insurance coverage might be inadequate for covering damages and/or legal expenses. A lack of adequate insurance coverage could result in significant adverse effects on the Company's business, operating results and financial condition. Product liability claims brought against the Group could might damage its reputation as well as put heavy demand of the management's time and efforts, and this could have significant adverse effects on the Company's business regardless of the outcome of the claim.

Risk Factors Unique to the Group

- **Frutarom's future ability to pinpoint, acquire and integrate suitable businesses**

  A key element in Frutarom's growth strategy is growth through the acquisition of flavor and specialty fine ingredients manufacturers. In line with this strategy, Frutarom has made many strategic acquisitions of companies and business activities in recent years. There can be no certainty, however, that Frutarom will be able to continue pinpointing suitable acquisitions on satisfactory terms or obtain the financing necessary for continuing with such acquisitions. Any failure to identify and execute future acquisitions could adversely impact the Company's growth strategy.

The integration of acquired activities involves a number of risks, including possible adverse effects on the Group's operating results, loss of customers, consuming senior management's time and attention, and failure to retain key personnel including managers of the acquired activities, along with risks associated with unanticipated events in the integration of the operations, technologies, systems and services of the acquired business. In addition, Frutarom may be unable to capitalize on the anticipated synergies (including those aimed at cost savings) inherent in such acquisitions. Failure in successfully integrating its acquisitions could have adverse effects on the Company's business, operating results and financial condition.

- **The rapid growth characterizing the Group's activity in recent years**

  The rapid growth, as in recent years, in both the Group's activities and its geographical spread requires effective management to ensure that the financial benefits, tapping of synergies and the economies of scale are achieved. An inability to adapt to the rapid growth could result in losses or acquisition costs that will not be recovered as quickly as anticipated, if at all. Such circumstances could have significant adverse effects on the Company's business, its operating results and financial condition.

- **Hiring and retaining key employees**

  The Company's continued future success depends on its ability to attract and retain proficient flavorists (flavor developers), lab technicians and other skilled personnel. The Company operates in a highly specialized market where product quality is of critical importance and having skilled personnel is necessary for ensuring the supply of high quality products. If a number of such employees were to leave at the same time, the Company could encounter difficulties in finding replacements with equivalent experience and abilities, a situation which could impair the Group's R&D capabilities. Furthermore, Frutarom's continued success depends to a large extent on its senior management team. The loss of services from members of senior management or other key employees could have a negative impact on Frutarom's results and its ability to implement its strategy. A failure to recruit and retain skilled personnel or members of senior management could have a significant adverse effect on the Company's business, operating results and financial condition.

- **Protection of intellectual property**

  The Group's business relies on intellectual property, mainly consisting of formulas used to create its flavors. Frutarom does not register these formulas but they are kept highly confidential and considered trade secrets and, as such, are accessible to just a very limited circle of people within the Group. Although Frutarom believes it is not significantly reliant on any individual intellectual property right, proprietary formula, patent or license, a breach of confidentiality with respect to the formulas or loss of access to them and/or the future expiration of intellectual property rights could have a significant adverse impact on the Group's business, operating results and financial condition.

  Frutarom relies, in part, on confidentiality agreements, ownership of intellectual property, and non-competition agreements with employees, vendors and third parties in order to protect its intellectual property. It is possible that these agreements will be breached and that Frutarom may lack an adequate remedy for any such breach. Disputes may arise concerning the ownership of intellectual property or the extent to which the confidentiality agreements remain in force. Furthermore, the Company's trade secrets may become revealed to its competitors or developed independently by them, in which case the Company will not be able to enjoy exclusive use of some of its formulas or maintain confidentiality concerning its products.

Following is a table outlining the various risk factors and the Company's evaluation concerning their possible effect:

Risk Factor	Risk factor's level of impact on the Company		
	High	Medium	Low
Macroeconomic Factors			
Effect of the global economy		✓	
Stability in emerging markets		✓	
Currency fluctuations		✓	
Changes in interest rates		✓	
Industry Related Factors			
Competition in the markets		✓	
Regulatory changes		✓	
Compliance with regulations		✓	
Exposure to litigation		✓	
Fluctuations in raw materials prices		✓	
Reliance on exclusive suppliers and availability of natural raw materials		✓	
Awards for damages without adequate insurance coverage		✓	
Factors Unique to the Group			
Pinpointing future acquisitions		✓	
Adapting to rapid growth		✓	
Hiring and retaining key employees		✓	
Protection of intellectual property		✓	

42. ***<u>Details about Valuations</u>***

42.1. Following are details about the valuation of the Flavors Activity in the United States in accordance with Accounting Standard IAS36 and the provisions of Regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Valuation subject	Cash Generating Unit - Flavors activity in the United States
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	January 2018
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	As of December 31, 2017. Valuation was conducted in February and March 2018.
Value of CGU prior to valuation date	US$449,671 thousand
Value of CGU according to valuation	US$ 817,923 thousand
Identification of evaluator and its characterization	Ziv Haft Consulting and Management was established by partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO network and provides consulting and management services in a wide variety of areas for companies operating in different areas. The company has rich experience in the following areas: valuations, due diligence – financial and accounting) valuation of goodwill and intellectual assets, performance of financial analysis, current analysis of Israeli public hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers. The valuator has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 10.4% • Long term growth rate: 3% • Sensitivity to growth: 2% to 4% • Discount rate sensitivity: 9.4%-11.4% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	A previous valuation of the activity valid to December 31, 2016 was conducted by Ziv Haft Consultants and Management Ltd., signed on March 22, 2017. Value of activity according to the above valuation was $449,671 thousand.

42.2. Following are details about the valuation of the EMEA Flavors activity in accordance with Accounting Standard IAS36 and the provisions of Regulation 8b to the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Valuation subject	Cash Generating Unit - flavors activity in EMEA
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	January 2018
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	As of December 31, 2017. Valuation was conducted in February and March 2018.
Value of CGU prior to valuation date	€2,686,012 thousand
Value of CGU according to valuation	€3,676,741 thousand
Identification of evaluator and its characterization	Ziv Haft Consulting and Management was established by partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO network and provides consulting and management services in a wide variety of areas for companies operating in different areas. The company has rich experience in the following areas: valuations, due diligence – financial and accounting) valuation of goodwill and intellectual assets, performance of financial analysis, current analysis of Israeli public hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers. The valuator is has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 7.8% • Long term growth rate: 2.5% • Sensitivity to growth: 1.5% to 3.5% • Discount rate sensitivity: 6.8% - 8.8% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	A previous valuation of the activity valid to December 31, 2016 was conducted by Ziv Haft Consultants and Management Ltd., signed on March 22, 2017. Value of activity according to the above valuation was €2,686,012 thousand. .

42.3. Following are details about the valuation of the Fine Ingredients division in accordance with Accounting Standard IAS36 and the provisions of Regulation

8b to the Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Valuation subject	Cash Generating Unit - the Fine ingredients division
Valuator	BDO Ziv Haft Consultants and Management Ltd.
Valuation requester	Frutarom Industries Ltd., by Mr. Guy Gill, VP Finance
Engagement date	January 2018
Approval to attach to reports	The valuator gave written approval to attach the valuation to the Company's reports
Valuation timing	As of December 31, 2017. Valuation was conducted in February and March 2018.
Value of CGU prior to valuation date	US$ 530,709 thousand
Value of CGU according to valuation	US$ 1,129,891 thousand
Identification of evaluator and its characterization	Ziv Haft Consulting and Management was established by partners in the BDO Ziv Haft Accounting firm. Ziv Haft Consulting and Management is part of the global BDO network and provides consulting and management services in a wide variety of areas for companies operating in different areas. The company has rich experience in the following areas: valuations, due diligence – financial and accounting) valuation of goodwill and intellectual assets, performance of financial analysis, current analysis of Israeli public hi-tech and communications companies, business plans, planning of presentations for potential investors, financial management and analysis of BOT and PFI projects, receivership, liquidation and appointment as special administrator, handling companies in crisis, formulating recovery plans, management of business and companies, supporting mergers and splits, transaction planning and more. Evaluator: Moti Dattelkramer Evaluator's education • BA in Economics and Computer Science, Bar-Ilan University • MBA, Bar-Ilan University Experience and expertise: • Performance of financial assessments and valuations, including valuations for accounting needs of reporting corporations and in similar scopes to those of the reported assessment or greater; • PPA, business planning, due diligence, impairment examination, evaluation of financial instruments and more for government and private bodies; • Support in IPOs and consultation in mergers. The valuator is has no dependence on Frutarom and there are no indemnification agreements with the valuator.
Valuation Model	• DCF (discounted cash flow).
Valuation Assumptions	• Discount rate before taxes: 7.9% • Long term growth rate: 2.5% • Sensitivity to growth: 1.5% to 3.5% • Discount rate sensitivity: 6.9%-8.9% Data used as a basis for comparison: the activity's results in recent years and its forecast.
Prior Valuation	A previous valuation of the activity valid to December 31, 2016 was conducted by Ziv Haft Consultants and Management Ltd., signed on March 22, 2017. Value of activity according to the above valuation was US$ 530,709 thousand.

Section B

Director's Report

FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S STATE OF AFFAIRS
FOR THE PERIOD ENDING DECEMBER 31, 2017

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

In this report the following terms will bear the meaning applying to them in Chapter 'A' ("Description of the Company's Business") unless explicitly stated otherwise.

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933. Frutarom became a public company in 1996 upon registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were also listed on the London Stock Exchange Official List. The Company, itself and through its subsidiaries ("**Frutarom**" or the **"Group"**) develops, produces and markets flavors and fine ingredients used in the manufacturing of food, beverages, flavors and fragrances, pharma/nutraceuticals, cosmetics and personal care products. As of the date of the publication of the report Frutarom operated 74 production sites, 93 research and development laboratories, and 111 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and it marketed and sold over 70,000 products to more than 30,000 customers in more than 150 countries and employed approx. 5,400 people throughout the world.

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

- **Flavors Activity** – Frutarom develops, produces, markets and sells sweet and savory flavor solutions, including flavor and other solutions, which in addition to flavors also contain fruit or vegetable ingredients and other natural ingredients (Food Systems) used mainly in the manufacture of foods, beverages and other consumer products. Frutarom develops thousands of different flavors for its customers, most of which are tailor-made for specific customers. It also develops new products to meet changing consumer preferences. In accordance with Company strategy, Frutarom's flavor activity has grown rapidly and profitably by combining organic growth and acquisitions, accounting in 2017 for approx. 81% of the Company's total core business and 75% of its overall sales (as opposed to 33% of overall sales in 2000).

  This accelerated growth is an outcome of the Company's focus 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, while emphasizing customized service including the provision of comprehensive solutions and technological and marketing support, assistance in the development of products and the offer of high level tailor-made services and products, as are normally provided to large multinational companies. Accelerated growth is also the result of Frutarom's strategic acquisitions, which have been, and continue to be 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 biotech products including algae-based products, natural colors for food, natural antioxidants used to provide solutions for food protection, natural cosmetics products, specialty fine ingredients for infant nutrition and for clinical elderly nutrition, essential oils, specialty citrus products and aromatic chemicals. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharma/nutraceutical, infant nutrition, cosmetics and personal care industries.

  Frutarom focuses its Specialty Fine Ingredients activity on developing a portfolio of high value-added products which give it an edge over its competitors. Most of the specialty fine ingredients in the fields of taste and health are natural products with a higher rate of growth in demand than non-natural products. In recent years, Frutarom has been focusing on continuing to expand its portfolio of natural products offered to customers, with a particular emphasis on the field of natural, healthy and functional foods. Specialty Fine Ingredients activity accounted for 19% of the core activity in 2017 and 18% of its overall sales.

- **Trade & Marketing** – In addition to its core businesses, Frutarom also imports and markets various raw materials that it does not manufacture; it is a part of its 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, solutions and greater added value to its customers – mainly those in the mid-sized and domestic categories in emerging markets – and strengthen its partnerships with them. This activity, which greatly expanded following the acquisitions of Etol in 2012, PTI in 2013, Montana Food in 2014 and Piasa at the end of 2016 (as described below), centers mainly on Central and Eastern Europe, Latin America and Israel. Sales from this activity accounted for 7% of Frutarom's total turnover in 2017.

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 making additional strategic acquisitions and leveraging the many resulting synergies. In the framework of this strategy, in recent years Frutarom has focused 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, one of its most profitable activities, achieving a growth rate higher than the growth rate in the markets in which it operates. As part of the expansion of its Flavors activity, about 10 years ago Frutarom embarked on a strategic campaign to gain market leadership in the field of savory taste solutions as well, a growing field 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 achieved also 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 2017 sales in the field of Flavors constituted approx. 75% of total Frutarom sales (compared to approx. 33% of total sales in 2000). The Company expects this internal growth trend of its Flavors activity to continue by, among other things, the addition of products and the offering to the Company's customers of comprehensive solutions combining 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 the rapid shift by food and beverage companies towards the use of natural flavors, ingredients and colors, with a particular focus on functional foods and on reduced fat, sodium and sugar products, as well as clean-label products, viewed as having healthier and more nourishing and environmentally friendly qualities. This shift, that has also been due to evolving regulatory standards in many countries throughout the world, that limit the use of certain materials and lead to improved nutritional properties in foods and beverages, resulting 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 the demand that products remain tasty despite having less sugar and salt 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 should also be healthy and tasty. This trend is supported by the increase in 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 consumers demand 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 has 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 an 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 their products' shelf life (important qualities for processed food manufacturers in the production of convenience food) by adding innovative, natural ingredients, which, in many cases, replace chemicals and substances considered less healthy. Most of these new products carry higher margins and therefore contribute both to sales growth and also towards improving the product mix and profitability.

- **Focus on Natural Products and Establishing 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, collaborations with universities, research institutes and startups, and acquisitions. In addition, Frutarom is expanding its fields of activities into additional growing profitable areas such as natural fine ingredients for the cosmetics industry and specialty fine ingredients for infant nutrition and for elderly clinical nutrition. Currently, over 75% of Frutarom sales are of natural products and it intends to continue and increase the share of its natural ingredients activities, which have higher growth rates.

  As part of the strategy of focusing on natural products with health-promoting attributes, IBR was acquired in 2018, Enzymotec and the activity of AB Fortis were acquired in 2017, and Grow, Nardi and Extrakt-Chemie in 2016, and Nutrafur and Vitiva in 2015 (for further information on these acquisitions, see below and sections 1.8.10 and 1.8.11 in Chapter A of the Annual Report).

  Frutarom further expanded its activity in natural products in recent years by also entering the field of natural colors for food (by acquiring Montana Food, Vitiva, and Ingrenat) and is making substantial investments in the establishment of an applications and formulations center for colors in its plant in Slovenia. This center is expected to serve Frutarom's thousands of food and beverage customers all over Europe and the region. The center is scheduled to start operating in the second half of 2018.

  Frutarom is also taking action towards significantly increasing its activity in the area of natural antioxidants that provide Natural Solutions for Food Protection (through the acquisition of Vitiva, Ingrenat and Nutrafur; see section 1.8.10 in Chapter A of the Annual Report).

  Moreover, 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, see section 1.8.10 in Chapter A of the Annual Report). Frutarom also increased its activity in the field of innovative natural solutions for incorporating fruit components into food products (by acquiring Taura and Inventive, see section 1.8.10 in Chapter A of the Annual Report).

Frutarom has identified that one of its customers' greatest challenges in the transition to natural ingredients, in the fields of flavor, colors, natural preservatives, health, and cosmetics is their limited availability and substantially higher costs, in comparison to synthetic products. Therefore, it initiated a strategic plan to significantly increase the availability and outputs of natural raw materials alongside a substantial increase in the unique production capacity for natural herbal extracts. The acquisitions of Vitiva, Ingranat, Nutrafur, Extract Chemie, Nardi and René Laurent (which has an extraction facility in Morocco), and IBR (see sections 1.8.10 and 1.8.11 in Chapter A of the Annual Report), enabled a significant increase in Frutarom's natural extracts production capacity, the creation of specialization centers in different technologies for herbal extracts and optimizing the manufacturing between the different facilities, according to the their specializations in the different extraction technologies and a significant increase in their operational efficiency.

In addition, Frutarom is taking action to guarantee the supply of unique raw ingredients by developing long term collaborations with farmers across the globe. As part of this agricultural collaboration, Frutarom supplies the farmers with unique patented plant species developed in collaboration with agricultural research institutions and cultivation companies from all over the world - for developing plant species, with a higher content of the active materials responsible for flavor and color attributes, natural preservatives, skin protection and improved appearance and health values. Frutarom also provides them with agricultural know-how and guidance. These collaborations ensure a regular ongoing supply of important natural raw materials, at prices beneath the market, with a concentration of active ingredients which is higher than the level found in nature. As part of this endeavor, which started over a year ago and is rapidly expanding, collaborations of this nature are taking place in Peru, Brazil, Guatemala, Spain, Poland, Israel, Morocco, South Africa, etc. with the intention that within several years, approximately 50% of the raw material consumption for Frutarom’s main natural extracts will be from self-cultivation.

Frutarom seeks to establish global market leadership in the growing area of natural plant extracts, while further improving the activity's profitability and carrying out additional strategic acquisitions in this field.

- **Developing Global Activity in the field of Fragrances** – Frutarom has initiated a strategic plan for developing global activity in the field of fragrance with an emphasis on emerging markets with high growth rates. As part of this plan Frutarom acquired Meroar in 2018, and in 2017 Turpaz and Pollena Aroma which have joined Frutarom's smaller existing businesses in the field of fragrances, especially in India, Africa and Latin America (see section 1.8.11 in Chapter A of the Annual Report). The fragrances category is synergistic with, and complementary to, the Flavors category, inter alia, in terms of raw materials and production processes, and many players in Frutarom's field of activities conduct parallel activities of flavor and fragrance. The global market for fragrances, was estimated in 2016 to be worth approx. US$13.2 B with an estimate that the sales in the flavor and fragrance markets will grow at an annual rate of 3% between 2015 and 2020[1]. According to these estimates, the growth rates in emerging markets, such as Asia, central and South America, Eastern Europe and Africa, is expected to be even higher, as a result of changes in consumer preferences in these markets and a rise in the standard of living and available income, and might reach an average annual rates of 5.1% between 2015 and 2020. Fragrances are sold to customers in the perfume, cosmetics, personal care, household cleaning agents, detergents, air fresheners, scented candles industries and more. Fragrances, just like Flavors, are tailor made blends, developed according to the customer's requirements, while establishing long term relationships between manufactures and customers, with great importance placed on innovation, vendors' reliability, quality of service and their acquaintance with the needs of the customers for whom the unique fragrances were developed. Frutarom intends to further develop this important area, including establishing a pipeline of acquisitions of additional activities in the field of fragrances that 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) that have higher growth rates, through accelerated internal growth and 21 acquisitions executed in North America and emerging markets in the past 5 years. As a result, while Frutarom sales grew by a factor of 3 since 2010, sales at the same time in emerging markets grew by a factor of 4.8 such that sales in emerging markets made up approx. 43% of Frutarom sales in 2017 compared with approx. 27% in 2010 During this time frame, sales in North America grew by a factor of 4.6, with the Flavors activity in North America notably increasing by a factor of 10.7 in the past 7 years. In 2017 sales in North America were 14% of Frutarom total sales, in comparison to approx. 9% in 2010.

  The rapid growth of activity outside of Western Europe has led to sales in Western Europe (which have grown by 116% since 2010) constituting approx. 36% of Frutarom's total sales in 2017, compared with approx. 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 taking action to fully merge and connect the activity of Unique, acquired at the beginning of 2017, with its activity in Africa.

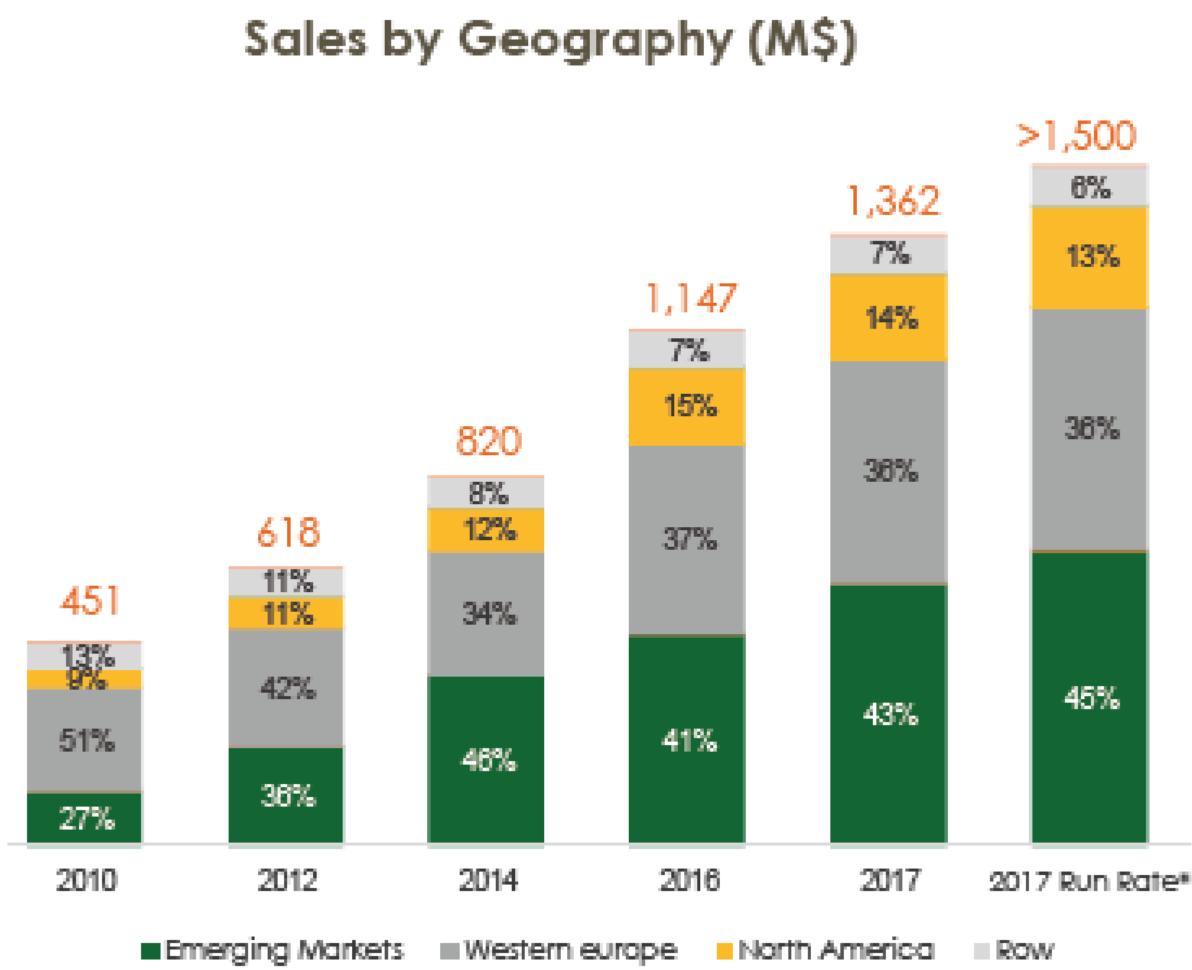
  As part of the growth strategy in East Asia, in 2016 Frutarom built a new state-of-the-art plant for flavors in China which features sophisticated laboratories for research, development and applications, and also provides Frutarom the ability, it previously lacked, to develop and produce savory flavors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

[1] IAL Consultants, Dec 2016

In 2018, an advanced Flavors plant will be built in Ho Chi Minh, Vietnam, in order to support the projected accelerated growth in activities in Vietnam and the markets of East Asia.

Frutarom continues to develop and expand its activity in the growing emerging markets and in North America through, inter alia, 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 continue to develop and expand its activities in the markets of Western Europe by leveraging its broad product portfolio, continuing to exploit the various inherent cross selling opportunities and additional strategic acquisitions.

Progression of Sales Distribution by Geographic Region



* Assuming the acquisitions performed in 2017 (including Enzymotec, Bremil and Mighty) were consolidated into the reports from January 1, 2017.

- **Focus on Providing Quality Service and Product Development to Large Multinational Customers and Medium sized Local Customers** – 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 customer segment of the market, which makes up the greater part (about 60%)[2] of the food manufacturers market and includes the private label manufacturers, Frutarom offers the same high level of service as generally provided to large multi-national customers, with products and solutions tailored to the customer's specific requirements. Frutarom also offers mid-size and local customers as well as its private label customers, who are usually with resources more limited than those of large and multinational customers, assistance in the development of their products, while providing marketing support, flexibility on minimum order quantities and delivery dates, and serves as a comprehensive solutions provider for flavors, natural colors, natural preservatives and health ingredients.

- **Mergers and Acquisitions and their Contribution towards Achieving Profitable Growth** – Frutarom has extensive experience with successful execution of mergers and acquisitions, 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 47 strategic acquisitions[3], 32 of them since the beginning of 2015, 8 acquisitions in 2016, 12 in 2017 and 2 in 2018, which are being, and will be, integrated with its global operations, and contribute, and will continue to contribute, to the ongoing growth in sales and improvement in profits and margins through maximal utilization of the synergies they bring.

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

  Frutarom is working on successfully integrating its acquisitions and fully tapping the strong potential they bring. The integration of these acquisitions is proceeding successfully and according to plan. The managements of the acquired activities,

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

3 Including the acquisition of Meroar, with which Frutarom signed a purchasing agreement on March 13, 2018 (see section 1.8.11 (q) in Chapter A of the periodic report), and as of the date of the publication of this report, Frutarom has not completed the acquisition.

together with Frutarom's regional and local management in each geographic area or relevant business activity, assume a leading role in the merger processes. In addition, Frutarom has developed advanced dedicated IT 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 expects much synergetic potential in the acquisitions it has carried out and is working to realize and fully utilize them, for accelerating growth through the fullest possible tapping of cross-selling opportunities and the many marketing and technological synergies contributed by these acquisitions, as well as for attaining the significant operational savings, some of which are already being reflected, and some which will be reflected in its results in upcoming quarters.[4]

Following are brief summaries of the acquisitions performed since the beginning of 2017 until publication of this report. The USD sales figures shown below for each of the purchased activities relate to the average USD exchange rate for the reported period, and the purchase price relates to the USD exchange rate on the date of acquisition.

Acquisitions made in 2017:

- **Purchase of the balance of holdings in PTI by way of exercising an option**

  Further to the purchase in November 2013 of 75% of the share capital of Vantodio Holdings Limited ("**Vantodio**"), owner of the Russian group Protein Technologies Ingredients ("**PTI**"), on February 1, 2017 the option granted under the original purchase agreement for the purchase of the remaining 25% of Vantodio's share capital (hereinafter: "**the Option**") was exercised. Under its terms, the Option was exercisable starting from the end of the third year from the date of completion of the transaction at a multiple of between 6 and 7 of the average EBITDA attained during the three years prior to the exercise date plus other performance indicators. Following the substantial improvement in the activity's results and the capitalization of the cross selling synergies between the activities, the Option was exercised in exchange for the overall sum of approx. US$ 40 million which was financed through bank credit. As of the date of the exercise of the Option, the Company owns (indirectly) all of Vantodio's issued and paid-up capital. It should be noted that the acquisition of approx. 75% of Vantodio's share capital, as mentioned above, was in exchange for a cash

[4] The assessments stated in this section above, including on the synergetic potential of the acquisitions and attaining significant operational savings and the ancillary savings constitute forward-looking statements as defined in the Securities Law, resting upon estimates by Company management, as of the date of this report, based on the potential synergies between the Company's activities and the acquired activities. Such assessments could fail to materialize, in full or in part, or materialize in a different manner, including materially different, than expected, as a result of unexpected developments that are not necessarily under the Company's control in the merging of activity connected with the human resources, R&D, salesforce, operations (including closure of manufacturing facilities and/or transfer of production between different facilities), logistics, technology, procurement, systems and the services of the merged activities and/or resulting from the realization of any of the risk factors as outlined in section 42 of Chapter A of the periodic report. In addition, Frutarom could fail to capitalize on the expected synergies (including those whose purpose is cost savings) that are inherent in the acquisitions.

payment of US$ 50.3 million (which at that time reflected a company value of US$ 67 million).

Founded in 1996, PTI engages 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, with special emphasis on processed meats and convenience foods. PTI also engages in trading and marketing activity under which, as part of its service and providing of overall solutions to its customers, it supplies ingredients that it does not itself manufacture. PTI has two production sites near Moscow and an R&D and marketing center in Moscow, which includes development and applications labs, and about 20 distribution centers throughout Russia and other countries in the area. PTI employs approx. 520 people.

Following the acquisition, Frutarom became the leading manufacturer of unique savory solutions in Russia and the countries of the region, with one of the largest and 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 allowed it to increase its market share with maximal capitalization on the Russian trend to switch to locally made products and purchase local raw materials as much as possible. 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 its 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, improving service and delivery times to customers, along with the achievement of operational savings. As a result, in the three years that have passed since the acquisition, PTI has exhibited impressive profitable growth in its core businesses, along with a substantial improvement in its profit margins. The managing partner of the activity who has led it with great success is continuing in his role.

For further information on the exercise of the Option on PTI, see Note 5a(1) to the financial statements.

- **<u>Acquisition of Unique</u>** – On February 8, 2017, Frutarom purchased 100% of the shares in the South African company Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited (collectively: **"Unique"**) in exchange for approx. US$ 6.4 million (ZAR 90 million). The purchase agreement includes a mechanism for future consideration contingent on Unique's future business performance, and in view of its good performance, on February 28, 2018, Frutarom paid US$ 493 thousand (ZAR 6.1 million).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, such as Ghana, Malawi, Zimbabwe and Mozambique. Unique has a workforce of 64 people.

Unique's activity is synergetic to Frutarom's flavors activity in Africa which has grown in recent years at a rapid pace, and Frutarom is working towards merging the activities while exploiting the synergies, accelerating the growth with the support of its ability to expand the supply of its products and realize cross-selling opportunities, both by expanding the customer base and by expanding the product portfolio, while achieving operational savings. The merger is progressing successfully and according to plan.

Unique's sales volume in the 12 months ending January 31, 2017 amounted to approx. US$ 9 million (approx. ZAR 131 million) and it's been continuing to achieve a double-digit growth ever since

For further information on the acquisition of Unique, see Note 5b to the financial statements.

- **<u>Acquisition of René Laurent</u>** – On April 3, 2017 Frutarom purchased 100% of the share capital of the French company René Laurent ("**René Laurent**") in exchange for approx. US$ 21 million (Euro 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, as well as 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 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 René Laurent's activity with its own while leveraging the synergies and accelerating growth with the support of its ability to expand its supply of products and realize the cross selling opportunities by expanding its customer base and product portfolio.

  Rene Laurent sales volume in the 12 month period ended March 2017 is estimated at approx. US$ 13.2 million (approx. Euro 12 million).

  For further information on the acquisition of René Laurent's, see Note 5c to the financial statements.

- **<u>Acquisition of Control in WFF</u>** – on April 5, 2017, Frutarom signed an agreement for the purchase of 60% of the share capital of Vietnamese company Western Flavors Fragrances Production Joint Stock Company ("WFF") in exchange for approx. US$ 1.1 million (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. The acquisition was completed on September 7, 2017 and funded from independent sources. 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, which has a research, development and applications laboratory, production site and local sales and marketing platform. Frutarom has purchased land and is working towards building a modern new flavors plant in Ho Chi Minh City. The construction work will be completed in 2018, and it will enable Frutarom to significantly expand its activity in the Vietnamese market and in the growing countries of the region.

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

For further information on the acquisition of WFF, see Note 5d to the financial statements.

- **<u>Completion of acquisition of 100% of the shares in Nutrafur</u>** - On June 12, 2017, Frutarom completed the purchase of 20.92% of the share capital in the Spanish company Nutrafur S.A. ("Nutrafur") for approx. US$ 2.4 million (approx. Euro 2.1 million) thereby completing the acquisition of 100% of Nutrafur's shares further to its purchase of approx. 79% of Nutrafur's share capital on September 3, 2015, as detailed in section 1.8.10 of Chapter A of the periodic report.

  For further information on the acquisition of Nutrafur, see Note 5a(2) to the financial statements.

- **<u>Acquisition of Control in SDFLC</u>** - On June 22, 2017, Frutarom purchased 80% of the share capital of the Brazilian company SDFLC Brasil Indústria E Comércio Ltda. ("SDFLC"), in exchange for approx. US$ 29.5 million (approx. BRL 98 million), plus future consideration based on SDFLC's future business performance. The agreement includes an option for the purchase of the balance of shares of SDFLC's 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 this period. The transaction was financed through 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 a longstanding Italian tradition and technological specialization. SDFLC provides its customers support in product R&D, which rely on a full and high quality portfolio of solutions for ice creams and desserts based on natural ingredients and which includes: diverse flavors solutions, texture solutions, coatings and glazing, as well as a unique range 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 and texture solutions for ice creams, adapted to consumer demand and Brazilian tastes. The managers and founders of the SDFLC group continue to serve in their positions alongside their being shareholders in SDFLC.

SDFLC is currently in the process of building a new production site that will include state-of-the-art R&D laboratories and an advanced automatic production platform, in which it will be able to double its production output without any additional workforce. Construction of the new site will be completed in 2018 at an investment of approximately US$ 6 million.

SDFLC sales during the 12 month period ending May 2017 totaled approx. US$ 22 million (approx. BRL 72 million), and it's been continuing to achieve a double-digit growth ever since.

For further information on the acquisition of SDFLC, see Note 5e to the financial statements.

- **<u>The Exercise of the Option to Acquire the Balance of Shares in BSA</u>** – On July 5, 2017, Frutarom purchased the remaining 5% balance of share capital of Les Ingredients Alimentaires BSA Inc. ("**BSA**") of Canada for approx. US$ 2 million (approx. CAD 2.75 million), thus completing its acquisition of 100% of BSA's share capital, further to the purchase of 95% of BSA's share capital in May 15, 2015, as detailed in section 1.8.10 to chapter A of the Periodic Report .

  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 a particular focus on the areas of processed meats and convenience foods. BSA has a large and efficient production site in Montreal and approx. 150 employees. The acquisition of BSA has greatly strengthened Frutarom's position in the field of savory in North America.

  For further information on the acquisition of BSA, see Note 5a(3) to the financial statements.

- **<u>Acquisition of F&E</u>** – On August 14, 2017, Frutarom purchased 100% of the shares capital of UK company Flavours and Essences (UK) Ltd. ("**F&E**") for approx. US$ 20.3 million (£ 15.6 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 approx. 41 people, and has a broad customer base in Europe, particularly in the UK and Ireland. F&E's activity is synergetic with Frutarom's activity in the field of flavors, activity which has grown in recent years by rates considerably higher than the market growth rate, as well as with Frutarom's developing activity in the field of natural food colors.

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

  According to the management reports of F&E, which recorded an annual growth rate of over 20% in the past 5 years, its sales turnover for the 12 months ending July 2017 totaled approx. US$ 17.4 million (approx. £ 13.7 million) and it continues to show double digit growth.

  For further information on the acquisition of F&E, see Note 5f to the financial statements.

- **<u>Acquisition of Muhlehof</u>** – On August 21, 2017 Frutarom purchased 100% of the share capital of the Swiss company Muhlehof Gewurz AG ("**Muhlehof**") for approx. US$ 7 million (CHF 6.7 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 that are tailor-made for its customers and Swiss tastes that is based on considerable know-how and experience, and a broad customer base which includes leading Swiss retail chains. Joining together Muhlehof's and Frutarom's diverse customers creates a large number and variety of cross-selling opportunities.

Muhlehof's activity is synergetic with Frutarom's activity in Europe in the field of savory, which has grown significantly in recent years, particularly with its activity in Switzerland. The acquisition of Mühlehof will strengthen Frutarom's market leadership in Switzerland, allowing it to continue expanding and deepening its activity and market share in the country and to generate and exploit synergies in the areas of R&D, sales, operations, purchasing and logistics and attaining significant savings from the merger.

According to Muhlehof management reports, its sales turnover for the 12 months ending June 2017 totaled approx. US$ 3.4 million (CHF 3.35 million).

For further information on the acquisition of Muhlehof, see Note 5g to the financial statements.

- **<u>Acquisition of Control in Turpaz</u>** – On September 6, 2017, Frutarom purchased 51% of the share capital of Turpaz Perfume and Flavor Extracts Ltd.("**Turpaz**") and BKF Perfume Compounding Ltd. (a company owning 80% of the share capital of Turpaz, "**BKF**") in exchange for approx. US$ 11.5 M (NIS 41.5 M). 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 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. Frutarom intends to carry out additional acquisitions in the fragrances field.

  Turpaz engages mainly in the development, production and marketing of fragrances. 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, in the state of New Jersey and it also has an R&D site in the south of France. 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, as it also improved its profit margins.

  According to Turpaz's management reports, its sales turnover for the 12 months ending in June 2017 totaled approx. US$ 6.2 million (approx. NIS 23.3 million) and it exhibited higher profit margins than those of Frutarom's Flavors division, which it was integrated with.

  For further information on the acquisition of Turpaz, see Note 5h to the financial statements.

- **<u>Acquisition of Control in Mighty</u>** – On October 18, 2017 Frutarom signed an agreement for the purchase of 60% of the shares of the Thai company The Mighty CO. LTD. (including the activity of Maharaj Food Co. Ltd. and Mighty International Co. Ltd., (collectively: "**Mighty**") for approx. US$ 12 million (approx. THB 393 million) and a future consideration based on Mighty's performance, all based on a valuation of approx. US$ 20 million (THB 655 million) (not including debt).

In the framework of the transaction, on February 1, 2018, Frutarom initially acquired 49% of Mighty's share capital and at the second stage, subject to a number of conditions precedent and regulatory approvals in Thailand, will raise its holdings to 60%. 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 in which the second part transaction is completed, at a price based on Mighty's future business performance. Frutarom estimates that raising its holdings to 60% will be completed within a few months. The acquisition was financed through bank debt.

Mighty, which was founded in 1989, engages in the development, production and marketing of flavors, including savory taste solutions. The company has a leading position in Thailand's flavors market where there are very few producers of taste solutions, and is among the most innovative flavors companies in Southeast Asia based on 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 an emphasis on the field of convenience foods, snacks, noodles, fish, meat, baked goods, beverages and dairy, and it has a portfolio of unique products and solutions adapted to Asian tastes based on the vast knowledge and experience of its managers. Mighty's activity also includes unique solutions for producing raw materials for 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 Mighty's activity consists of manufacturing 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 months ended August 2017 totaled approx. US$ 15 million (approx. THB 500 million) after having registered average annual growth of 12% over the past 4 years.

For further information on the acquisition of Mighty, see Note 23c to the financial statements.

- **<u>Acquisition of Enzymotec</u>** – Following Frutarom's investment in approx. 18.75% of the share capital of Enzymotec Ltd., a public Israeli company whose shares were traded on NASDAQ (under the symbol ENZY) ("**Enzymotec**") for a total of approx. 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 and with subsidiary of the Acquiring Company (the "**Merger Sub**").

In the framework of merger transaction, and after the balance sheet date, the remaining balance (approx. 81%) of Enzymotec shares were purchased in return for a cash payment of US$ 11.9 per share, by a way of a full merger of the Merger Sub into Enzymotec such that Enzymotec becoming an indirectly fully- owned subsidiary of Frutarom and being delisted from trading on NASDAQ. On January 17, 2018 Frutarom sold Enzymotec's krill oil business, which is not a core activity of Frutarom, to Aker BioMarine of Norway for approx. US$ 26.4 million. The overall net consideration (offsetting the cash, cash equivalents, deposits and tradeable securities in Enzymotec's treasury and net of the krill transaction consideration) that was paid by Frutarom for 100% of Enzymotec's shares, stands at approx. US$ 184 million (including cost of vested options, RSU's and estimated transaction expenses). The merger transaction was completed on January 11, 2018 and financed through debt from banking corporations.

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 (organic compounds which includes fat) that are an important nutritional element, supporting various biological functions. Enzymotec's proprietary technology enables 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 an innovative toolset that allows it to efficiently transform lipids from natural raw materials into those that have unique structural and functional characteristics, essential to the human body.

Enzymotec has two main segments: the nutrition segment and the VAYA Pharma segment. The nutrition activity includes the production of the company's leading product - InFat, used as a supplement in baby formulas. InFat is produced through modifying the molecular structure of fatty acids found in vegetable oils, so that they closely mimic the composition, structure and nutritional value found in human breast milk and are beneficial for proper infant health, development and comfort. This product is supported by clinical and preclinical studies demonstrating its positive effects on bone strength, reduced crying, infant stool, building up the immune system, etc. It is currently sold to some of the world's leading companies in the infant nutrition industry through a joint venture between Enzymotec and AAK, a leading Swedish manufacturer and processor of vegetable oils and fats with extensive global activity. In the field of infant nutrition (InFat), 2018 has begun on a positive note with the support of new regulatory guidelines taking effect in China which provide an advantage to international manufacturers and to leading local manufacturers of infant formula, many of whom are important customers for this activity.

Another activity in the nutritional segment is the PS activity - a line of nutritional ingredient products with Phosphatidylserine, which plays an important part in

cell membrane activity and as a building block for human brain cells. These products, supported by clinical studies, were shown to improve cognitive functions, mood and skin health.
The activity of Enzymotec's nutrition segment is highly synergetic with Frutarom's Specialty Natural Fine Ingredients activity it was united with.

Frutarom is focusing Enzymotec's activity on growing and profitable areas which Frutarom views as its main core activities, with emphasis on the fields of infant nutrition, elderly clinical nutrition, dietary supplements and pharmaceuticals, and will work towards accelerating growth in these fields which have significant business potential. As part of these measures, on January 17, 2018, as previously mentioned, Frutarom sold Enzymotec's krill oil business, which is not a core activity of Frutarom, to Aker BioMarine of Norway.
According to reports by Enzymotec, sales for the nutrition segment for the 12 month period ended on September 2017 totaled approx. US$ 37.0 million with an adjusted EBITDA of approx. US$ 16.1 million.

VAYA Pharma represents Enzymotec's second segment, through this segment Enzymotec develops, manufactures and sells medical foods for the dietary management of certain medical conditions or diseases in the areas of adult early memory impairment, attention deficit hyperactive disorder (ADHD) in children, and a product for the treatment of hypertriglyceridemia (excess triglycerides in the bloodstream associated with increased risk of heart disease). Supported by clinical studies, the products are marketed in the United States, Singapore, Turkey and Israel. This segment first recorded revenues in 2011 and has grown since then, but it still generates losses for Enzymotec.
Since the transaction was completed, Frutarom has been taking action to attain substantial savings, and to add Frutarom's unique products to VAYA Pharma's sales organization in the U.S. in order to accelerate growth and make the activity profitable. Yet, at the same time, Frutarom continues to explore strategic alternatives for this activity.

Enzymotec, with approx. 169 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.

Frutarom is taking steps to accelerate Frutarom and Enzymotec's joint activity and to optimally capitalize on the many cross-selling opportunities inherent in the acquisition, significant business development that will enable to expand Enzymotec's business to additional countries where Frutarom had a presence and expand its product portfolio to Enzyomtec's and Frutarom's existing customer base. In addition, Frutarom is working towards obtaining maximal business and operations efficiency, to improve the cost structure and tapping the great potential from the large investments made in Enzymotec, with an emphasis on optimal utilization of its innovative facility, into which approx. US$ 40 million were invested and a pipeline of the new products developed in recent years with an investment of approx. US$ 30 million in Enzymotec's R&D labs. In the framework of the merger and maximal efficiency, the management has been replaced and Frutarom's headquarters in Israel has already been connected to Enzymotec's headquarters in its modern facility in Migdal HaEmeq and a full merger process has begun, integrating Enzymotec's activities with Frutarom's Natural Fine Ingredients activity, connecting the managerial, R&D, marketing, sales and operations platforms.

Frutarom considers Enzymotec as a significant basis towards building an excellence center of R&D and innovation in Israel, which will become a global base for the development of innovative technologies for natural specialty fine ingredients for the food and health fields, while integrating and making the most of Enzymotec's R&D infrastructure with the innovation incubator, now being established by Frutarom after winning a tender of the Israel Innovation Authority.

For further information on the acquisition of Enzymotec, see Note 23b and Note 15b(2) to the financial statements.

- **Acquisition of the Activity of AB-Fortis** – 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 sources. The AB-Fortis activity has joined 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 backed by clinical trials to tens of thousands of customers throughout the world.

- **Acquisition of Pollena-Aroma** – On 19 December, 2017 Frutarom purchased the Polish company Fabryka Substancji Zapachowych "Pollena-Aroma" Sp, z.o.o. ("**Pollena-Aroma**") for approx. US$ 8.4 million (approx. PLN 29.2 million). The transaction was financed from independent sources.

  Pollena-Aroma, established in 1956, engages in the development, production and marketing of flavors, fragrances and specialty ingredients for the aromatherapy and natural cosmetics industries. Pollena-Aroma holds a leading position in Poland's flavors and fragrances market as the former leading Polish government company in this field which underwent privatization in the early 1990s. Pollena-Aroma operates a modern advanced production site near Warsaw which includes an R&D center and labs, and state-of-the-art production with robotic equipment among the most advanced worldwide, built four years ago at a total investment of approx. US$ 8 million. The plant has substantial excess production capacity and will become a significant R&D, production, and sales and marketing center for Frutarom's European fragrances activity. Pollena-Aroma has 64 employees, including highly educated scientists, flavorists and perfumers with extensive experience in the industry, and a large customer base in Europe, particularly in Poland and Ukraine.

According to Pollena-Aroma's managerial reports, its sales turnover in the 12 month period ending September 2017 totaled approx. US$ 5 million (approx. € 4.5 million).

For further information on the acquisition of Pollena-Aroma, see Note 5i to the financial statements.

- **Acquisition of Control in Bremil, Brazil** – On December 20, 2017 Frutarom signed an agreement for the purchase of 51% of the shares of the Brazilian company Bremil Indústria De Produtos Alimenticios Ltda. ("**Bremil**"), in exchange for approx. US$ 31 million (approx. BRL 103 million) (including estimated asset adjustments to the date of completion). The transaction includes a mechanism for future consideration based on Bremil's future business performance in 2017 and 2018. The purchase agreement includes an option for the purchase of the balance of shares of Bremil to take effect starting five years from the date of the transaction's completion at a price based on Bremil's business performance during that period. The transaction is expected to be completed over the following weeks and it will be financed through bank debt.

  Bremil was established in 1987 in the city of Passo Fundo in the Brazilian state of Rio Grande do Sul and holds a leading position in Brazil's savory solutions market, with an emphasis on convenience foods, prepared foods and processed meats. Bremil, which employs about 250 workers, serves about 450 customers in Brazil and countries of the region, with substantial presence among top meat producers, and has two production sites, in southern and central Brazil, with significant excess production capacity which Frutarom intends to utilize towards raising output and growth in Brazil and neighboring countries.

  The Bremil acquisition fits in well with Frutarom's expanding global activity in savory solutions, strengthens its global leadership in this field and provides Frutarom market leadership in Brazil and Latin America. By leveraging Bremil's specialized know-how and technology along with Frutarom's expansive sales and marketing platform in Brazil and Latin America, Frutarom will work on expanding Bremil's activity into additional countries as well as capitalizing on the many cross-selling opportunities for Frutarom products among Bremil customers.

Bremil’s founders and managers will continue managing the activity and will become part of Frutarom’s management structure in Latin America along with continuing on as shareholders with 49% of Bremil’s share capital.

According to Bremil’s managerial reports its revenues over the 12 month period ending October 2017stood at approx. US$ 47 million (approx. BRL 150 million).

For further information on the acquisition of Bremil, see Note 23d to the financial statements.

- **<u>Acquisition of IBR</u>** – on February 1, 2018, after the balance sheet date, Frutarom purchased 100% of the share capital of the Israeli company I.B.R - Israeli Biotechnology Research Ltd. ("**IBR**") in exchange for approx. US$ 21 million. The transaction was completed upon signing and financed through bank debt.

  Established in 1995, IBR researches, develops, manufactures and markets innovative and proprietary natural active ingredients for the cosmetics and dietary supplements industries, mainly for cellular anti-aging, skin protection from UV rays and air pollution, skin whitening and pigmentation prevention. IBR has R&D labs and a production facility in the town of Yavne, Israel and it employs approx. 30 employees, many of them with advanced scientific degrees and a long-standing industry experience. IBR has a broad customer base in the U.S., Europe and Asia, including some of the world's leading cosmetic and personal care companies. IBR's activity will be added to Frutarom's existing activities in the fields of algae-growth and active ingredients extraction, for skin care and protection, and its results will be consolidated in the Specialty Natural Fine Ingredients Division.

  IBR's sales turnover in 2017 totaled approx. US$ 7.4 million, and in the past 4 years it has exhibited an average annual growth rate of approx. 20%, and an approx. 40% growth this past year.

  For further information on the acquisition of IBR, see Note 23e to the financial statements.

- **<u>Acquisition of Argentinian Meroar</u>** – on March 13, subsequent to the date of the balance sheet Frutarom signed an agreement for the purchase of 70% of the shares of the Argentinian company Meroaromas S.A. and Meroar S.A ("**Meroar**") in exchange for approx. US$ 11.2. The purchase agreement includes an option to purchase the balance of Meroar's shares, starting from the elapse of 3 years of completion of the transaction, at a price based on Meroar's business performance during this period. The transaction is expected to be completed during the coming months and it will be financed through bank debt.

Established in 1980, Meroar researches, develops, manufactures and markets flavors and fragrances. The group has a workforce of 40 employees and a manufacturing site in Buenos Aires, the capital of Argentina, with R&D and application labs, and separate production facilities for flavors and fragrances. Meroar has a broad portfolio of solutions, which include perfume extracts for the cosmetics, personal care and household products industries, and flavors mainly for the beverage, sweets, baked goods and pharmaceutical industries. Meroar has a broad customer base in Argentina which includes leading cosmetics and food companies. Meorar's founders and managers have decades-long experience, some of it acquired in leading global companies in the flavors and fragrances industry.

According to its management reports, Meroar's sales turnover in 2017 totaled approx. US$ 7.4 million. The manages and founders of Meroar will continue managing the activity and will become part of Frutarom's management structure in Latin America. They will also remain on as shareholders with 30% of the Meroar's group's capital equity.

The Meroar acquisition constitutes a significant entry for Frtuarom into Argentina, and is a continuation of the implementation of Frutarom's strategic plan to develop worldwide business of fragrances. Frutarom projects accelerate growth in Meorar's activity, supported by, among other things, the various cross selling opportunities generated by this acquisition and it intends to further expand its activities in the field of fragrances.

For further information on the acquisition of Meroar, see note 23f to the financial statements.

Frutarom is well positioned to continue implementing its rapid and profitable growth strategy through, inter alia, carrying out further strategic acquisitions in its core business fields and main target markets. Frutarom's proven track record in successfully executing and integrating its acquisitions 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[5].

The consolidation trend in the industry where Frutarom operates persists. 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.

[5] See footnote 4 above on forward looking statements.

- **<u>Increase in Profit and Profit Margins</u>** – In recent years Frutarom has succeeded in attaining, along with revenue growth, a significant rise in profits and in gross and operating profit margins. Frutarom strives and will continue to strive to strengthen its competitiveness, while raising its profits and margins, by focusing, among other things, on the following objectives:
    - **Successful integration of acquisitions while maximizing synergies** – Frutarom continues working towards capitalizing on the abundant cross-selling opportunities arising from these acquisitions, gaining maximum advantage from the many technological capabilities brought to the Company, and realizing the savings resulting from the integration of R&D, sales, marketing, supply chain, operations and purchasing systems. The acquisitions contribute, and will keep contributing, towards continued growth in Frutarom's sales and profits this year and in the coming years. The successful integration of the 32 acquisitions performed since the beginning of 2015 is contributing, and will continue to contribute, towards the continuing trend of improvement in Frutarom's results[6]. 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 extracts following the acquisitions of Vitiva, Ingranat, Nutrafur and Extract Chemie has provided for substantial streamlining. At the same time efforts continue for increasing production capacity at the Vitiva, Ingrenat, Nutrafur and Extract Chemie (with significantly greater production capacity than actually 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. As part of the overall effort for optimization and operational streamlining in plant extraction sites, the natural plant extraction facility in Wädenswil, Switzerland is scheduled to be shut down at the end of Q2 2018 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) most of which will begin to come about over the following months[7].
        - Following the acquisition of Wiberg, Frutarom has combined and streamlined its management, R&D, marketing, sales, procurement and production platforms in Germany and other countries to strengthen its position of market leadership and achieve maximum operational efficiencies and savings which are estimated at over US$ 12 million (on an annual basis)[8], some of which have already gradually been seen in 2017, and the balance will take effect

[6] See footnote 4 above on forward looking statements.

[7] See footnote 4 above on forward looking statements.

[8] See footnote 4 above on forward looking statements.

in the coming months. The merger plan is progressing successfully, with focusing on the retention of customers and key employees in the merged activity. According to the merger plan framework, Frutarom's Savory management in Germany, Austria and other countries were merged with Wiberg's and all aspects of headquarters activities 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 modern and efficient plant in Germany has already been completed. The activities of R&D, sales, marketing, IT, logistics, and raw materials procurement platforms in the European countries and sites have been merged and the process continues, with focus placed on maintaining the level of service, innovation and high quality to the Company's customers. These measures will enable Frutarom to significantly increase its portfolio of products and technological solutions for its existing customers and significant expand its offer to the numerous new customers that have joined it following the acquisition.

- Frutarom's Savory activity in Poland (including Wiberg's activity in Poland) has been merged with that of AMCO, in its new and modern production site, which allows it, inter alia, to improve its service and delivery times to its customers.
- Efforts continue to combine Piasa's activity with Frutarom's global activity based on, among other things, leveraging Frutarom's broad portfolio of savory solutions and other complementary areas, such as natural colors and antioxidants, exploiting cross-selling opportunities in the Mexican market, and combining Piasa's purchasing platform with Frutarom's global purchasing platform which will contribute towards improving Piasa's purchase costs and accelerating its growth.
- The merger between Unique and Frutarom's activities in South Africa is in progress. This includes the integration of the management, R&D, sales, marketing and procurement platforms that is being implemented successfully. In 2018 production will transfer from Unique's production facility to Frutarom's new modern facility constructed recently in Johannesburg, South Africa.
- The process of merging the R&D, sales, marketing and procurement activities of René Laurent and F&E in Europe with Frutarom Europe's Flavors' activity is proceeding successfully.
- Frutarom is working towards the integration of SDFLC in Brazil with Frutarom's activity in Latin America, supported by Frutarom's extensive platforms of R&D, sales, marketing and local and global production activities in Brazil and other Latin American countries. In addition, Frutarom is working on the future business development of its portfolio of solutions for ice creams and desserts based on SDFLC's technology and know-how, with an emphasis on Latin American countries. SDFLC is building a new production site that includes laboratories and an automatic production capability that will double its production capacity. The construction of the new site, with an

investment of US$ 6 million, is projected to be completed over the next few months.

- Frutarom is working towards implementing the full merger plan of all of Enzymotec's activities through a rapid, efficient and comprehensive integration of both companies' global activities in the areas of management, R&D, sales and marketing, production and supply chain. Frutarom is working to focus Enzymotec's activity in the fields Frutarom considers as its main core businesses, with an emphasis on infant nutrition and elderly clinical nutrition, dietary supplements and pharmaceuticals. In the framework of the merger and maximum streamlining, the management was replaced, and Frutarom's Israel headquarters was combined with Enzynotec's headquarters at Enzymotec's modern plant in Migdal Ha'Emeq. In addition, a full merger of Enzymotec's activities with Frutarom's global natural specialty fine ingredients division has begun, and the R&D, sales and operations platforms are being integrated, while fully capitalizing the multiple synergies between the activities, in a way that accelerate growth, improve the cost structure and significantly improve the profitability of Enzymote's activity. In the field of clinical nutrition (VAYA Pharma) certain measures are being implemented, which will bring to significant savings in costs, along with the addition of Frutarom's unique products to VAYA's sales platform in the U.S., that will contribute to the acceleration in the activity's growth. At the same time, Frutarom also continues to examine strategic alternatives to this activity.
- Frutarom will act to integrate Bremil into its global Savory business and turn it into a production and R&D center for Savory Solutions in Brazil and South America, while capitalizing the many cross-selling opportunities between Bremil and Frutarom customers.

- **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.

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

Frutarom expects that fulfilling its rapid and profitable growth strategy, combining profitable internal growth with strategic acquisitions, along with the contribution from continuing fulfillment of streamlining processes and its improved cost structure, with maximum utilization of its sites around the world and strengthening of its global procurement platform, and the successful integration of the latest acquisitions made and those ahead, will result in the continuing trend of improvement in profits and profit margins. The run rate of Frutarom's annual sales is already over US$ 1.5 billion, and after examining its strong competitive positioning, 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 to23% in its core businesses[9,10].

In the Company’s estimation, Frutarom's solid capital structure (total assets of US$ 1,947 million and equity of US$ 879 million as of December 31, 2017 constituting 45.1% of the total balance sheet, and its level of net debt (total loans minus cash) of US$ 516 million as of December 31, 2017, supported by the strong cash flow generated and together with financial institutes backing, will allow it to

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[9] Given the current product mix.

[10] The assessment concerning continued growth in sales, the improvement in profit and profit margin, the achieving of operational savings and reaching the targets specified above as a result of fulfilling the Company's strategy, constitutes a forward-looking statement as defined in the Securities Law, that rests upon estimates by Company management at this time. Such an assessment could fail to materialize, in full or in part, or materialize in a different manner, including materially differently than expected as a result of, *inter alia,* factors not dependent on the Company, including the realization of any of the risk factors in section 41 of Chapter A of the period report. There is no certainty that Frutarom can continue identifying suitable acquisitions under satisfactory conditions, obtain the financing required to fund them, and to manage its activity and the acquired activities in an efficient manner in order to ensure that the financial benefits, capitalization on the synergy and the economies of scale become realized.

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"

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

* Net of non-recurring expenses

** Assuming that the acquisitions performed in 2017 (Including Enzymotec, Bremil and Mighty) were consolidated in the January 1, 2017 reports.

B. FINANCIAL STATUS

Frutarom's total assets as of December 31, 2017 totaled approx. US$ 1,947.2 million, compared with approx. US$ 1,585.5 million as of December 31, 2016.

The Group's current assets as of December 31, 2017 totaled approx. US$ 720.1 million, compared with approx. US$ 624.7 million as of December 31, 2016.

Property, plant and equipment net of cumulative depreciation plus other net property as of December 31, 2017 totaled approx. US$ 1,142.1 million, compared with approx. US$ 926.6 million as of December 31, 2016.

The increase in total, current, long-term and other assets derives mainly from the acquisitions completed in 2016 and 2017, which have already been fully consolidated into Frutarom's balance sheet (but their operational effects have only been partially reflected in Frutarom's results), and the strengthening of the activity's main currencies against the dollar in 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 New Israeli Shekel, Chinese Yuan, Mexican Peso, Polish Zloty Brazilian Real, and Peruvian Nuevo Sol), therefor 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 weakening of the dollar versus some of the various above mentioned currencies has contributed to an increase of approx. 6% in Frutarom's sales in Q4 of 2017, and approx. 1.9% for the entire year.

C. RESULTS OF OPERATIONS IN 2017

Record results achieved in 2017 reflect the significant additional leap in Frutarom's rapid and profitable growth. In 2017 Frutarom achieved record sales, gross profit, operating profits, EBITDA, net profit, earnings per share, and cash flow.

Sales

Frutarom sales in 2017 grew by approx.18.8% and reached an annual record of US$ 1,362.4 million, reflecting constant growth (without currency effects and in pro-forma terms[11]) of 6.4% over 2016. Changes to the exchange rates of currencies in which the Company operates as against the US dollar had a positive impact of approx. 1.9% on sales growth in pro-forma terms.

Sales for Frutarom’s **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose by 19.1% in 2017 to reach a record level of approx. US$

[11] Assuming the acqusitions performed and completed in 2016 and 2017 were consolidated in the reports from January 1, 2016 ("**pro forma terms**")

1,271.4 million compared with approx. US$ 1,067.5 million last year, reflecting constant growth (without currency effects and in pro-forma terms) of 7.5% over the parallel period in pro-forma terms. Changes to the exchange rates of currencies in which the Company operates as against the US dollar had a positive impact of approx. 1.7% on sales growth of core activities in pro-forma terms.

Flavors activity sales for 2017 rose 21.1% to reach approx. US$ 1,025.4 million as opposed to approx. US$ 846.5 million the previous year, reflecting constant growth (without currency effects and in pro-forma terms) of approx. 7.2% over 2016. Currency effects had a positive impact of approx. 2.0% on sales in pro-forma terms.

Sales for **Specialty Fine Ingredients** activity in 2017 rose by 14.2% to reach approx. US$ 260.1 million compared with US$ 227.9 million last year, reflecting constant growth (without currency effects and in pro-forma terms) of approx. 11.8% over 2016 in pro-forma terms. Currency effects had a positive impact of approx. 0.4% on sales in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activities) grew by 14.4% in 2017 to reach approx. US$ 91.0 million, compared with approx. US$ 79.5 million the year before. Contributing to the increase were sales of trade and marketing goods by Piasa in Mexico, acquired in December 2016, as well as the impact of currencies which contributed approx. 4.7% to sales in In pro-forma terms. In pro-forma terms and without currencies effects, the trade and marketing sales dropped by approx. 7.4% compared to the same period last year.

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

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Flavor Activity	**Sales**	247.7	339.8	297.1	306.4	369.9	457.3	494.4	589.8	607.5	846.5	1,025.4
	%	67.3%	71.8%	69.9%	67.9%	71.4%	74.0%	73.4%	72.0%	69.6%	73.8%	75.3%
Fine Ingredient Activity	**Sales**	115.0	124.3	123.8	141.5	145.0	140.8	145.6	158.4	184.9	227.9	260.1
	%	31.2%	26.3%	29.1%	31.4%	28.0%	22.8%	21.6%	19.3%	21.2%	19.9%	19.1%
Inter-company sales	**Sales**	-4.9	-4.0	-2.8	-2.2	-2.9	-2.4	-6.0	-7.1	-4.0	-6.8	-14.0
	%	-1.3%	-0.8%	-0.7%	-0.5%	-0.6%	-0.4%	-0.9%	-0.9%	-0.5%	-0.6%	-1.0%
Total Core Activity	**Sales**	357.8	460.1	418.1	445.7	512.0	595.7	634.0	741.0	788.4	1,067.5	1,271.4
	%	97.1%	97.2%	98.3%	98.8%	98.8%	96.4%	94.1%	90.4%	90.3%	93.1%	93.3%
Trade & Marketing	**Sales**	10.5	13.2	7.1	5.4	6.4	22.3	39.7	78.5	84.3	79.5	91.0
	%	2.9%	2.8%	1.7%	1.2%	1.2%	3.6%	5.9%	9.6%	9.7%	6.9%	6.7%
Total Sales		368.3	473.3	425.2	451.1	518.4	618.0	673.7	819.5	872.8	1,147.0	1,362.4

Profit and profitability

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

These record results were achieved thanks to the combination of rapid internal growth and profitability along with the acquisitions performed and completed and the initial contribution of merging and streamlining activities following such acquisitions.

Gross profit of Frutarom's overall activities rose by approx. 20.0% in 2017, to approx. US$ 525.1 million (approx. 38.5% of total revenues), compared with approx. US$ 437.6 million in 2016 (approx. 38.1% of total revenues). The operating profit rose by approx. 41.3% in 2017 and totaled approx. US$ 211.0 million (operating margin of approx. 15.5%, compared with approx. US$ 149.3 million (operating margin of approx. 13.0%) in 2016.

In 2017 the EBITDA grew by approx. 33.9% and totaled approx. US$ 259.6 million (EBITDA margin of approx. 19.1%) compared with approx. US$ 193.9 million (EBITDA margin of approx. 16.9%) during the same period last year.

Gross profit for **Core Business activities** (including both flavors and specialty fine ingredients activities) rose by approx. 21.0% in 2017 to reach approx. US$ 508.8 million with a gross margin of approx. 40.0%, compared with approx. US$ 420.7 million in 2016 with a gross margin of approx. 39.4%. Operating profit for Core Business activities rose by approx. 42.1% in 2017 to reach approx. US$ 209.3 million (operating margin of 16.5%) compared with approx. US$ 147.3 million (operating margin of approx. 13.8%).

Core Business activities EBITDA rose by approx. 34.5% in 2017 to reach approx. US$ 257.5 million (EBITDA margin of approx. 20.3%), compared with approx. US$ 191.5 million in 2016 (EBITDA margin of approx. 17.9%).

The operating profit of the **Flavors activity** rose by approx. 41.2% in 2017 and totaled approx. US$ 177.7 million (operating margin of approx. 17.3%, compared with approx. US$ 125.8 million in 2016 (operating margin of 14.9%).

The operating profit of the **Specialty Fine Ingredients Activity** rose by approx. 46.8% in 2017 and totaled approx. US$ 31.6 million (operating margin of approx. 12.2%, compared with approx. US$ 21.5 million (operating margin of 9.5%) in 2016.

Net non-recurring expenses in 2017 for acquisitions and activities carried out by Frutarom for attaining optimization and efficiency, mainly in its natural extracts activity in the fine ingredients. These nonrecurring expenses reduced the gross profit by approx. US$ 4.7 million, and reported operating profit and EBITDA by approx. US$ 7.9 million. In Q4 2017 a nonrecurring tax revenue was recorded, mainly owing to a tax reform in the US, so the overall net non-recurring expense in 2017 reduced net income by approx. US$ 2.7 million. In 2016 net non-recurring expenses were recorded for the acquisitions and steps being taken by Frutarom towards optimizing its resources, combining plants, attaining maximal operational efficiency, which reduced gross profit by approx. US$ 10.4 million, reported operating profit by approx. US$ 24.9 million, reported EBITDA by approx. US$ 23.4 million and net income by approx. US$ 18.1 million

Adjusted for non-recurring expenses, gross profit of Frutarom's overall activity, rose by approx. 18.3% in 2017, to reach approx. US$ 529.8 million (approx. 38.9% of total revenues), compared with approx. US$ 448 million (approx. 39.1% of total revenues) in 2016, operating profit rose by approx. 25.7% and reached approx. US$ 218.9 million (operating margin of approx. 16.1%) compared with approx. US$ 174.1 million (operating margin of approx. 15.2%) in 2016, and the EBITDA rose by approx. 23.1% and reached approx. US$ 267.5 million (EBITDA margin of approx. 19.6%) compared with US$ 217.3 million (EBITDA profit margin of approx. 18.9%), in 2016.

Adjusted for non-recurring expenses, gross profit of core businesses, rose by approx. 19.1% in 2017, to reach approx. US$ 513.5 million (gross margin of approx. 40.4%), compared with approx. US$ 431.1 million (gross margin of approx. 40.4%), in 2016, operating profit of core businesses rose by approx. 26.2% to reach approx. US$ 217.2 million (operating margin of approx. 17.1%) compared with approx. US$ 172.2 million (operating profit of approx. 16.1%) in 2016, and the core businesses EBITDA rose by approx. 23.5% to reach approx. US$ 265.4 million (EBITDA margin of approx. 20.9%) compared with approx. US$ 214.9 million (EBITDA margin of approx. 20.1%), in 2016.

In 2017, the operating profit for the Flavors activity (adjusted for non-recurring expenses) rose by approx. 24.2%, to reach approx. US$ 181.6 million (operating margin of approx. 17.7%) compared with approx. US$ 146.3 million (operating margin of approx. 17.3%) in 2016.

In 2017, the operating margin for the **Specialty Fine Ingredients activity** (adjusted for non-recurring expenses) rose by approx. 37.2%, to reach US$ 35.6 million (operating margin of approx. 13.7%) compared with approx. US$ 26.0 million (operating margin of approx. 11.4%) in 2016.

Completion of the integration of companies acquired in recent years and the measures Frutarom is taking to optimize its management research and development, marketing and sales, production resources, operations, procurement and logistics infrastructures, which are progressing according to plan, will bring additional substantial operational savings and strengthen Frutarom's competitiveness, with maximum utilization of its sites around the world.

In addition, the building and strengthening of the global purchasing platform for raw materials used by Frutarom in manufacturing its products is continuing according to plan. This platform will exploit Frutarom's purchasing power which has grown significantly in recent years while shifting to direct purchasing from producers in source countries, mainly of natural raw materials (which account for over 75% of the raw materials used by Frutarom). The global purchasing platform will also contribute to further improvement in purchasing costs and gross margins in the coming years.

Tables summarizing profits and margins in 2016-2017:

Reported results in US dollars for 2016-2017:

In millions of US dollars	**Core businesses** Flavors and Specialty Fine Ingredients			**Total Frutarom Group**		
	2016	**2017**	**Growth %**	**2016**	**2017**	**Growth %**
Sales	1,067.5	1,271.4	19.1%	1,147.0	1,362.4	18.8%
Gross profit	420.7	508.8	21.0%	437.6	525.1	20.0%
Margin	39.4%	40.0%		38.1%	38.5%	
Operating profit	147.3	209.3	42.1%	149.3	211.0	41.3%
Margin	13.8%	16.5%		13.0%	15.5%	
EBITDA	191.5	257.5	34.5%	193.9	259.6	33.9%
Margin	17.9%	20.3%		16.9%	19.1%	
Net Income				111.1	151.6	36.5%
Margin				9.7%	11.1%	

Adjusted for nonrecurring 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	431.1	513.5	19.1%	448.0	529.8	18.3%
Margin	*40.4%*	*40.4%*		*39.1%*	*38.9%*	
Operating profit	172.2	217.2	26.2%	174.1	218.9	25.7%
Margin	*16.1%*	*17.1%*		*15.2%*	*16.1%*	
EBITDA	214.9	265.4	23.5%	217.3	267.5	23.1%
Margin	*20.1%*	*20.9%*		*18.9%*	*19.6%*	
Net income				*129.2*	*154.3*	*19.4%*
Margin				*11.3%*	*11.3%*	

Financial Expenses / Income

Net financial expenses for 2017 totaled approx. US$ 24.6 million (approx. 1.8% of sales), compared with approx. US$ 12.8 million (approx. 1.1% of sales) in 2016.

Interest expenses for 2017 amounted to approx. US$ 10.1 million compared with approx. US$ 8.8 million in 2016. Financial expenses in 2017 from exchange-rate differences reached approx. US$ 14.5 million compared with approx. US$ 4.1 million in 2016, mainly due to the strengthening of the main currencies Frutarom is active in against the dollar.

Taxes on Income

Taxes on income for 2017 totaled approx. US$ 34.8 million (approx. 18.7% of profit before tax) compared with approx. US$ 25.3 million (approx. 18.6% of profit before tax) for 2016.

Net Income

Net income rose by approx. 36.5% in 2017 to reach a record of approx. US$ 151.6 million, (net margin of 11.1%), compared with approx. US$ 111.1 million (net margin of approx. 9.7%) in 2016.

Net income adjusted for non-recurring items rose by approx. 19.4% in 2017 to reach approx. US$ 154.3 million (net margin of approx. 11.3%) compared with US$ 129.2 million (net margin of 11.3%) in 2016.

Earnings per Share

Earnings per share in 2017 rose by approx. 36.0% to reach a record of approx. US$ 2.52 compared with US$ 1.85 in 2016. Earnings per share adjusted for non-recurring items rose in 2017 by approx. 18.8% to reach US$ 2.57 compared to US$ 2.16 in 2016.

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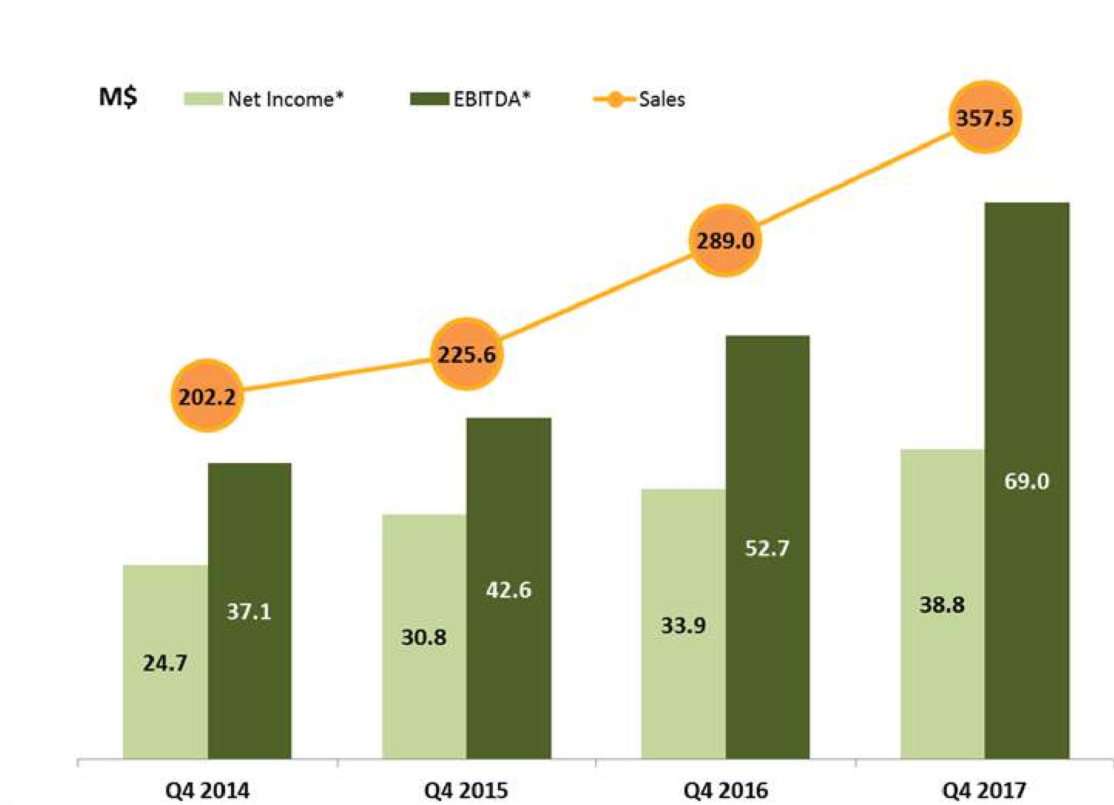
D. RESULTS OF OPERATIONS FOR FOURTH QUARTER 2017



* The figures are net of non-recurring expenses.

Sales

Frutarom's sales in the fourth quarter of 2017 rose by 23.7% to a fourth quarter record of US$ 357.5 million compared with US$ 289.0 million in the parallel period, reflecting currency adjusted growth of 7.6% in pro-forma terms compared with the parallel period .

Changes in the exchange rates of currencies in which the Company operates as against the US dollar had a positive impact of approx. 6.0% on sales growth in pro-forma terms compared with Q4 2016.

Sales for Frutarom's **core activities** (its Flavors activity and Specialty Fine Ingredients activity) rose by 24.8% in Q4 2017 to reach a record level of approx. US$ 333.0 million compared with approx. US$ 267.0 million in Q4 2016, reflecting currency adjusted growth of approx. 8.5% over the parallel period in pro-forma terms. Changes in exchange rates had a positive impact of approx. 6.1% on results in pro-forma terms.

Sales from the **Flavors activity** rose by 29.8% to reach approx. US$ 278.9 million as against approx. US$ 214.8 million in Q4 2016, reflecting currency adjusted growth in pro-forma terms of approx. 10.2% against the parallel period. Currency effects positively impacted results in pro-forma terms by approx. 6.7%.

Sales from **Specialty Fine Ingredients** activity rose 11.2% to approx. US$ 59.9 million in Q4 2017 compared with US$ 53.9 million in Q4 2016 and reflect currency adjusted growth in pro-forma terms of approx. 7.9% against the parallel period. Currency effects positively impacted sales by approx. 3.4% in pro-forma terms.

Sales from **Trade and Marketing** (which does not constitute part of Frutarom's core activities) rose in Q4 2017 by 10.8% to reach approx. US$ 24.5 million compared with approx US$ 22.1 million in Q4 2016. Contributing to the increase were sales of trade and marketing goods by Piasa in Mexico, acquired in December 2016 and currency effects contributing approx. 4.5% to sales in pro-forma terms. In pro-forma terms and net of currencies, sales from trade and marketing dropped by approx. 2.9% compared with Q4 2016.

Sales Breakdown by Activity in Q4 for 2007 - 2017 (in US$ millions and %):

		Q4 2007	Q4 2008	Q4 2009	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015	Q4 2016	Q4 2017
Flavor Activity	**Sales**	78.5	71.3	76.6	78.1	100.1	111.7	139.3	147.7	156.9	214.8	278.9
	%	72.4%	72.2%	70.6%	69.5%	76.1%	77.1%	72.6%	73.0%	69.6%	74.3%	78.0%
Fine Ingredient Activity	**Sales**	28.9	25.5	30.9	33.2	30.9	29.5	33.8	34.0	48.3	53.9	59.9
	%	26.6%	25.8%	28.5%	29.5%	23.5%	20.4%	17.6%	16.8%	21.4%	18.7%	16.8%
Inter-company sales	**Sales**	-1.5	-0.8	-0.4	-0.5	-0.5	-0.7	-1.1	-1.5	-0.5	-1.7	-5.7
	%	-1.5%	-0.8%	-0.4%	-0.4%	-0.4%	-0.5%	-0.6%	-0.7%	-0.2%	-0.6%	-1.6%
Total Core Activity	**Sales**	105.9	96.0	107.1	110.8	130.5	140.5	171.9	180.2	204.7	267.0	333.0
	%	97.6%	97.3%	98.7%	98.6%	99.2%	97.0%	89.6%	89.1%	90.8%	92.4%	93.1%
Trade & Marketing	**Sales**	2.6	2.7	1.4	1.6	1.1	4.3	19.9	22.0	20.9	22.1	24.5
	%	2.4%	2.7%	1.3%	1.4%	0.8%	3.0%	10.4%	10.9%	9.2%	7.6%	6.8%
Total Sales		108.5	98.7	108.5	112.4	131.6	144.9	191.8	202.2	225.6	289.0	357.5

In Q4 2017 Frutarom once again achieved record results for fourth quarter in sales, gross profit, operating profit and margin, EBITDA, net income, cash flow and in earnings per share.

These record results were achieved thanks to the combination between rapid internal and profitable growth along with the acquisitions performed and completed and the initial contribution of efficiency and merger activities.

In Q4 2017 gross margin of Frutarom's overall activity rose by approx. 26.0% to approx. US$ 138.8 million (approx. 38.8% of total revenues) compared with approx. US$ 110.2 million (approx. 38.1% of total revenues) in Q4 2016.

Operating profit rose by approx. 65.5% to reach approx. US$ 52.7 million (operating margin of approx. 14.7%) compared with approx. US$ 31.8 million (operating margin of approx. 11.0%) in Q4 2016.

EBITDA rose by approx. 52.4% to reach approx. US$ 65.8 million (EBITDA margin of approx. 18.4%) compared with approx. US$ 43.2 million (EBITDA margin of approx.14.9%) in Q4 2016.

In Q4 2017 Gross margin of Frutarom's core businesses (Flavors activity and Specialty Fine Ingredients activity) rose by approx. 28.0% to approx. US$ 135.2 million with a gross margin of approx. 40.6%, compared with approx. US$ 105.6 million in Q4 2016 and a gross margin of approx. 39.6%.

Operating profit of Frutarom's core businesses rose by approx. 68.7% to approx. US$ 52.4 million (operating margin of approx. 15.7%), compared with approx. US$ 31.0 million (operating margin of approx. 11.6%) in Q4 2016.

Frutarom's core businesses EBITDA rose by approx. 54.7% to approx. US$ 65.4 million (EBITDA margin of approx. 19.7%), compared with approx. US$ 42.3 million (EBITDA margin of approx. 15.8%) in Q4 2016.

Operating profit of Frutarom's Flavors activity rose by approx. 65.3% in Q4 2017 to approx. US$ 46.0 million (operating margin of approx. 16.5%), compared with approx. US$ 27.8 million in Q4 2016 (operating margin of 13.0%).

Operating profit of Frutarom's Specialty Fine Ingredients activity rose by approx. 90.9% in Q4 2017 to approx. US$ 6.4 million (operating margin of approx. 10.6%), compared with approx. US$ 3.3 million (operating margin of 6.2%) in Q4 2016.

Q4 2017 recorded net non-recurring expenses due to acquisitions and activities Frutarom has executed in order to attain optimization and efficiency mainly in the natural extracts platform and the fine ingredients activity. These non-recurring expenses reduced gross profit for the quarter by approx. US$ 1.8 million, reported operating profit and EBITDA for the quarter by approx. US$ 3.2 million. Nonrecurring expenses in Q4 were also impacted by a nonrecurring tax revenue mainly due to a tax reform in the U.S., so that the overall net impact of nonrecurring items increased net income by approx. US$ 1.0 million. Non-recurring expenses in Q4 2016 for steps being taken towards optimizing resources, amalgamating plants, attaining maximal operational efficiency in connection with acquisitions reduced in Q4 2016 reported gross profit by approx. US$ 3.2 million, reported operating profit and EBITDA by approx. US$ 9.5 million and reported net income by approx. US$ 6.9 million.

Adjusted for non-recurring expenses, in Q4 2017 gross profit of Frutarom's overall activity rose by approx. 24% to reach approx. US$ 140.6 million (approx. 39.3% of total revenues), compared with approx. US$ 113.4 million (approx. 39.2% of total revenues) in Q4 2016, operating profit rose by approx. 35.2% to reach approx. US$ 55.8 million (operating margin of approx. 15.6%), compared with approx. US$ 41.3 million (operating margin of approx. 14.3%) in Q4 2016, and EBITDA grew by approx. 31.0% to approx. US$ 69.0 million (EBITDA margin of approx. 19.3%) compared with approx. US$ 52.7 million (EBITDA margin of approx.18.2%) in Q4 2016.

Gross profit from the **core businesses** rose in Q4 2017 by approx. 25.9% to reach approx. US$ 137.0 million (gross margin of approx. 41.1%), compared with approx.

US$ 108.8 million (gross margin of approx. 40.7%) in Q4 2016. Operating profit of core businesses rose by approx. 37.1% to reach approx. US$ 55.5 million (operating margin of approx. 16.7%), compared with approx. US$ 40.5 million (operating margin of approx. 15.2%) in Q4 2016 and core Businesses EBITDA grew by approx. 32.5% to approx. US$ 68.6 million (EBITDA margin of approx. 20.6%) compared with approx. US$ 51.8 million (EBITDA margin of approx. 19.4%) in Q4 2016.

Adjusted for nonrecurring expense, operating profit for the **Flavors activity** grew by approx. 36.0% in Q4 2017 to reach approx. US$ 48.0 million (operating margin of approx. 17.2%), compared with approx. US$ 35.3 million in Q4 2016 (operating margin of approx. 16.4%).

Adjusted for nonrecurring profits, operating profit for the **Specialty Fine Ingredients activity** rose by approx. 40.9% in Q4 2017 to reach US$ 7.5 million (operating margin of approx. 12.5%), compared with approx. US$ 5.3 million (operating margin of approx. 9.9%) in Q4 2016.

Tables summarizing profits and margins in the fourth quarter:

Reported results in US dollars:

In millions of US dollars	**Core businesses** Flavors and Specialty Fine Ingredients			**Total Frutarom Group**		
	Q4 2016	**Q4 2017**	**Growth %**	**Q4 2016**	**Q4 2017**	**Growth %**
Sales	267.0	333.0	24.8%	289.0	357.5	23.7%
Gross profit	105.6	135.2	28.0%	110.2	138.8	26.0%
Margin	39.6%	40.6%		38.1%	38.8%	
Operating profit	31.0	52.4	68.7%	31.8	52.7	65.5%
Margin	11.6%	15.7%		11.0%	14.7%	
EBITDA	42.3	65.4	54.7%	43.2	65.8	52.4%
Margin	15.8%	19.7%		14.9%	18.4%	
Net Income				27.0	39.8	
Margin				9.3%	11.1%	47.3%

Adjusted for nonrecurring expenses:

In millions of US dollars	Core businesses Flavors and Specialty Fine Ingredients			Total Frutarom Group		
	Q4 2016	Q4 2017	Growth %	Q4 2016	Q4 2017	Growth %
Gross profit	108.8	137.0	25.9%	113.4	140.6	24.0%
Margin	40.7%	41.1%		39.2%	39.3%	
Operating profit	40.5	55.5	37.1%	41.3	55.8	35.2%
Margin	15.2%	16.7%		14.3%	15.6%	
EBITDA	51.8	68.6	32.5%	52.7	69.0	31.0%
Margin	19.4%	20.6.%		18.2%	19.3%	
Net Income				33.9	38.8	14.4%
Margin				11.7%	10.9%	

Financial Expenses / Income

Net financial expenses in Q4 2017 totaled approx. US$ 8.8 million (approx. 2.5% of sales) compared with approx. US$ 37 thousand, in Q4 2016.

Interest expenses amounted to approx. US$ 3.1 million, compared with approx. US$ 1.5 million in Q4 2016, mainly owing to the increase in the number of loans taken for financing acquisitions and the rise in certain interest rates. Financial expenses arising from exchange-rate differences reached approx. US$ 5.7 million compared to an income of US$ approx. 1.5 million in Q4 2016, mainly due to the strengthening of the main currencies Frutarom is active in against the dollar.

Taxes on Income

Taxes on income for Q4 2017 totaled approx. US$ 4.1 million (approx. 9.3% of profit before tax) compared with approx. US$ 4.8 million in Q4 2016 (approx. 15.0% of profit before tax). The drop in tax expenses results mainly from updating deferred taxes due to the reduction of corporate tax rates in the U.S.

Net Income

Net income in Q4 2017 grew by approx. 47.3% to reach approx. US$ 39.8 million, compared with US$ 27.0 million in Q4 2016.

Net income adjusted for net nonrecurring items, rose by approx. 14.4% in Q4 2017 to reach approx. US$ 38.8 million, compared with US$ 33.9 million in Q4 2016.

Earnings per Share

Reported earnings per share in Q4 2017 rose by approx. 47.7% to reach approx. US$ 0.66 compared with approx. US$ 0.45 for Q4 2016.

Earnings per share in Q4 2017 (adjusted for the non-recurring items) rose by approx. 14.2% to reach approx. US$ 0.65 compared with US$ 0.57 in Q4 2016.

Seasonality

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

E. LIQUIDITY

Frutarom continues to generate a strong cash flow from operating activities which helps it reduce its level of debt and continue making strategic acquisitions while keeping debt at a reasonable level.

Net cash flow from operating activities grew by approx. 50.5% in 2017, from approx. US$ 124.6 million to a record of approx. US$ 187.5 million.

Net cash flow from operating activities grew by approx. 72.5% in Q4 2017, from approx. US$ 28.2 million the year before to approx. US$ 48.7 million.

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

Frutarom's capital equity as of December 31, 2017 totaled approx. US$ 878.9 million (approx. 45.1% of the balance sheet) compared with approx. US$ 664.6 million (approx. 41.9% of the balance sheet) as of December 31, 2016. The increase in capital equity results mainly from profit during this period and the strengthening of main currencies against the dollar.

Loans (Average) -

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

  Average long-term credit provided from banks and financial institutions totaled approx. US$ 495.9 million in 2017 as compared with approx. US$ 437.0 million in 2016.

  Average long-term credit from banks and financial institutions in Q4 2017 totaled approx. US$ 492.5 million as compared with approx. US$ 478.4 million in Q4 2016. The increase in credit derives from loans taken during the period to finance the acquisitions carried out.

  It should be noted that as of December 31, 2017 and the date of the publication of this report, the Company meets all the financial criteria for banking corporations and financial institutions. For further information see section 33.4 of the Directors' Report chapter A and note 14 in the Financial Statements

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

  Average short-term credit extended to the Company from banks and financial institutions in 2017 totaled approx. US$ 127.8 million as compared to approx. US$ 109.3 million in 2016.

  Average short-term credit extended to the Company by banks and financial institutions in Q4 2017 totaled approx. US$ 159.8 million as compared with approx. US$ 62.0 million during Q4 2016.

  Frutarom's cash balances on December 31, 2017 totaled approx. US$ 118.2 million compared with approx. US$ 113.5 million on December 31, 2016.

  Net debt rose from US$ 420.3 million on December 31, 2016 to US$ 516.1 million on December 31, 2017, due to acquisitions performed in 2017

- The ratio of the Company's total financial liabilities, less cash, to EBITDA stood at approx. 1.85 whereby the EBITDA calculation was done on a pro-forma basis and net of non-recurring expenses.

Accounts Payable and Accounts Receivable (Average)

In 2017 the Company made use of approx. US$ 86.2 million in credit from suppliers and other trade creditors, compared with approx. US$ 75.8 million the previous year, while extending approx. US$ 236.3 million in credit to its customers as compared with approx. US$ 197.6 million the year before.

In Q4 2017 the Company made use of approx. US$ 89.8 million in credit from suppliers and other trade creditors compared with approx. US$ 74.3 million in the parallel period, and extended approx. US$ 248.8 million in credit to its customers compared with approx. US$ 204.1 million the year before. The increase in suppliers' and customers' trade credit is largely due to an increase in the overall scope of activity and the acquisitions performed by Frutarom.

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

A. RESPONSIBILITY FOR MARKET RISK MANAGEMENT

Mr. Alon Granot, Executive Vice President & CFO, and the Executive Vice President. Global Supply Chain and Operations are responsible for managing market risk. Company management and its Board of Directors are kept up-to-date about material changes in the Group's level of exposure to the various risks and conduct discussions on this subject whenever necessary.

For details about Mr. Alon Granot, see Regulation 26a in Chapter D (Additional Information on the Corporation) of this report.

B. DESCRIPTION OF MARKET RISKS

Raw Material Price Risks

Frutarom is dependent on third parties for its supply of raw materials. The Group purchases raw materials from a very wide range of suppliers, with no individual supplier filling over 5% of its overall raw material needs. Although there is more than one supplier for most of the raw materials purchased by Frutarom, and most of these materials are widely available, there can be no guarantee that this will continue to be the case. Furthermore, the price, quality and availability of the principal raw materials used by Frutarom, mainly in the area of natural products, are subject to fluctuations as a result of international supply and demand. Many of the raw materials used by the Group are crop-related; therefore their price, quality and availability could be adversely affected by unfavorable weather conditions. Frutarom does not normally conduct futures transactions and is exposed to price fluctuations in the raw materials it uses as dictated by changes in global price trends. Monitoring of raw material prices is done on an ongoing basis by the Company’s Executive Vice President for Global Supply Chain and Operations.

Currency Risks

Over 70% of Frutarom's sales are conducted in currencies other than the US dollar (mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand and Peruvian Nuevo Sol) and changes in exchange rates affect Frutarom's reported results in US dollar terms. However, exposure to currency fluctuations is reduced by the fact that Frutarom's raw materials purchases and operational expenditures in the various countries in which it operates are also paid for in most cases in the various currencies so that most of the effect applies to the translation of sales revenues and profits into dollar terms (and not to the profitability of its various activities and/or the group's profitability). Nonetheless, in cases of extreme fluctuations in exchange rates, and since a large part of the raw materials used in the manufacture of Frutarom's products are paid for in US dollars, in Euros, or other currencies, there is no certainty that the Group can completely update its selling prices denominated in local currency (which is different from the currency used in buying the raw material) and maintain its margin. Most non-US dollar monetary balances derive from the local activity of subsidiaries in countries where the functional currency is not the US dollar, and therefore the translation differences on the local currency balances of each company do not affect the Group's financial expenses and are directly attributed to the translation differences equity fund. Monetary balances in other currencies are attributed to financial expenses. Currency exposure is reviewed as necessary from time to time, by the Balance Sheet Committee and the Board of Directors. The Company does not generally undertake external hedging action nor does it use other financial instruments for protection against currency fluctuations. For more details see Note 3(a) of the Company's December 31, 2017 financial statements attached to this report.

Interest Rate Risk

The Group's sources for short- and long-term banking finance are mainly quoted in Euros, US dollars, GBP, and Swiss Francs (generally according to the functional currency of the borrowing company) and some bear variable Libor interest rates. Under its policy, the Group does not take protective measures against possible interest rate hikes and is therefore sensitive to changes in interest rates. As of the balance sheet date the Group did not hold any financial derivatives. As of December 31, 2017 the Group had long-term loans net of current maturities totaling US$ 262 million along with short-term debt, including current maturities of long-term loans, of US$ 372 million. The Group has a cash balance of US$ 118 million and net debt amounting to US$ 516 million.

C. CORPORATE POLICY FOR MANAGING MARKET RISK

1. The Group's management monitors market risks in the area of raw material prices and currency and interest rates on an ongoing basis. Unusual events that could influence the Group's activity, such as a severe devaluation in the currency of a country where it operates, a sharp change in interest rates, or a change in the price trend for key raw materials, are discussed by Company management and by the Board of Directors.

2. Frutarom is working to build and strengthen its global purchasing, to strengthen relations with manufacturers of raw materials in the target countries in which these

are produced, and to adjust the selling price of its products as necessary and in accordance with significant fluctuations in the pricing of raw materials. The Executive Vice President of Supply Chain and Operations is responsible for managing market risk relating to raw materials prices.

3. The Group's management strives to limit both economic and accounting currency exposure by balancing the liabilities and assets in each of the various currencies in which the Group operates. The Executive Vice President and CFO is the person responsible for managing the Group's currency exposure. Most of the Group's loans are at variable Libor interest rates in different currencies and a minority are fixed-rate loans.

4. The level of exposure is regularly evaluated by the Group's finance department and discussed among Group management, allowing immediate response to any unusual developments in the various markets, and it is not restricted in advance in quantitative terms. The exposure level is also reviewed by the Company's Board of Directors from time to time.

5. Frutarom did not use financial or other instruments during the reported period to protect itself from market risks to which it is exposed.

In 2017 there was no change in the Group's market risk management policy.

D. SUPERVISION OF RISK MANAGEMENT POLICY AND ITS IMPLEMENTATION

The exposure to raw material prices is evaluated by the Executive Vice President of Global Supply Chain and Operations, the purchasing department and the activities' management on a regular basis and reported to the management as necessary. Meetings are also held by Company management on a regular basis on implementing risk management policy as it relates to raw materials prices, currency and interest rates. The Executive Vice President & CFO reports to the Board of Directors on exposure to these risks at least once a year and during periods of severe changes in the state of the global economy, exchange rates, raw material prices, and interest rates.

E. LINKAGE BASES REPORT

CURRENCY EXPOSURE PER PRIMARY LINKAGE BASES AT DECEMBER 31, 2017

	USD	NIS	GBP	Euro	CHF	Ruble	Others	Total
	In US$ 000s							
Assets								
Cash and equivalents	20,950	858	12,026	36,332	3,186	7,321	37,541	118,214
Customers	53,357	12,664	16,959	74,900	7,233	15,974	66,956	248,043
Other receivables	5,969	3,302	1,466	16,179	2,735	6,571	8,690	44,912
Inventory	77,303	1,168	28,171	97,185	21,509	29,652	53,903	308,891
Investment in associates	54,497	-	-	-	-	-	23,044	77,541
Other non-current	-	-	-	-	-	-	3,599	3,599
Deferred tax assets	3238	-	-	648	-	-	-	3,886
Fixed assets, net	40,930	112	14,158	123,932	50,091	15,665	67,998	312,876
Intangible assets, net	167,940	28,694	62,942	321,675	6,353	18,918	222,704	829,226
Total assets	**424,184**	**46,798**	**135,722**	**670,851**	**91,107**	**94,091**	**484,435**	**1,947,188**
Liabilities								
Bank credit and loans	248,919	144	99,785	112,900	167,953	-	4,585	634,286
Suppliers	19,336	7,444	7,283	34,477	3,583	1,323	25,367	98,813
Other current payables	30,520	5,630	9,511	45,588	6,113	4,262	38,936	140,560
Retirement benefits	737	-	-	18,699	14,453	-	117	34,006
Deferred tax	13,859	1,228	5,579	16,287	1,106	1,502	18,745	58,306
Other non-current	5,294	24,242	5,207	3,475	-	-	64,086	102,304
Total liabilities	**318,665**	**38,688**	**127,365**	**231,426**	**193,208**	**7,087**	**151,836**	**1,068,275**
Capital equity								**878,913**
Net balance	**105,519**	**8,110**	**8,357**	**439,425**	**(102,101)**	**87,004**	**332,599**	**-**

F. 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	**3.814**	**3.640**	**3.467**	**3.294**	**3.120**
			US$ 000s		
Cash and cash equivalents	(86)	(43)	858	43	86
Customers	(1,266)	(633)	12,664	633	1,266
Other accounts receivable	(101)	(51)	1,011	51	101
	(1,453)	**(727)**	**14,533**	**727**	**1,453**
Bank Credit	14	7	144	(7)	(14)
Suppliers and service providers	744	372	7,444	(372)	(744)
Other payables	2,987	1,494	29,872	(1,494)	(2,987)
	3,745	**1,873**	**37,460**	**(1,873)**	**(3,745)**
Total exposure, net	**2,292**	**1,146**	**(22,927)**	**(1,146)**	**(2,292)**

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	**0.918**	**0.877**	**0.835**	**0.793**	**0.751**
			US$ 000s		
Cash and cash equivalents	(3,633)	(1,817)	36,322	1,817	3,633
Customers	(7,490)	(6,745)	74,900	3,745	7,490
Other accounts receivable	(1,036)	(518)	10,359	518	1,036
	-	-	-	-	-
	(12,159)	**(6,080)**	**121,591**	**6,080**	**12,159**
Bank Credit	11,290	5,645	112,900	(5,645)	(11,290)
Suppliers and service providers	3,448	1,724	34,477	(1,724)	(3,448)
Other payables	4,906	2,453	49,064	(2,453)	(4,906)
	19,644	**9,822**	**196,441**	**(9,822)**	**(19,644)**
Total exposure, net	**7,485**	**3,742**	**(74,850)**	**(3,742)**	**(7,485)**

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	**0.815**	**0.778**	**0.741**	**0.703**	**0.666**
	US$ 000s				
Cash and cash equivalents	(1,203)	(601)	12,026	601	1,203
Customers	(1,696)	(848)	16,959	848	1,696
Other accounts receivable	(55)	(27)	549	27	55
	(2,954)	**(1,476)**	**29,534**	**1,476**	**2,954**
Bank credit	9,978	4,989	99,783	(4,989)	(9,978)
Suppliers and service providers	728	364	7,283	(364)	(728)
Other payables	951	476	9,511	(476)	(951)
	12,178	**6,089**	**121,784**	**(6,089)**	**(12,178)**
Total exposure, net	**9,224**	**4,613**	**(92,250)**	**(4,613)**	**(9,224)**

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	**1.073**	**1.024**	**0.975**	**0.927**	**0.878**
	US$ 000s				
Cash and cash equivalents	(319)	(159)	3,186	159	319
Customers	(723)	(362)	7,233	362	723
Other accounts receivable	(137)	(68)	1,369	68	137
	(1,179)	**(589)**	**11,788**	**589**	**1,179**
Bank credit	16,795	8,398	167,953	(8,398)	(16,795)
Suppliers and service providers	358	179	3,583	(179)	(358)
Other payables	611	306	6,113	(306)	(611)
	17,764	**8,883**	**177,649**	**(8,883)**	**(17,764)**
Total exposure, net	**16,585**	**8,294**	**(165,861)**	**(8,294)**	**(16,585)**

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	**63.401**	**60.519**	**57.637**	**54.755**	**51.873**
			US$ 000s		
Cash and cash equivalents	(732)	(366)	7,321	366	732
Customers	(1,597)	(799)	15,974	799	1,597
Other accounts receivable	(115)	(57)	1,149	57	115
	(2,444)	**(1,222)**	**24,444**	**1,222**	**2,444**
Suppliers and service providers	132	66	1,323	(66)	(132)
Other payables	426	213	4,262	(213)	(426)
Other long-term liabilities	-	-	-	-	-
	558	**279**	**5,585**	**(279)**	**(558)**
Total exposure, net	**(1,886)**	**(943)**	**18,859**	**943**	**1,886**

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	(3,754)	(1,877)	37,541	1,877	3,754
Customers	(6,696)	(3,348)	66,956	3,348	6,696
Other accounts receivable	(917)	(459)	9,172	459	917
	(11,367)	**(5,684)**	**113,669**	**5,684**	**11,367**
Bank credit	459	229	4,585	(229)	(459)
Suppliers and service providers	2,537	1,268	25,367	(1,268)	(2,537)
Other payables	3,894	1,947	38,936	(1,947)	(3,894)
Other long-term liabilities	6,409	3,204	64,086	(3,204)	(6,409)
	13,299	**6,648**	**132,974**	**(6,648)**	**(13,299)**
Total exposure, net	**1,932**	**964**	**(19,305)**	**(964)**	**(1,932)**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
	US$ 000s				
Loans in Euro	74	37	68,120	(37)	(74)
Loans in Swiss Francs	5	2	75,986	(2)	(5)
Total exposure to change in fair value	**79**	**39**	**144,106**	**(39)**	**(79)**

G. 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	**3.814**	**3.640**	**3.467**	**3.294**	**3.120**
	US$ 000				
Total Exposure, net	**2,292**	**1,146**	**(22,927)**	**(1,146)**	**(2,292)**

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	**0.815**	**0.778**	**0.741**	**0.703**	**0.666**
	US$ 000				
Total Exposure, net	**9,224**	**4,613**	**(92,250)**	**(4,613)**	**(9,224)**

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	**0.918**	**0.877**	**0.835**	**0.793**	**0.751**
			US$ 000		
Total exposure, net	**7,485**	**3,742**	**(74,850)**	**(3,742)**	**(7,485)**

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	**1.073**	**1.024**	**0.975**	**0.927**	**0.878**
			US$ 000		
Total exposure, net	**16,585**	**8,294**	**(165,861)**	**(8,294)**	**(16,585)**

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	**63.401**	**60.519**	**57.637**	**54.755**	**51.873**
			US$ 000		
Total exposure, net	**(1,886)**	**(943)**	**18,859**	**943**	**1,886**

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	**1,932**	**964**	**(19,305)**	**(964)**	**(1,932)**

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	**79**	**39**	**144,106**	**(39)**	**(79)**

ASPECTS OF CORPORATE GOVERNANCE

A. DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE AND INDEPENDENT DIRECTORS

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the nature of the Company's activity, size, scope and complexity of its activity. The Board believes that with this minimum number it will be able to fulfill its responsibilities and requirements in accordance with the law and the Company's Articles of Association, especially with respect to its responsibility to evaluate the Company's financial status and to prepare and approve the financial reports.

As of the date of this report's publication, the Board of Directors of the Company includes five directors with accounting and financial expertise: Dr. John J. Farber, Mr. Hans Abderhalden, Mr. Gil Leidner, Mr. Ziv Gil (external director) and Ms. Dafna Sharir (external director). For details regarding their skills, education, experience and knowledge, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of this report (Additional Information on the Corporation).

Independent Directors

As of the date of this report, the Company has not adopted the instruction with respect to the ratio of independent directors (as the term is defined in the Companies Law 5759–1999 (hereinafter: the **"Companies Law"**)) into its Articles of Association. The Company has three independent directors, including two external directors.

B. DETAILS ABOUT THE CORPORATION'S INTERNAL AUDITOR

The Company's Internal Auditor

Mr. Yoav Barak, CPA, was appointed internal auditor ("**internal auditor**") of the Company and began his work as internal auditor on January 17, 2005. The internal auditor complies with the provisions of section 146(b) of the Companies Law and with the provisions of section 8 of the Internal Auditing Law, 5752-1992 (hereinafter: the "**Internal Auditing Law**").

To the best of the Company's knowledge, the internal auditor does not hold securities of the Company.

To the best of the Company's knowledge, the internal auditor does not have material business relations or other material relations with the Group or with a related entity.

The internal auditor is not an employee of the Company, but provides the auditing services as an external contractor. The internal auditor does not fill other positions in the Company or provide additional external services.

Appointment Method

The appointment of the internal auditor was approved by the Company’s Board of Directors on January 17, 2005, based on the Audit Committee’s recommendation. The appointment was approved by the Company’s Board of Directors after reviewing the internal auditor’s education (as a CPA and economist), his experience in the field of internal auditing and his experience in various managerial positions. The Company’s Board of Directors found the internal auditor to be suitable to serve in this position in light of Frutarom's size, scope of activity and complexity.

The Internal Auditor's Supervisor

The internal auditor reports to the Company's Audit Committee and is organizationally subordinate to the Company President & CEO.

Audit Work Plan

The audit work plan is an annual plan prepared by the internal auditor in coordination with the Company President & CEO and its management, and approved by the Company’s Audit Committee. The preparation of the work plan is determined by the topics perceived as worthy of thorough analysis. The factors are determined according to their risk level with the goal of detecting faults, achieving efficiencies, ensuring the protection of the Group’s assets and the compliance of the Group’s procedures with the respective local laws. The annual audit work plan also includes a follow-up on the implementation by Company management of recommendations by the internal auditor and the Audit Committee. The internal auditor has independent discretion to deviate from the approved audit plan, subject to consultation with the Audit Committee. The internal audit is carried out in accordance with the approved annual audit plan and is updated as necessary in accordance with the findings of the audit. The internal audit is carried out through questionnaires and physical audits at the Company sites and held companies in Israel and throughout the world. Some of the audit topics are audited throughout the Group, while others are specific topics audited according to the annual work plan.

Auditing Outside of Israel or of Held Companies

The annual audit work plan refers to the activities of the entire Group, both in Israel and abroad, including the Company’s substantially held companies.

Scope of the Internal Auditor's Position

The scope of the internal auditor's position is adjusted to the Group's scope of activity and its needs as these arise from to time. The internal auditor is engaged to the extent of two and a half to three working days per week, and in 2017 the internal auditor audited spent 1,233 hours performing audits of the company's activities inside and outside of Israel,

The scope and level of complexity of the Group's activity were taken into account in determining the scope of the internal auditor's position.

Performing the Internal Audit

As reported to the Company by the internal auditor, the internal audit work is conducted according to professional standards accepted in Israel and the world, as stated in section 4(b) of the Internal Auditing Law, including professional guidelines of the Israel Institute of Internal Auditors, which ensure a professional, reliable and independent audit. The audit reports are based on the findings of the audit and the documented facts. The Board of Directors is of the opinion that the internal auditor meets the requirements set forth in the above-mentioned professional standards, taking into account his professionalism, qualifications, experience, familiarity with the Group and the manner in which he prepares, submits and presents the findings of his audit.

Open Access for the Internal Auditor

According to section 9 of the Internal Auditing Law, the internal auditor has free, constant and independent access to the Group's information systems, including those of held companies, whether ordinary or computerized, to every database and to every program for automatic data processing of the Company and its subsidiaries, including their financial data. The internal auditor may enter any Company facility, including affiliated companies, and examine it.

The Internal Auditor's Report

The internal auditor prepares written audit reports and submits them to the Audit Committee and to the Company's management. In 2017 the Audit Committee held meetings to discuss the findings of the internal auditor on March 19, 2017, on May 21, 2017, August 13, 2017 and on November 16, 2017. The members of the Company's Audit Committee and the Company's President & CEO, Executive Vice President & CFO, Executive Vice President for Global Supply Chain and Operations, Global VP Legal Affairs and Corporate Secretary, and VP Finance along with other relevant managers in the Group received the audit reports prior to the Audit Committee meetings discussing the internal auditor's findings. Relevant managers were present at the Audit Committee's meetings when the audit reports relating to their activity were reviewed, as decided by the Committee Chairman.

Board of Director's Assessment of the Internal Auditor's Activity

In the opinion of the Company's Board of Directors, the scope, character and continuity of the internal auditor's activity and work plan are reasonable under the circumstances and fulfill the goals of the internal audit of the Company.

Compensation

The internal auditor's compensation in 2017 was NIS 296 thousand. No securities were granted to the internal auditor as part of his terms of engagement. The Board of Directors believes that this compensation will not affect the internal auditor's professional judgment. The internal auditor's remuneration is not in any way dependent on the results of his work.

C. DETAILS ON THE CORPORATION'S INDEPENDENT AUDITOR

The independent auditor of the Company is Kesselman & Kesselman, a member firm of PricewaterhouseCoopers. The fees paid by the Company to its auditor are as follows:

1. Total fee for auditing services, for services related to the audit and for tax services in 2017 totaled US$ 1,466 thousand (compared to US$ 2,285 thousand in 2016) in Israel and in the subsidiaries abroad (24,305 hours in 2017 compared to 29,230 hours in 2016). The amount paid for tax services does not exceed 45% of the total fees detailed in this paragraph.

2. Other fees for additional services - the overall fees for services provided by the independent auditor which are not included in paragraph 1 above totaled approx. 421 US$ thousand in 2017 (compared to approx. US$ 455 thousand in 2016) in Israel and in subsidiaries abroad.

The Company's general meeting of shareholders approved the appointment of the independent auditor and authorized the Company's Board of Directors to determine his/her fees. The fees of the independent auditor are a result of negotiations between Company management and the independent auditor and in the opinion of the Company are reasonable and in line with the customary fees and in accordance with the nature and scope of the Company's activity. The fees of the independent auditor for 2017 were approved by the Company's Board of Directors upon the Balance Sheet Committee's recommendation.

D. REPURCHASE PLANS

In accordance with the Compensation Policy for officeholders in the Company (for further information on the Compensation Policy, see the Company's reports from November 29, 2016 the annual bonus given to officeholders in the Company includes a deferred equity-based component (options from the Company's 2012 Option Plan for exercising into shares held by the Company). For this purpose, the Company's Board of Directors approves, in accordance with the need and subject to the provisions of every law, plans for the repurchase of Company shares. Following is information on such repurchase plans and the way they are carried out:

(1) On March 22 and April 1, 2017 the Company's Board of Directors approved the purchase of Company shares for the purpose of granting options to officeholders and others in the framework of the Company's 2012 Option Plan. For further information on this resolution and the grants made thereunder, see the immediate reports issued by the Company on this matter on March 23, 2017, on April 4, 2017 and on April 24, 2017.

(2) On August 16, 2017 the Company's Board of Directors approved the purchase of Company shares for the purpose of granting options to officeholders and others in the framework of the Company's 2012 Option Plan. For further information on this resolution and the grants made thereunder, see the immediate reports issued by the Company on this matter on August 17, 2017, on October 1, 2017 and on November 14, 2017

(3) In addition, subsequent to the balance sheet date, on March 19, 2018 the Company's Board of Directors approved the further repurchase of Company shares for the purpose of granting options under of the Company's 2012 Option Plan. For further information on this matter, see the Company's immediate report from March 19, 2018.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2017

On March 22, 2017 the Company's Board of Directors declared a dividend distribution of NIS 0.44 per share. On May 7, 2017 a dividend totaling approx. NIS 26,007 thousand was paid out to shareholders. For more information, see the company's immediate report from March 23, 2017.

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

1. On March 19, 2018, concurrently with the approval of the financial statements for December 31, 2017, the Company’s Board of Directors resolved on the distribution of a dividend in the amount of NIS 0.50 per share. The total sum to be paid is NIS 29,840 thousand (approx. US$ 8,604 thousand as of the date of this report’s publication). The dividend will be paid on May 6, 2018.
2. On March 19, 2018 the board approved a repurchasing plan of company shares in order to grant option deeds to employees and officeholders. See immediate report of the company from March 20, 2018.
3. On January 11, 2018 the company signed loan agreements ("**loan agreements**") with Israeli and foreign banking corporations, for loans amounting to the total sum of approx. US$ 235 million ("**the loans**") for the purpose of financing the merger transaction with Enzymotec. According to the loan agreements, the Loans shall be for a period of five years and bear annual interest of LIBOR plus a weighted annual spread of 1.52% (whereby in some of the Loan Agreements the interest spread is based on Frutarom's leverage ratio), payable in consecutive quarterly installments. Half of the principal of the Loans shall be paid starting 12 months after receiving the Loans and over the course of 16 consecutive quarters, with the balance payable at the end of the Period,. For more information on this topic, see Company's immediate report on January 11, 2018.
4. For information on the merger transaction with Enzymotec, and the acquisition of IBR and Meroar, see sections 1.8.12 (l), 1.8.12 (p) and I.8.11 (q) to Chapter A of the periodic report, respectively.
5. On January 17, 2018, Frutarom signed an agreement with Aker BioMarine Antarctic AS of Norway ("**Purchaser**") to sell Enzymotec's krill oil business, which is not a core activity of Frutarom. The Purchaser paid a total of approx. US$ 26.4 million for the krill oil business. For more information, see the company's immediate report from January 17, 2018

C. 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 the reasonable investor to that contained in the Company's consolidated reports.

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

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

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

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

March 19, 2018

Section C

Financial Reports

FRUTAROM INDUSTRIES LTD.

2017 FINANCIAL STATEMENTS

FRUTAROM INDUSTRIES LTD.

2017 FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

Regarding the audit of the components of internal control over financial reporting in accordance with section 9B(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting of Frutarom Industries Ltd. and its subsidiaries (hereinafter - the Company), as of December 31, 2017. These components of internal control were set as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of components of internal control over financial reporting included in the accompanying periodic report for the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard no. 104 of the Institute of Certified Public Accountants in Israel "Audit of the Internal Control Components over Financial Reporting" (hereafter - "Audit Standard 104"). These components are: (1) entity level controls, including controls on the preparation process and closing of the financial reporting and general controls of information systems, (2) controls over the process of purchasing process, consumption of materials and inventory (3) controls over the sales and receivables process (4) purchase price allocation process (5) impairment testing process (all of these together are called the "audited control components").

We conducted our audits in accordance with Audit Standard 104. This standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance whether these control components have been maintained effectively in all material respects. The audit includes obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, as well as review and assessment of effective planning and maintaining of these audited control components based on the estimated risk. Our audit, for those audited control components, also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control components, unlike internal control of all material processes over financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual influences between the audited control components and those which are not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

REPORT OF THE AUDITORS (continued)

Due to inherent limitations, internal control over financial reporting in general and components of internal controls in particular, may not prevent or detect a misstatement. Also, making projections on the basis of any evaluation of effectiveness is subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may be adversely affected.

In our opinion, the company effectively maintained, in all material respects, the audited control components as of December 31, 2017.

We also audited, the Company's financial statements as of December 31, 2017 and for the year ended December 31, 2017, in accordance with International accepted auditing standards, and our report, of March 19, 2018 included an unqualified opinion on these financial statements.

Haifa, Israel	Kesselman & Kesselman
March 19, 2018	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

Independent Auditors' Report

To: the shareholders of Frutarom Industries Ltd.

Report on the audit of the consolidated financial statements of Frutarom Industries Ltd.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view , in all material respects, of the financial position of Frutarom Industries Ltd. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash-flow statement for the year then ended; and
- the accounting policies and notes to the financial statements, which include a summary of significant accounting policies.

Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the IESBA Code of Ethics, PwC Code of Conduct and the published rules and regulations of the U.K. Listing Authority.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit is influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	$8.8 million (2016: $7.2 million)
How we determined it	5% of adjusted profit before tax (adjusted to add the impact of new acquisition on the consolidated income before tax)
Rationale for benchmark applied	We applied this benchmark as we believe that profit before tax, provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items.

How we tailored our group audit scope

We conducted our audit in accordance with International Standards on Auditing.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

The Group audit team performed site visits and attended planning meetings at a number of significant component locations. The Group audit team directed the component audits by issuing
detailed Group referral instructions, reviewing audit plans and risk assessment procedures of significant components and reviewing documentation of the findings of component auditors
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “key audit matters” in the table below together with an explanation of how we tailored our audit to address these matters. This is not a complete list of all risks identified by our audit.

The results of our audit work on the matters below were based on the evidence obtained to support our opinion on the group financial statements as a whole.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements.

The key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and informing our opinion thereon. We do not provide a separate opinion on these matters.

Key Audit Matter **Goodwill and intangible asset impairment assessments and accounting for acquisitions**	**How our audit addressed the matter**
The groups goodwill and intangible assets of $830 million represent approximately 43% of the groups total assets at year end.Managements assessment of the risk of impairment of the carrying value of goodwill and intangible assets requires judgement in relation to the identification of cash generating units and the underlying assumptions in the groups impairment model. During 2017 the group completed 9 acquisitions at a cost of approximately $106 million. Assessing the value of the assets and liabilities acquired requires management judgement and estimation, particularly in relation to intangible assets which comprised a significant portion of the assets acquired by the group. For the purposes of the significant valuation, the Company engaged external experts to assist with the valuation of acquired identifiable intangible assets and impairment assessments in accordance with IFRS 3- Business Combinations.	We assessed, using valuation specialists, the group's impairment methodology including the identification of Cash Generating Units (CGUs). We challenged the underlying key assumptions within the group's impairment model including discount rates, growth rates (including those used in the terminal value calculations) and cash-flow projections. We challenged management's estimates and key assumptions used to value intangible assets acquired, with assistance from our valuation specialists. We evaluated management's sensitivity analysis and performed our own sensitivity analysis on the key assumptions used. We assessed whether disclosures in the financial statements in relation to goodwill, intangibles and acquisitions were appropriate and met the requirements of accounting standards. As part of our audit we assessed appropriateness of that external expert's work as audit evidence for the relevant assertion including his expertise and independence.

Other information

Management is responsible for the other information. The other information comprises the Group's Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error,
- design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We have also audited in accordance with standard No. 104 of the Institute of Certified Public Accountants in Israel "Audit of the Internal Control Components over Financial Reporting", internal control components over financial reporting of the company as at December 31, 2017, and our report in March 19, 2018 included an unqualified opinion on the effectiveness of those components.

Noam Hadar,
For and on behalf of
Kesselman & Kesselman,
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

Haifa, Israel
March 19, 2018

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As of 31 December 2017	2016
		U.S. dollars in thousands	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	19	118,214	113,528
Accounts receivable:	16		
Trade		248,043	200,106
Other		23,647	29,888
Prepaid expenses and advances to suppliers		21,265	20,248
Inventory	17	308,891	260,951
		720,060	624,721
NON-CURRENT ASSETS :			
Property, plant and equipment	7	312,876	268,820
Intangible assets	2f.8	829,226	657,781
Investment in associates and available for sale assets	15	77,541	27,976
Deferred income tax assets	13d	3,886	3,477
Other	18	3,599	2,686
		1,227,128	960,740
T o t a l assets		1,947,188	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 financial statements by the Board of Directors: March 19, 2018.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As of 31 December 2017	As of 31 December 2016
		U.S. dollars in thousands	
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	9	372,135	234,204
Accounts payable:			
Trade	20a	98,813	81,630
Other	20b	140,560	109,607
Liability for put option for the shareholders of a subsidiary	5a.1	-	40,350
		611,508	465,791
NON-CURRENT LIABILITIES:			
Long-term loans net of current maturities	9	262,151	299,576
Retirement benefit obligations, net	10	34,006	35,041
Deferred income tax liabilities	13d	58,306	50,147
Liability for shareholders of a subsidiaries and other	3	102,304	70,302
		456,767	455,066
COMMITMENTS AND CONTINGENT LIABILITIES	11		
TOTAL LIABILITIES		1,068,275	920,857
EQUITY:	12		
Equity attributable to owners of the parent:			
Ordinary shares		17,086	16,997
Other capital surplus		120,288	114,396
Translation differences	2c	(45,187)	(109,043)
Retained earnings		783,029	637,868
Less - cost of Company shares held by the company		(3,409)	(3,765)
NON-CONTROLLING INTERESTS		7,106	8,151
TOTAL EQUITY		878,913	664,604
TOTAL EQUITY AND LIABILITIES		1,947,188	1,585,461

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED INCOME STATEMENTS

	Note	2017	2016	2015
		Year ended 31 December		
		U.S. dollars in thousands, (except for per share data)		
SALES		1,362,396	1,147,041	872,796
COST OF SALES	21a	837,271	709,488	534,737
GROSS PROFIT		525,125	437,553	338,059
Selling, marketing, research and development expenses - net	21b	220,014	196,001	141,237
General and administrative expenses	21c	92,155	81,637	63,742
Other expenses - net	21d	3,392	11,772	2,826
Group's share of earnings of companies accounted for at equity	15	1,402	1,113	-
INCOME FROM OPERATIONS		210,966	149,256	130,254
FINANCIAL EXPENSES – net	21e	24,606	12,841	12,197
INCOME BEFORE TAXES ON INCOME		186,360	136,415	118,057
INCOME TAX	13e	34,797	25,346	21,972
NET INCOME FOR THE YEAR		151,563	111,069	96,085
PROFIT ATTRIBUTED TO:				
Owners of the parent company		149,679	109,245	94,859
Non-controlling interest		1,884	1,824	1,226
TOTAL INCOME:		151,563	111,069	96,085
		U.S dollars		
EARNINGS PER SHARE:	2w			
Basic		2.52	1.85	1.62
Fully diluted		2.51	1.84	1.60

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2017	2016	2015
	Note	U.S. dollars in thousands		
INCOME FOR THE YEAR		151,563	111,069	96,085
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of net defined benefit Liability		2,716	1,123	(858)
ITEMS THAT COULD BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Gain from available-for-sale financial assets		-	41	-
Transfer of available-for-sale financial assets to profit and loss	15b.2	(41)	-	-
Translation differences		64,428	3,910	(65,293)
Total comprehensive income for the Year		218,666	116,143	29,934
ATTRIBUTABLE TO:				
Owners of the parent		216,210	114,615	28,911
Non-controlling interest		2,456	1,528	1,023
TOTAL INCOME		218,666	116,143	29,934

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

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

	Note	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 interest	Total
		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2015		16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2015:									
Comprehensive income:									
Income for the year		-	-	-	94,859	-	94,859	1,226	96,085
Other comprehensive income	2c	-	-	(65,090)	(858)	-	(65,948)	(203)	(66,151)
Total comprehensive income for the year		-	-	(65,090)	94,001	-	28,911	1,023	29,934
Plan for allotment of Company shares to employees of subsidiary:									
Acquisition of the Company shares by the Company	2s	-	-	-	-	(1,085)	(1,085)	-	(1,085)
Receipts in respect of allotment of Company shares to employees	12b	-	(374)	-	-	561	187	-	187
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	1,541	-	-	-	1,541	-	1,541
Proceeds from issuance of shares to senior employees		90	2,635	-	-	-	2,725	-	2,725
Dividend paid to the non-controlling interests in subsidiary		-	-	-	-	-	-	(58)	(58)
Dividend paid	12c	-	-	-	(5,774)	-	(5,774)	-	(5,774)
		90	3,802	-	(5,774)	(524)	(2,406)	(58)	(2,464)
Non-controlling interest from business combination	5j	-	-	-	-	-	-	2,195	2,195
BALANCE AT 31 DECEMBER 2015		16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684

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

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

	Note	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 interest**	**Total**
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2016		16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2016:									
Comprehensive income:									
Income for the year		-	-	-	109,245	-	109,245	1,824	111,069
Other comprehensive income	2c	-	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	2s	-	-	-	-	(1,395)	(1,395)	-	(1,395)
Receipts in respect of allotment of Company shares to employees	12b	-	(494)	-	-	741	247	-	247
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	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	12c	-	-	-	(6,380)	-	(6,380)	-	(6,380)
		85	3,889	-	(6,380)	(654)	(3,060)	(1,036)	(4,096)
Non-controlling interest from business combination	5b	-	-	-	-	-	-	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 financial statements.

FRUTAROM INDUSTRIES LTD.

CONSODLIATED STATEMENTS OF CHANGES IN EQUITY

	Note	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 interest	Total
		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
		U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2017		16,997	114,396	(109,043)	637,868	(3,765)	656,453	8,151	664,604
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2017:									
Comprehensive income:									
Income for the year		-	-	-	149,679	-	149,679	1,884	151,563
Other comprehensive income	2c	-	(41)	63,856	2,716	-	66,531	572	67,103
Total comprehensive income for the year		-	(41)	63,856	152,395	-	216,210	2,456	218,666
Plan for allotment of Company shares to employees of subsidiary:									
Acquisition of the Company shares by the Company	2s	-	-	-	-	(1,528)	(1,528)	-	(1,528)
Receipts in respect of allotment of Company shares to employees	12b	-	(1,256)	-	-	1,884	628	-	628
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and option grants	12b	-	1,838	-	-	-	1,838	-	1,838
Proceeds from issuance of shares to senior employees		89	4,296	-	-	-	4,385	-	4,385
Changes of ownership rights in subsidiary		-	1,055	-	-	-	1,055	(3,450)	(2,395)
Dividend paid to the non-controlling interests in subsidiary		-	-	-	-	-	-	(51)	(51)
Dividend paid	12c	-	-	-	(7,234)	-	(7,234)	-	(7,234)
		89	5,933	-	(7,234)	356	(856)	(3,501)	(4,357)
BALANCE AT 31 DECEMBER 2017		17,086	120,288	(45,187)	783,029	(3,409)	871,807	7,106	878,913

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2017	2016	2015
		Year ended 31 December		
		U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash generated from operations (see Appendix)		223,210	139,235	112,625
Income tax paid – net		(35,681)	(14,610)	(20,963)
Net cash provided by operating activities		187,529	124,625	91,662
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(34,394)	(28,493)	(23,900)
Purchase of intangibles		(2,890)	(1,344)	(717)
Interest received		1,294	656	428
Acquisition of subsidiaries - net of cash acquired	5	(109,265)	(103,786)	(143,777)
Payments on account of acquisition of subsidiary		-	-	(131,838)
Purchase of available for sale securities		(40,169)	(2,199)	-
Proceeds from sale of property and other assets		454	11,099	2,191
Net cash used in investing activities		(184,970)	(124,067)	(297,613)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividend paid to the non-controlling interests in subsidiary		(51)	(1,434)	(542)
Receipts from senior employees in respect of allotment of shares		4,385	2,814	2,725
Interest paid		(8,929)	(7,324)	(3,973)
Receipt of long-term bank loans		133,373	156,890	185,616
Repayment of Put option to shareholders in subsidiary	5a	(42,227)	-	-
Acquisition of non-controlling interests in subsidiary		(2,395)	(896)	-
Repayment of long-term bank and financial institutions loans		(172,909)	(92,460)	(48,638)
Receipt (repayment) of short-term bank loans and credit-net		88,455	(3,056)	87,463
Acquisition of the Company shares by the Company – net of receipts in respect of the Shares		(900)	(1,148)	(898)
Dividend paid		(7,234)	(6,380)	(5,774)
Net cash provided (used) by financing activities		(8,432)	47,006	215,979
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS		(5,873)	47,564	10,028
Balance of cash and cash equivalents and bank credit at beginning of year and bank credit		113,528	68,997	63,975
Profits (losses) from exchange differences on cash and cash Equivalents		10,559	(3,033)	(5,006)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR		118,214	113,528	68,997

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

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

APPENDIX TO CONDENSED CONSOLIDATED STATEMENT CASH FLOWS

	Year ended December 31		
CASH GENERATED FROM OPERATIONS:	**2017**	**2016**	**2015**
	U.S. dollars in thousands		
Income before tax	186,360	136,415	118,057
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	46,797	43,115	31,385
Recognition of compensation related to employee stock and option grants	1,838	1,577	1,541
Liability for employee rights upon retirement - net	(641)	1,236	1,428
Loss (gain) from sale and write-off of fixed assets and other assets	1,934	(4,003)	(250)
Dividend received from companies accounted for at equity	2,250	-	-
Group's share of losses (earnings) of companies accounted for at equity, net	(1,402)	(1,113)	-
Erosion of long term loans	(1,247)	2,387	(3,096)
Interest paid - net	7,635	6,668	3,545
Erosion of Liability for put option for the shareholders of a subsidiary	-	-	13,118
	57,164	49,867	47,671
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(16,804)	(14,106)	1,293
Other	9,263	(49)	(13,447)
Decrease (increase) in other long-term receivables	(1,223)	(2,390)	(106)
Increase (decrease) in accounts payable:			
Trade	2,036	(5,097)	(7,226)
Other	3,385	(3,685)	(5,484)
Increase (decrease) in other long-term payables	1,815	336	321
Increase in inventories	(18,786)	(22,056)	(28,454)
	(20,314)	(47,047)	(53,103)
Net cash flows from operating activities	223,210	139,235	112,625

NOTE 1 – GENERAL

Information on the activities of Frutarom Industries Ltd. and its subsidiaries (hereafter - the "Group").

Frutarom Industries Ltd. (hereafter – the Company) is a global company, founded in 1933. The Company itself and through its subsidiaries ("Frutarom or the "Group") develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharma/nutraceuticals, cosmetics and personal care products. On December 31, 2017 Frutarom operated 72 production sites, 90 research and development laboratories, and 109 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 70,000 products to more than 30,000 customers in more than 150 countries and employed 5,250 people throughout the world.

Frutarom operates in the framework of two main activities: the Flavors activity and the Fine Ingredients activity (the "core businesses"). In addition, the Company imports and markets raw materials that it does not itself manufactured, as part of the service offered to customers, which includes providing them comprehensive solutions for their needs. This activity is presented as part of trade and marketing operations. Segment information for the reporting years is presented as part of Note 6.

The Company is a limited liability company incorporated and domiciled in Israel. The address of its registered office is 2 Hamenofim St., Herzeliya. The Company's controlling shareholder is ICC Industries Inc.

The Company's shares have been listed on the Tel-Aviv Stock Exchange (the "TASE") since 1996. Since February 2005, Company shares are also listed through Global Depository Receipts on the official list of the London Stock Exchange (the "LSE").

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Preparation:

1) The Group's financial statements as of 31 December 2017 and 2016 and for each of the three years in the period ended 31 December 2017, are in compliance with International Financial Reporting Standards (hereafter – IFRS) and interpretations to IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC) and include the additional disclosure required under the Securities Regulations (Annual Financial Statements), 2010.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The significant accounting policies described below have been applied consistently in relation to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention, subject to adjustments in respect of revaluation of amounts funded for severance pay, financial assets at fair value through profit or loss or available for sale presented at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ significantly from those estimates and assumptions.

2) The period of the Group's operating cycle is 12 months.

3) The Group analyses the expenses recognized in the income statements using the classification method based on the functional category to which the expense belongs.

b. Principles of Consolidation

1) Business combinations and subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary (hereafter – the acquired company) is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.
The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (except for certain exceptional items specified in IFRS 3 – "Business Combinations") (as amended), hereafter – IFRS 3R) are measured initially at their fair values at the acquisition date. The Group recognizes non-controlling interest in an acquired company which are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation in accordance with the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRSs

Any contingent consideration accrued to the Group as part of a business combination is measured at fair value at the date of business acquisition. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 "Financial Instruments" either in profit or loss or

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b. Principles of Consolidation (continued):

as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the overall amount of the transferred consideration, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired and the liabilities assumed is recorded as goodwill – (see also f(1) below).

In cases were the net amount at acquisition date of the identifiable assets acquired and of the liabilities assumed exceeds the overall consideration that was transferred, the amount of non-controlling interest in the acquiree and the fair value as of date of acquisition of any previous equity interest in the acquiree as above, the difference is recognized directly in income or loss at date of acquisition.

Inter-company transactions, balances, including income, expenses and dividends on transactions between group companies are eliminated. Profits and losses resulting from inter- company transactions that are recognized in assets (in respect of inventory and fixed assets) are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2) Affiliated companies

An associate is any entity in which the Group has significant influence, but not control. Investment in an associate is accounted for using the equity method of accounting.

According to the equity method, an investment is initially recorded at cost and the carrying amount is subsequently adjusted to reflect the investor's share of the net assets of the associate or joint venture since acquisition date.

The Group determines on each reporting date whether indications exist of impairment of its investment in the associate. If such indications are present, the Group calculates the amount of impairment as a difference between the recoverable amount of investment (the higher of value in use and fair value less cost to sale) and its carrying amount, and recognizes an impairment loss in profit or loss close to the "share in income (loss) of associates accounted for using the equity method" item.

Income or loss arising from transactions between the Group and the companies are recognized in the financial statements of the Group only at the amount of the share in the associate or joint venture of investors that are unrelated to the Group. The share of the Group in the profit or loss of the associate or joint venture in relation to those transactions is eliminated. When the investment is no longer accounted as an associate or joint venture the Group would stop using the equity method and the investment would account as financial asset (IAS 39), as long as the associate or the joint venture has not became a subsidiary. The group would recognize profit or loss due to the difference between the fair-value of the remaining investment and returns for realization to the book value of the investment as of the time of losing the significant influence. All amounts recognized in other comprehensive income due to the investment would account as if the related assets or liabilities were realized (amounts that were recognized before as part of other comprehensive income might reclassified to profit or loss).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Translation of Foreign Currency Balances and Transactions:

1) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates (the "Functional Currency"). The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Transactions and balances.

Foreign currency transactions in currencies different from the functional currency (hereafter – foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are attributed to income or loss.
Gains and losses arising from changes in exchange rates are presented in the statement of income among "financial expenses".

3) Translation of Financial Statement of Group Companies

The results and financial position of all the Company's entities (none of which has the currency of hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates: in which case income and expenses are translated at the rate on the dates of the transactions);
(c) All resulting exchange differences are recognized among other comprehensive income.

On consolidation of the financial statements, exchange differences arising from the translation of the net investment in foreign operations and from loans and other currency instruments designated to serve as hedges to those investments are carried to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the statement of income as part of the gain or loss on realization or sale.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rate. Exchange differences arising from translation as above are recognized in other comprehensive income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

4) Information regarding exchange rates:

	NIS	Pound Sterling	Euro	Swiss Franc	Ruble
Exchange rate as of December 31:					
2017	3.47	0.74	0.83	0.98	57.6
2016	3.85	0.81	0.95	1.02	61.27
2015	3.90	0.67	0.92	0.99	73.31
Increase (decrease) of the dollar: during the year	%	%	%	%	%
2017	(9.8)	(9.0)	(12.2)	(4.4)	(5.9)
2016	(1.5)	20.6	3.5	2.7	(16.4)
2015	0.3	5.2	11.6	0.4	22.9

	NIS	Pound Sterling	Euro	Swiss Franc	Ruble
Average exchange rate during the year:					
2017	3.60	0.78	0.90	0.98	58.3
2016	3.84	0.74	0.90	0.99	66.23
2015	3.89	0.65	0.90	0.96	60.99
Increase (decrease) during of the dollar during the year:	%	%	%	%	%
2017	(6.3)	5.2	(0.7)	(0.1)	(12.0)
2016	(1.2)	12.7	0.3	2.5	8.6
2015	8.6	7.8	19.7	5.2	56.6

d. Segment Reporting (see also note 1)

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker in the Group, who is responsible for allocating resources and assessing performance of the operating segments.

The Group is organized and managed on a worldwide basis in two major operating activities: Flavors and the Fine Ingredients. Another operation is Trade and Marketing.

e. Property, Plant and Equipment:

The cost of a property, plant and equipment item is recognized as an assets only if: (a) it is probable that the future economic benefits associated with the item will flow to the Group and (b) the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and only when the two criteria mentioned above for recognition as assets are met.
The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The cost of a property, plant and equipment item includes:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation and impairment of property, plant and equipment are recognized in the income statement.

Land owned by the Group is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

	Percentage of Annual Depreciation
Buildings and land under financial lease	2-4
Machinery and equipment	5-10
Vehicles and lifting equipment	15-20
Computers	20-33
Office furniture and equipment	6-20
Leasehold improvements	See below

Leasehold improvements are amortized by the straight-line method over the terms of the lease, which are shorter than the estimated useful life of the improvements.

The asset's residual values, the depreciation method and useful lives are reviewed, and adjusted if appropriate, at least once a year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income among "other income - net".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

f. Intangible Assets:

1) The overall amount of goodwill arising on acquisition of a subsidiary, associated company or a proportionately consolidated company represents the excess of the consideration transferred in respect of acquisition of a subsidiary over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed. Goodwill on acquisitions of subsidiaries is included in ‘intangible assets’.
For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and which is not larger than an operating segment (before aggregation) (see also g. below).
Impairment reviews of CGUs (or groups of CGUs) are undertaken annually and whenever there is any indication of impairment of CGU or group of CGUs. The carrying value of the CGU (or group of CGUs) is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.
Any impairment loss is allocated to write-down the carrying amount of the CGU's assets (or CGUs) in the following order: first, the write down of any goodwill allocated to a cash generating unit (or a group of CGUs); and afterwards to the remaining assets of the CGU or (group of CGUs) on a proportionate basis using the carrying amounts of each asset of the CGU (or group of CGUs). Any impairment is recognized immediately as an expense and is not subsequently reversed.

2) Product formulas acquired as part of a business combination transaction are initially recorded at fair value and amortized on a straight-line basis over their useful lives of 20 years.

3) Customer relationships acquired in a business combination are measured at fair value at the acquisition date. The customer relations have a finite useful life and are carried at the recognized amount less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship (10 years).

4) Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a definite useful life and are presented at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

5) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3-5 years) using the straight line method.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Computer software development costs recognized as assets are amortized over their estimated useful lives using the straight line method (3-5 years) commencing the point in time when the asset is available for use, i.e., it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

6) Research and Development

Research expenses are accounted for as expenses as incurred. Cost incurred in respect of development projects (attributable to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible assets so that it will be available for use;
- Management intends to complete the intangible asset and use it or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development costs that do not qualify for recognition as assets are recognized as cost as incurred. Development costs previously recognized as an expense are not recognized as an asset on a subsequent period.

The Group fully recognized the R&D expenses as incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment or more often if events have occurred or changes in circumstances indicate that the carrying amount may not be recoverable.
Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that were subject to impairment are reviewed for possible reversal of the impairment recognized in respect thereof at each statement of financial position date.

h. Government Grants

The group's research and development activities are supported in some of the countries in which it operates, and in Israel through the Israel innovation authority by way of grants. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.
Government grants relating to costs are recognized in the income statement on a systematic basis over the periods in which the Group recognizes the relating costs (the costs that the grants are intended to compensate).

i. Financial assets:

1) Classification

The Group classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, available for sale assets, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Group management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

This category includes two sub-categories: financial assets held for trade and financial assets designated at fair value through profit or loss. A financial asset is classified into this category if it was acquired principally for the purpose of selling in the short term or if was designated to this category by management. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Receivables of the Group are classified as "accounts receivable", "Cash and cash equivalents" and "long term loans and other receivables" in the statement of financial position (Note 2k below).

c) Available-for-sale assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position, or their maturity date is not greater than 12 months after the statement of financial position, in which case they are classified as current assets..

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to the Group or delivered by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows there from have expired or have been transferred and the

Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available for sale assets are subsequently carried at fair value. Loans and receivables are measured in subsequent periods at amortized cost using the effective interest method.

Gains or losses that stem from changes in the fair value of financial assets at fair value through profit or loss are presented in statement of income under "financial expenses - net" in the period in which they incurred. Dividend income from financial assets at fair value through profit or loss are recognized in statement of income under "other income - net" when the group is eligible to these payments.

Gains or losses that stem from changes in the fair value of financial assets at available for sale assets are presented in statement of comprehensive income in the period in which they incurred. When selling available for sale assets, the accumulated gain or losses are reclassified from the comprehensive income to the profit or loss in "other expenses - net".

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

3) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4) Impairment of financial assets

a) Financial assets at fair value through profit or loss

Financial assets are presented at amortized cost.

The Group assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment of a financial assets or group of financial assets include observable: information that came to the attention of the Group in connection with the following loss events:

- Significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

Where objective evidence for impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount of the financial assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed for the asset upon initial recognition). The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of income.

If the amount of impairment loss in a subsequent period decreases, and this decrease may be attributed to an objective event that took place after the impairment was recognized (like improved credit rating of the borrower), reversing the previously recognized impairment loss is recorded in income statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

b) Available-for-sale financial assets

The group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. For testing whether there is objective evidence for impairment of a debt instrument, the Group uses the criteria in (a) above. For investments in equity securities, in addition to the criteria in (a) above, information regarding significant changes having adverse effect on the technological, economical or legal environment in which the issuer operates implicating that the cost of the equity investment might not be recovered as well as significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists, the cumulative loss (recognized in other comprehensive income) – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in income or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement. Impairment losses that are recognized in profit or loss for investment in an equity instrument are not reversed through income or loss.

j. Derivatives financial instruments, embedded derivatives and hedging activity

Hedge of net investment

Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognized in other comprehensive income. Gain or loss on the ineffective portion is recognized in profit or loss. Gains or losses accumulated in equity are recycled to profit or loss when the foreign operation is partially or fully disposed of or sold.

k. Inventories

Inventories are measured at the lower of cost or net realizable value. Raw material cost is determined using the "moving average" method.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes capitalization of borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the applicable and variable selling expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

l. Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts (hereafter – "provision for impairment" or "provision for doubtful accounts"). As to the way the impairment provision is determined and accounting treatment applied thereto subsequently see i4) above.

m. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits and other highly liquid short-term investments, the maturity of which does not exceed three months, bank overdrafts (repayable upon demand).

n. Share Capital

Ordinary shares of the Company are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds of issuance.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity. Any difference between the cost of acquisition of the treasury shares and the consideration is carried to premium on shares.

o. Trade Payables

Trade payables are obligations of the Group to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

If not, they are classified as non-current liabilities.
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

p. Loans

Loans are recognized initially at their fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost; any difference between the consideration (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the loan using the effective interest method.

Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the loans for at least 12 months after the end of the reporting period, in which case they are classified as non-current liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Current and Deferred Income Taxes

The tax expenses for the reported years comprise of current and deferred tax. Tax is recognized in the statement of income, except for taxes related to equity and other comprehensive income items.

The current income tax charge is calculated on basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company and the subsidiaries operate and generate taxable income. Management periodically evaluates tax issues related to its taxable income, based on relevant tax law, and makes provisions in accordance with the amounts payable to the Income Tax Authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Nevertheless, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The amount of deferred income taxes is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax is not calculated on temporary differences arising on investments in subsidiaries, as long as the timing of reversal of the differences is controlled by the Group and it is expected that no such reversal will take place in the foreseeable future.

The group recognizes deferred income tax assets in respect of temporary differences deductible for tax purposes only if it is expected that the temporary difference is revered in the foreseeable future and to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and

- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

As stated in Note 13c, upon distribution of dividends from tax-exempt income of "approved enterprises" or "benefited enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had the company not been exempted from payment thereof. The amount of the related tax is charged as an expense in the statement of comprehensive income, when such dividend is distributed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

r. Employee Benefits:

1) Pension Obligations and retirement benefits

The companies in the group operate a number of post-employment employee benefit plans, including defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.
The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The companies in the group operate a number of pension plans. The plans are funded through payments to insurance companies or pension funds that are managed in trust.

According to their terms, those pension plans satisfy the above definition of a defined contribution plan.

According to labor laws and agreements in Israel and the practices of the companies in the Group, Group companies are obligated to pay retirement benefits to employees dismissed or retiring in certain circumstances.

According to the obligation of group companies to employees who participate in a defined benefit plan, the amounts of benefits those employees are entitled to upon retirement are based on the number of years of services and the last monthly salary.

The obligation of the group companies to all other employees is a defined contribution plan, in which regular contributions are made to a separate and independent entity, and the companies of the Group have no legal or constructive liability to make any further payments if the assets of the funds are insufficient to pay all employees the benefits for work services in the current and past periods.

The total retirement benefit obligation presented in the statement of financial position is the present value of defined benefit contribution as of the date of financial position, less the fair value of plan assets. The defined contributions benefit is measured on an annual basis by an actuary using the projected unit credit method.

The present value of the liability is determined by discounting expected future cash flows (after taking into account the expected rate of payroll hikes) based on the interest rate of government/corporate bonds denominated in the currency in which the benefits will be paid and whose terms to maturity approximate the term of retirement benefit obligation.

According to IAS 19 "Employee Benefits", the discount rate used for calculating the actuarial obligation is determined by using the market return of high-quality corporate bonds on the date of the statement of financial position. However, IAS 19 indicates that in countries where there is no deep market in such bonds, the market rates on government bonds are used.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The group recognizes remeasurements of net obligations (the asset) for defined benefit plan to other comprehensive income in the period in which they incurred. Those remeasurements are created as a result of changes in actuary assumptions, difference between past assumptions and actual results and differences between plan assets return and the amounts included in net interest on net liabilities (the asset) for defined benefit. Past-service costs are recognized immediately in income. Amount funded for severance benefits are measured at fair value. The amounts funded are plan assets as defined by IAS 19, and therefore were offset from the balance of retirement benefit obligation for presentation purposes in the statement of financial position.

As discussed above, the group purchase insurance policies and make contributions to pension and severance pay funds to fund its obligation under defined contribution plan. The group has no further payment obligations once the contributions have been paid. The contributions are defined as an expense for employee benefits concurrently to receiving services from employees that entitle them for contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2) Vacation and Recreation Fees

Under the law in various countries, employee is entitled for vacation days and recreation fees (in Israel), both computed on an annual basis. The entitlement is based on the period of employment. The Group records a liability and an expense in respect of vacation and recreation fees, based on the benefit accumulated for each employee.

3) Bonus plans

Some of the Group's employees are entitled to receive an annual bonus in accordance with the bonuses plan determined by Group management for that year. The Group provides for payment of the bonus in accordance with meeting the targets of the plan and in accordance with Group's estimate as to the total amount of bonuses to be paid to employees.

s. Share-Based Compensation

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity’s share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and it is possible to prepare a reliable estimation of the amount of liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the cash flow expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

u. Revenue Recognition Policy

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenues from sale of goods are recognized by the Group when all of the following conditions are met:

(a) The significant risks and rewards of ownership of the goods have been transferred by the Group to the buyer;
(b) The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
(c) The amount of revenues can be reliably measured.
(d) It is probable that future economic benefit relating to the transaction will flow to the Group; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The products are occasionally sold with volume discounts; customers have a right to return faulty products. Sales are recorded based on the selling price, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is present as the sales are made with an average credit term, which is not higher than the market practice.

v. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Long term lease contracts for lease of land from the Israel Land Administration and from other countries are presented among fixed assets.

w. Earnings per Share

Basic:

The computation of basic earnings per share is based, as a general rule, on the profit attributable to holders of ordinary Company shares divided by the weighted average number of ordinary shares in issue during the period, excluding Company shares held by group subsidiaries (Notes 2m).

Fully Diluted:

When calculating the diluted earnings per share, the Group adds to the average number of shares outstanding that was used to calculate the basic earnings per share also the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares. The potential shares, as above are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

The weighted average number of shares used in calculating Basic and Diluted earnings per share is as follows:

	Basic	Diluted
	In thousands	In thousands
Year end 31 December:		
2017	59,342	59,632
2016	58,916	59,494
2015	58,573	59,141

x. Dividends

Dividend distribution to the Company's owners is recognized as a liability in the Group's statement of financial position on the date on which the dividends are approved by the Group’s Board of Directors. Dividend paid includes an erosion component (from date of approval of dividend through date of payment thereof).

y. New standards, amendments and interpretations of existing standards, which have not yet become effective and not been early adopted by the Company:

1. Amendment to IFRS 9 – "Financial Instruments" (hereafter – "IFRS 9" or "the standard"):

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The new impairment model establishes a three stage approach, based on changes in expected credit risk of a financial instrument. Each stage determines how to measure credit losses and how to apply the effective interest method. In addition, for financial assets that have no material financing element, such as receivables, it is possible to implement a simpler method. At initial recognition of a financial asset, an entity recognizes a loss allowance equal to 12 months expected credit losses, or the loss expected over the life of the instruments for accounts receivables, unless the asset is considered to have an "impaired credit rating".

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through other comprehensive income.

IFRS 9 simplifies the requirements for testing hedge effectiveness by dropping the strict quantitative thresholds for testing hedge effectiveness. IFRS 9 requires economic relationship between the underlying hedged risk component and the hedging instrument, and that the hedge ratio is the same used for risk management purposes. The standard retains the requirement for maintaining documentation throughout the hedge period, but documentation is different than that required by IAS 39.

IFRS 9 will be applied retrospectively for annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

According to the Company assessment, the adoption of IFRS 9 is not expected to have material impact on the financial statements.

2. IFRS 15 "Revenue from Contracts with Customers" (hereinafter - IFRS 15)

IFRS 15 will replace after its first-time adoption the guidance on revenue recognition in current IFRSs.

The core principle of IFRS 15 is that revenue from contracts with customers should be recognized using the method that best depicts the transfer of control of goods and services to the customer, the amount of consideration that the entity expects to be entitled to in exchange for transferring promised goods or services to a customer.

IFRS 15 has a single model for revenue recognition, based on a five-step approach:

(1) Identify the contract(s) with the customer
(2) Identify the separate performance obligations in the contract
(3) Determine the transaction price
(4) Allocate the transaction price to separate performance obligations
(5) Recognize revenue when (or as) each performance obligation is satisfied

IFRS 15 covers accounting for a variety of issues related to implementation of that model, including: recognition of contractual variable consideration, adjustment of contractual transaction price to reflect the time value of money, and cost of obtaining and fulfilling the contract.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The standard expands the disclosure requirements about revenue, and, among other things, requires quantitative and qualitative information about significant management judgments that were considered for determining the amount of revenue recognized.

On July 22, 2015, the IASB decided to defer the effective date of the standard by one year, such that the standard will be applied retrospectively for annual periods beginning on or after January 1, 2018 with some exceptions as provided in the transitional provisions of IFRS 15. According to the provisions of IFRS 15, early adoption is permitted.

Group management believes that the new standard is not expected to have material impact on the financial statements.

3. IFRS 16 "Leases"

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 - "Leases"(hereafter – "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The group has decided to early adopt the standard, while applying the accumulated impact as of January 1, 2018 and additional reliefs, as the standard allows. The implementation is expected to impact the accounting of lease agreements: Real-estate, equipment and vehicles. Starting January 1, 2018 the Company is going to recognize assets and liabilities due to leases, which until then were accounted as operational leases.

According to the Company assessment and the information available as of the date of this report:

1) During the first-time implementation – Increase of approx. $ 40 million to $ 42 million in assets and liabilities.
2) Decrease of operational expenses during 2018 amounting approx. $ 9 million to $ 11 million and an increase of depreciation and financial expenses in a similar amount. Additional impact is expected to the cash flow from operating activities and a decrease in the cash flow from financing activities amounting $ 9 million to $ 11 million.
3) The assessment is based on the information currently available and changes in lease agreements and additional examination could have impact on the final amounts.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial Risk Management

1) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the board of directors and senior management. These policies cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity. Group policies also cover areas such as cash management and raising short and long-term debt.

The Group's business is characterized by considerable dispersion. The Group produces tens of thousands of products intended for tens of thousands of customers throughout the world, using tens of thousands of raw materials purchased from a wide range of suppliers worldwide. As stated, the Group is not significantly dependent on any of its customers, products or suppliers.
Discussions on implementing the risk management policy as relates to currency exposure and interest are conducted by the Group's management once each quarter.

a) Market Risks:

1) Foreign Exchange Risk

The Group operates globally and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in U.S. dollars.
Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. Most Group entities produce their income primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale are in foreign currencies. Similarly, transaction exposure arises on net balances of financial assets held in foreign currencies. Since raw materials purchases for the Group's production are also conducted in various currencies, currency exposure is reduced.
The Group's subsidiaries manage this exposure locally. In addition, Group management monitors total global exposure of the Group.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

Translation exposure arises from the consolidation of the Foreign Currency denominated financial statements of the Company's subsidiaries. The effect on the Group's consolidated comprehensive income is shown as a currency translation difference.

The following table presents currency exposure in respect of balance denominated in currencies that are different than the functional currency of the reporting company and also the effect on income after taxes. At 31 December 2017 and 2016, if the currencies specified below had weakened/strengthened by 1% against the other functional currencies of group companies, with all other variables unchanged:

	31 December 2017			
	U.S. dollars in thousands			
	NIS	**Pound Sterling**	**Euro**	**Swiss Franc**
Financial asset(liabilities), net	(22,927)	3,531	(81,296)	3,468
Gain (loss) from change:				
Impact of 1% weakening	229	(35)	813	(35)
Impact 1% strengthening	(229)	35	(813)	35

	31 December 2016			
	U.S. dollars in thousands			
	NIS	**Pound Sterling**	**Euro**	**Swiss Franc**
Financial asset(liabilities), net	(3,444)	711	(195,240)	911
Gain (loss) from change:				
Impact of 1% weakening	34	(7)	1,952	(9)
Impact 1% strengthening	(34)	7	(1,952)	9

* Represents amounts lower than $1 thousand.

2) Cash Flow Risk Relating to Interest Rates

Since on a current basis the Group does not have significant assets bearing interest, its revenues and operating cash flow are not dependent on changes in interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings received at variable rates expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Based on the simulations performed, the impact on post tax profit for the year 2017 of a 0.1% shift in interest rate on loans would have been a change of $ 362 thousand (2016 - $258 thousand; 2015 - $233 thousand).

b) Credit Risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Group.

Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and accounting monitoring procedures.

There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored. Collateral is generally not required.

The provision for impairment of trade receivables is determined on basis of a periodic test of all amounts due.
The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

Group entities must have sufficient availability of cash to meet their obligations. Each company is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies and to monitoring of Group management.

The table presented below classifies the Group's financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2017 to the contractual maturity date. Group entities do not have derivative financial liabilities. The amounts presented in the table represent the projected undiscounted cash flows.

	Less than 1 year	**Between 1 and 3 years**	**Between 3 and 5 years**
	U.S. dollars in thousands		
As of 31 December 2017:			
Borrowings – Variable interest	311,215	157,598	31,973
Borrowings – Fixed interest	67,030	54,774	22,112
Liability for put option for the shareholders of a subsidiary	7,560	50,367	51,011
Accounts payable and accruals	231,813	926	-
	617,618	263,665	105,096
As of 31 December 2016:			
Borrowings – Variable interest	203,233	157,406	48,282
Borrowings – Fixed interest	34,074	71,959	28,418
Liability for put option for the shareholders of a subsidiary	40,350	18,261	31,746
Accounts payable and accruals	190,427	21,105	-
	468,084	268,731	108,446

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

c) Liabilities in respect of put options

As part of the transaction for several acquisitions, the former owners of the acquired entities were granted an option to sell the company their remaining shares, and the company has an option to buy those shares; (the price and the conditions of the call options are identical to the price of the put option). This mechanism exists in the following acquisitions:

1. Sonarome Private Ltd. ("Sonarome").
2. Amco SP ("Amco"), see note 5j.
3. Ingenieria Alimentaria S.A. De C.V ("Piasa"), see note 5p.
4. Western Flavors Fragrances Production Joint Stock Company, ("WFF"), see note 5d.
5. Brasil Industria E Comercio Ltda, ("SDFLC"), see note 5e.
6. Turpaz Perfume and Flavor Extracts Ltd. ("Turpaz"), see note 5h.

As of December 31, 2017, the total amount of the PUT options amounted to $ 93,984 thousands; The liability was estimated in accordance with the average EBITDA to be achieved during the period of the agreement. The annual weighted capitalization rate of the option is 3.3%.

The main unobservable data used by the company for the purpose of estimating the value of the option is the future EBITDA to be achieved. For the purpose of estimating the value of the liabilities for the options and their update, the company used its current business results and the company forecast.

b. Capital management

Group's objective is to maintain, as possible, stable capital structure. In the opinion of Group's management its current capital structure is stable. Consistent with others in the industry, the Group monitors capital, including others also, on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	**2016**
	U.S. dollars in thousands	
Total borrowings (Note 9)	634,286	533,780
Less - cash and cash equivalents (Note 19)	(118,214)	(113,528)
Net debt	516,072	420,252
Total equity	878,913	664,604
Total capital	1,394,985	1,084,856
Gearing ratio	37.0%	38.7%

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, not necessarily be equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Estimate of impairment of goodwill

The Group tests annually for impairment of goodwill, in accordance with the accounting policy states in Note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

b. Taxes on income and deferred taxes

The Group is subject to income taxes in a large number of countries. Judgment is required in determining the worldwide provision for income taxes. The group is involved in transactions and computations whose final tax liabilities cannot be determined with certainty in the normal course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due as a result of the tax audits. Where the final tax outcome of these matters, determined by tax authority is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities provisions in the period in which such determination is made.

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

c. Severance pay

The present value of the liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include, inter alia, the yields rate and the rate of discount. Changes in those assumptions shall influence the carrying amount of the assets and liabilities in respect of severance pay.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The assumption regarding the required rate of discount is determined by the external actuaries at the end of each year. This rate of discount shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The company uses the market of high-quality corporate bonds when this market available, when his not, government bonds is sufficient to serve as basis for determining the rate of discount. Therefore, in determining this rate the Group uses interest rate in the currency in which the benefits will be paid.
Other key assumptions relating to severance pay liabilities, such as future payroll raise and retirement rates are partially based on existing market conditions on that time and on past experience.

d. Provisions

Provision for legal liabilities are recorded in the books of accounts in accordance with Group management’s judgment, based on the opinion of its legal advisors, regarding the reasonability that the cash flows shall indeed by used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash outflows that would be required to meet the existing liabilities.

NOTE 5 – 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 5 – 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 approx. ZAR 90 million (approx. USD 6.4 million), of which approximately USD 1 million will be paid as deferred payment. The purchase agreement includes a mechanism for future consideration contingent on Unique’s future business performance amounted approx. ZAR 6.1 million (approx. USD 493 thousands), which was paid after the balance sheet date. 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 (the non-sweet spectrum of flavors) and on sweet taste solutions. Unique 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 amounting to ZAR 14,525 thousands ($ 1,080 thousands), customer relations amounting to ZAR 16,929 thousands ($ 1,258 thousands), goodwill amounting to ZAR 66,790 thousands ($ 4,966 thousands) and software amounting to ZAR 108 thousands ($ 8 thousands). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

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

	Fair value U.S. dollars In thousands
Current assets:	
Trade	2,114
Inventory	314
Others	97
Non-current assets:	
Property, plant and equipment	173
Intangible assets	7,312
Current liabilities :	
Trade payables	(1,567)
Other account payables	(1,326)
Short-term loans	(48)
Non-current liabilities:	
Deferred taxes	(700)
	6,369

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 9,159 thousands. In the course period Unique and Frutarom South Africa were merged into a single entity, which operates under the same management.

NOTE 5 – BUSINESS COMBINATIONS (continued):

C. Acquisition of Rene Laurent

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

Founded in 1885, 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 plus a production site near Casablanca, Morocco. 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 amounting to EUR 1,763 thousands ($ 1,880 thousands), customer relations amounting to EUR 2,870 thousands ($ 3,060 thousands) and goodwill amounting to EUR 9,553 thousands ($ 10,186 thousands). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

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	969
Trade	3,665
Inventory	4,110
Others	232
Non-current assets:	
Property, plant and equipment	1,515
Intangible assets	15,126
Current liabilities :	
Trade payables	(1,765)
Other payables	(784)
Non-current liabilities:	
Other long term payables	(706)
Deferred taxes	(1,412)
	20,950

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 10,891 thousands and net profit of $ 142 thousands (net of acquisition costs).

NOTE 5 – 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 (approx. 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. 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. 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.

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 amounting to VND 7,741 thousands ($ 342 thousands), customer relations amounting to VND 15,180 thousands ($ 671 thousands) and goodwill amounting to VND 10,445 thousands ($ 462 thousands). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

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	114
Trade	351
Inventory	743
Others	140
Non-current assets:	
Property, plant and equipment	411
Intangibles	1,475
Current liabilities :	
Trade payables	(392)
Other payables	(444)
Non-current liabilities:	
Other long term payables	
Deferred taxes	(223)
Other long term payables	(1,118)
	1,057

NOTE 5 – BUSINESS COMBINATIONS (continued):

d. Acquisition of WFF (continued)

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 726 thousands and net profit of $ 74 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 approx. BRL 98 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. 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 amounting to BRL 16,049 thousands ($ 4,812 thousands), customer relations amounting to BRL 52,988 thousands ($ 15,884 thousands), goodwill amounting to BRL 120,983 thousands ($ 36,271 thousands) and software amounting to BRL 39 thousands ($ 14 thousands). 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 5 – 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	2,154
Inventory	1,786
Others	264
Non-current assets:	
Property, plant and equipment	2,613
Intangible assets	56,981
Current liabilities :	
Bank credit and loans	(219)
Trade payables	(717)
Other account payables	(7,036)
Non-current liabilities:	
Deferred taxes	(4,329)
Long-term other account payables	(20,198)
Long term loans	(1,908)
	29,429

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 15,983 thousands and net profit of $ 3,844 thousands (net of acquisition costs).

f. Acquisition of F&E

On August 14, 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 £ 15.6 million (approximately US$ 20.3 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.

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 amounting to GBP 2,516 thousands ($ 3,269 thousands), customer relations amounting to GBP 4,265 thousands ($ 5,541 thousands) and goodwill amounting to GBP 10,001 thousands ($ 12,993 thousands). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

NOTE 5 – BUSINESS COMBINATIONS (continued):

f. Acquisition of F&E (continued):

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	1,774
Non-current assets:	
Property, plant and equipment	575
Intangible assets	21,803
Current liabilities :	
Trade payables	(1,855)
Other payables	(1,933)
Non-current liabilities:	
Long-term other payables	(5,010)
Deferred taxes	(1,459)
	20,303

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 8,634 thousands and net profit of $ 1,989 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 approx. CHF 6.7 million (approx. $ 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), 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.

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 amounting to CHF 567 thousands ($ 592 thousands), customer relations amounting to CHF 593 thousands ($ 618 thousands), goodwill amounting to CHF 4,407 thousands ($ 4,597 thousands) and software amounting CHF 7 thousands ($ 8 thousands). 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 5 – BUSINESS COMBINATIONS (continued):

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	5,815
Current liabilities :	
Trade payables	(117)
Other payables	(55)
Non-current liabilities:	
Deferred taxes	(211)
	6,975

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 1,158 thousands and net profit of $ 108 thousands (net of acquisition costs).

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$ 7.4 million) in BKF. The purchase and investment agreement includes a mutual 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 in the eighth quarters preceding the notification to realize the option. Considering the mutual option terms, the group has recognized 100% of the share capital of Turpaz and the related liability due to the capitalized value of the option. 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 amounting to NIS 6,834 thousands ($ 1,900 thousands), customer relations amounting to NIS 11,297 thousands ($ 3,142 thousands) and goodwill amounting to NIS 82,253 thousands ($ 22,873 thousands). 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

NOTE 5 – BUSINESS COMBINATIONS (continued):

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	8,713
Trade	2,057
Inventory	1,171
Other receivables	239
Non-current assets:	
Property, plant and equipment	111
Intangible assets	27,915
Current liabilities :	
Trade payables	(636)
Other payables	(1,672)
Non-current liabilities:	
Bank loans	(1,770)
Other long term payables	(23,372)
Deferred taxes	(1,215)
	11,541

From the date it was consolidated with the financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of $ 2,520 thousands and net profit of $ 328 thousands (net of acquisition costs).

i. Acquisition of Pollena

On 19 December, 2017 Frutarom purchased 99.96% of the shares in the Polish company Fabryka Substancji Zapachowych "Pollena-Aroma" Sp, z.o.o. (“Pollena-Aroma”) for approx. $ 8.4 million (approx. PLN 29.2 million). The transaction was completed upon signing and financed from independent sources.

Pollena-Aroma, established in 1956, engages in the development, production and marketing of flavors, fragrances and specialty ingredients for the aromatherapy and natural cosmetics industries. Pollena-Aroma operates a modern advanced production site near Warsaw which includes an R&D center and labs, and state-of-the-art production with robotic equipment in the US which will become a significant R&D, production, and sales and marketing center for Frutarom’s European fragrances activity. Pollena-Aroma has 64 employees and a large customer base in Europe, particularly in Poland and Ukraine.

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 amounting to PLN 2,356 thousands ($ 676 thousands), customer relations amounting to PLN 30 thousands ($ 9 thousands), goodwill amounting to PLN 7,810 thousands ($ 2,240 thousands) and software amounting to PLN 62 thousands ($ 17 thousands).

NOTE 5 – BUSINESS COMBINATIONS (continued):

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 Pollena at date of acquisition:

	Fair value
	U.S. dollars In thousands
Current assets:	
Cash and cash equivalents	374
Trade	1,240
Inventory	893
Other receivables	57
Non-current assets:	
Property, plant and equipment	6,390
Intangible assets	2,942
Current liabilities :	
Trade payables	(680)
Other payables	(782)
Non-current liabilities:	
Other long term payables	(1,928)
Deferred taxes	(118)
	8,388

The results of Pollena shall be consolidated as of December 31, 2017. Therefore the results of this company have not effect on income and loss for the year 2017.

Acquisitions carried out in 2016:

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

On January 11, 2016 Frutarom completed the acquisition of 75% of the share capital of the Polish Company Amco Sp. z.o.o, (hereafter – "Amco") in consideration for $ 22.4 million (88.5 million PLN). The purchase agreement includes a mutual option for acquiring the remaining shares starting two and a half years from the closing date of the transaction at a price based on the Amco's business performance. Considering the mutual terms of the option, the Company recognized the full implicit liability of the option realization.

k. Acquisition of Wiberg

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

NOTE 5 – BUSINESS COMBINATIONS (continued):

l. Acquisition of Grow Company Inc.

On January 11, 2016 the Company signed an agreement for the acquisition of 100% of the shares of the US-based company Grow Company Inc. (hereafter – "Grow") in consideration for $ 20 million. The transaction was completed on the date of signing the agreement and was financed using a bank debt. The purchase agreement includes a mechanism for future consideration conditional on the Company's business performance during 2016 and completed in the end of the first quarter of 2017 in the amount of $ 10,800 thousands.

m. Acquisition of Extrakt Chemie

On May 2, 2016, the Company signed an agreement for the acquisition of 100% of the rights and the general partner in the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH &Co. KG (hereafter - "Extrakt Chemie") as well as the property on which Extrakt Chemie’s plant is situated in consideration for approx. $ 6.3 million in cash (approx. € 5.4 million) plus the assumption of debt (net) amounting to approx. $ 1.4 million (approx. € 1.2 million). The purchase agreement includes a mechanism for future consideration conditional on the business performance of Extrakt Chemie and will be paid during 2018.

n. Acquisition of Redbrook Ingredient Services Limited

On August 2, 2016 the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares in the Irish company Redbrook Ingredient Services Limited ("Redbrook") in exchange for approximately USD 44.8 million (€ 40 million). The purchase agreement includes a mechanism for additional consideration based on Redbrook’s future business performance.

o. Acquisition of Nardi Aromas

On October 11, 2016 the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares in the Brazilian company Nardi Aromas Ltda. ("Nardi") in exchange for approximately USD 1.6 million (BRL 5.1 million).

p. Acquisition of Piasa

On November 9, 2016, Frutarom signed, through a subsidiary, an agreement to acquire 75% of share capital of the Mexican company Ingenieria Alimentaria, S.A. De C.V. ("Piasa"), as well as the real estate in Monterrey, Mexico, where its central manufacturing site and headquarters are located, in exchange for a cash consideration (including debt) of $15.1 million, and deferred consideration of $2.3 million. The purchase agreement includes a mechanism for additional consideration based on future business performance in 2016. Additionally, the agreement includes a mutual option to acquire the remaining shares beginning from 5 years after closing at a price that is based on business performance of the Company. Considering the mutual terms of the option, the Company recognized the full implicit liability of the option realization.

NOTE 5 – BUSINESS COMBINATIONS (continued):

q. Had the acquisitions, carried out in 2017 and 2016, been completed on January 1, 2016, based on the unaudited information provided by owners of the acquiree based on the pre-acquisition accounting activity, the revenue of the Group for the year ended December 31, 2016 would have been $ 1,292,086 thousand, and net income for that year would have been $ 137,736 thousands. Based on the above, the revenue of the Group for the year ended December 31, 2017 would have been $ 1,401,960 thousand, and net income for that year would have been $ 158,396 thousands.

The above results include interest expenses for loans to finance the acquisition that would have been registered in that period, depreciation and amortization that may have been recognized in that period for amortization of intangible assets and one-off expenses recognized on acquisition date. In the aforesaid calculation were not taken in the account of synergies that would get accepted from merger of the acquisitions with activity of the company.

NOTE 6 – SEGMENT REPORTING

a. Operating Segments

The core activity of the Group is organized to support management to perform on a worldwide basis in two major operating activities: Flavors and Fine Ingredients. Another operating activity is Trade and Marketing (each operation is considered to be a reportable segment (Note 2d). Results of operating segments are measured based on operating income.

Frutarom's Flavors Activity develops, produces, markets and sells high-quality, value added sweet and savory flavors used mainly by manufacturers of food and beverages and other consumer products including flavors and Food Systems products (products combining fruits, vegetables and/or other natural ingredients, including sweet and non-sweet flavors. As part of Frutarom's Specialty Fine Ingredients Activity develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae based biotechnical products, aroma chemicals specialty essential oils, unique citrus products, natural gums and stabilizers.

The Specialty Fine Ingredients products are sold primarily to the food and beverage, flavor and fragrance, pharmaceutical/nutraceutical, cosmetics and personal care industries.

The Trade and Marketing activity is not considered a core activity, and focuses in trade and marketing of raw materials produced by third parties, as part of providing a complete set of solutions and services to customers;
These operations are the basis on which the Group reports its primary segment information.

Segment data provided to the chief operating decision-maker in respect of the reported segments for the year ended:

NOTE 6 – SEGMENT REPORTING (continued):

a. Operating Segments

December 31, 2017 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Elimination	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	1,025,359	246,075	90,962	-	1,362,396
Intersegment	-	14,047	-	(14,047)	-
Total sales and other operating income	1,025,359	260,122	90,962	(14,047)	1,362,396
Segment results	177,680	31,638	1,664	(16)	210,966
Financial expenses – net					24,606
Taxes on income					34,797
Net income					151,563

December 31, 2016 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Elimination	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	846,517	221,030	79,494	-	1,147,041
Intersegment	-	6,830	-	(6,830)	-
Total sales and other operating income	846,517	227,860	79,494	(6,830)	1,147,041
Segment results	125,825	21,549	1,938	(56)	149,256
Financial expenses – net					12,841
Taxes on income					25,346
Net income					111,069

December 31, 2015 is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Elimination	Total Consolidated
Income statement data:	U.S. dollars in thousands				
Sales – net:					
Unaffiliated customers	607,534	180,918	84,344	-	872,796
Intersegment	-	4,026	-	(4,026)	-
Total sales and other operating income	607,534	184,944	84,344	(4,026)	872,796
Segment results	108,751	18,900	2,870	(267)	130,254
Financial expenses – net					12,197
Taxes on income					21,972
Net income					96,085

NOTE 6 – SEGMENT REPORTING (continued):

a. Additional information:

1) Geographical Segment information

As of December 31, 2017 Frutarom operated 72 production sites, 90 research and development laboratories, and 109 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 70,000 products to more than 30,000 customers in more than 150 countries.

2) Sales by Destination Based on End Customer Location

Following are data regarding the distribution of the Company's sales by:

	Year ended 31 December		
	2017	**2016**	**2015**
	U.S. dollars in thousands		
Emerging Market*	585,619	470,247	384,804
West Europe**	494,149	424,292	281,745
USA and North America	195,280	173,216	136,633
Other	87,348	79,286	69,614
Total consolidated sales	1,362,396	1,147,041	872,796

* Sales in Russia amounted to $ 160,363 thousands, $ 150,370 thousands and $ 142,885 thousands in 2017, 2016 and 2015, respectively.

** Sales in Germany amounted to $ 134,964 thousands, $ 121,261 thousands and $ 66,018 thousands in 2017, 2016 and 2015, respectively.

*** Sales in USA amounted to $ 149,579 thousands, $ 132,649 thousands and $ 111,767 thousands in 2017, 2016 and 2015, respectively.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

a. Composition of assets, grouped by major classifications and changes therein in 2017 is as follows:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at Beginning of year	Additions During the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2017
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	223,850	9,106	(863)	32,869	264,962	71,686	3,583	(59)	8,471	83,681	181,281
Machinery and equipment	265,112	18,867	(10,949)	31,443	304,473	183,469	14,078	(10,248)	22,064	209,363	95,110
Vehicles and lifting Equipment	10,716	1,756	(2,445)	1,309	11,336	6,713	1,488	(2,086)	665	6,780	4,556
Furniture and office equipment (including computers)	48,595	3,498	(1,572)	3,895	54,416	24,236	2,568	(1,290)	3,772	29,286	25,130
Leasehold improvements	17,479	1,167	(796)	1,206	19,056	10,828	1,404	(695)	720	12,257	6,799
	565,752	34,394	(16,625)	70,722	654,243	296,932	23,121	(14,378)	35,692	341,367	312,876

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued):

a. Composition of assets, grouped by major classifications and changes therein in 2016 is as follows:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at Beginning of year	Additions During the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2016
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	188,582	6,440	(1,328)	30,156	223,850	55,705	6,804	(38)	9,215	71,686	152,164
Machinery and equipment	240,587	14,502	(21,801)	31,824	265,112	171,428	12,375	(19,318)	18,984	183,469	81,643
Vehicles and lifting Equipment	8,963	2,016	(1,628)	1,365	10,716	5,689	1,326	(1,197)	895	6,713	4,003
Furniture and office equipment (including computers)	43,694	3,503	(5,538)	6,936	48,595	24,059	385	(5,342)	5,134	24,236	24,359
Leasehold improvements	19,033	2,032	(5,880)	2,294	17,479	11,192	1,366	(3,289)	1,559	10,828	6,651
	500,859	28,493	(36,175)	72,575	565,752	268,073	22,256	(29,184)	35,787	296,932	268,820

* Arising from acquisition of consolidated companies and operations and from translation of foreign currency financial statements of consolidated subsidiaries.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (continued):

b. Lease of land

1) Frutarom Ltd. has a leasehold right in land located in the Akko Industrial Zone and the Haifa Bay. The net capitalised lease fees as at December 31, 2017, in respect of the said lands, amount to $ 981 thousands (2016- $ 1,013 thousand). The leasing period is 49 years ending in the years 2032 through 2042. Frutarom Ltd. has a right to extend the leasing for an additional 49-year period.

2) A subsidiary in China has "Land Use Rights" on land in China. The rights are for a period of 50 years ending in 2046 and 2052. Net capitalised lease fees as at December 31, 2017, in respect of the said land, amount to approximately $ 135 thousand (2016 - $ 143 thousand) and an amount of approximately $ 1,062 (2016 - $ 1,041), respectively.

3) In 2015, a subsidiary in China acquired "Land Use Rights". The rights are for a period of 50 years. Net capitalised lease fees as at December 31, 2017, in respect of the land, amount to $ 1,211 thousand.

NOTE 8 – INTANGIBLE ASSETS:

	Original amount		Amortized balance	
	31 December		31 December	
	2017	2016	2017	2016
Know-how and product formulas	161,999	136,903	119,324	104,509
Goodwill	593,168	456,944	589,250	454,687
Customer relations	177,926	137,010	116,628	94,688
Trademarks	309	500	18	58
Computer software	30,607	31,305	4,006	3,839
	964,009	762,662	829,226	657,781

NOTE 8 – INTANGIBLE ASSETS (continued):

Composition of Intangible Assets, Grouped by Major Classifications and Changes Therein is as Follows:

	Computer software	Know-how and Product formulas	Goodwill*	Customer relations	Trademarks	Total
	U.S. dollars in thousands					
Balance as of 1 January 2016 – net	4,294	73,112	335,538	60,707	156	473,807
Changes in the year ended 31 December 2016:						
Acquisitions	950	297	-	-	97	1,344
Retirements during the year	(100)	-	-	-	(5)	(105)
Adjustment arising from acquisition of consolidated Companies	588	39,382	129,341	48,252	-	217,563
Exchange differences	(35)	(1,856)	(11,034)	(2,139)	(94)	(15,158)
Changes in the excess of cost of acquisition	347	-	842	-	-	1,189
Annual amortization charge (Note 2f)	(2,205)	(6,426)	-	(12,132)	(96)	(20,859)
Closing net book amount	3,839	104,509	454,687	94,688	58	657,781
Changes in the year ended 31 December 2017:						
Acquisitions	1,669	1,163	-	-	58	2,890
Retirements during the year	(141)	-	-	-	-	(141)
Adjustment arising from acquisition of consolidated Companies	47	14,549	95,295	30,269	17	140,177
Exchange differences	465	6,174	43,111	6,585	(6)	56,329
Changes in the excess of cost of acquisition	(499)	262	(3,843)	(54)	-	(4,134)
Annual amortization charge (Note 2f)	(1,374)	(7,333)	-	(14,860)	(109)	(23,676)
Closing net book amount	4,006	119,324	589,250	116,628	18	829,226

NOTE 8 – INTANGIBLE ASSETS (continued):

Impairment test for goodwill

The goodwill recorded in the Group's books of accounts arises from acquisitions of consolidated companies and operations carried out by the Group over the years, the goodwill is allocated to the cash-generating units of the Group in accordance with the unit and the business segment from which it arises.

Set forth below is a summary of goodwill allocation between the various cash-generating units:

	31 December	
	2017	2016
	U.S. dollars in thousands	
Cash-generating unit 1	331,870	242,383
Cash-generating unit 2	156,677	115,628
Cash-generating unit 3	58,325	56,276
Cash-generating unit 4	42,378	40,400
Total	589,250	454,687

The Company has 6 cash-generating-units, 4 of which have goodwill. The Company's management shall continue reviewing the structure of its cash-generating-units on an ongoing basis and adjust it to allow the development of its business.

The changes in goodwill between the years are due to acquisitions of new companies/operations, changes in the exchange rate of the currency of the foreign operation compared with the dollar as explained in Notes 5 and 2c-4.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on past results of the unit, its budget for the following year and the projection for future years, cash flows from the fifth-year are extrapolated using a grow rate of 2.5%-3%, according to the activity area of the cash generating unit, which does not exceed the long-term growth rate for the food business and the relevant areas, in which the Group operates.

The average discount rate taken into account in the calculation is 9.1% before taxes.

NOTE 8 – INTANGIBLE ASSETS (continued):

Group management determined profit rates based on past performance and its expectations for developments in respect of each of the cash-generating units.

The recoverable amount of cash-generating unit 1, 2 and 3 was calculated and examined by an external assessor, whereas the recoverable amount of cash-generating unit 4 was calculated and examined by Group management.

The results of the above analysis show that the value of goodwill of each of the said cash-generating units has not been impaired, both in the basic calculations and in calculations performed for the purpose of sensitivity test.

NOTE 9 – BORROWINGS

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
Non current borrowings	262,151	299,576
Current borrowings:		
Current maturities of long-term loans	213,469	174,534
Bank borrowings	158,666	59,670
	372,135	234,204
Total borrowings	634,286	533,780

Bank borrowings as of December 31, 2017 mature until 2024 and bears average interest of 1.47% according to the loan terms and Libor rates as of 31 December, 2017.
The exposure of the Group's cash flows to interest rate changes is dependent at the rate of Libor-Euro, Libor-Dollar, Libor-Swiss franc and Libor-Pound Sterling and it is updated on a quarterly basis.

Due to the above, the fair value of current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted the borrowings' discount rate.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Weighted average interest rates*	31 December	
		2017	**2016**
		U.S. dollars in thousands	
Pound sterling	1.75%	99,784	56,481
Dollars	2.71%	170,008	121,087
Euro	1.04%	263,789	282,647
Swiss Franc	0.54%	96,088	71,357
Other currencies	6.50%	4,617	2,208
		634,286	533,780

* Interest rates as of 31 December, 2017.

NOTE 9 – BORROWINGS (continued):

The long term liabilities (net of current maturities) mature in the following years after the balance sheet dates:

	2017	2016
	U.S. dollars in thousands	
Second year	114,709	171,420
Third year	94,232	54,946
Fourth year	23,168	64,498
Fifth year	30,042	8,712
	262,151	299,576

The Group has several loans, in respect of which it has undertaken to meet certain financial covenants (see note 14). As of 31 December 2017, the Group meets all the required financial covenants.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT:

a. Labour laws and agreements in Israel and abroad require the Company and part of its consolidated companies to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. Group companies' liability is covered mainly by regular contributions in defined contribution plans. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the companies.

b. Under the agreement with its employees, the U.S. subsidiary financed a defined benefit plan. As part of the collective agreement signed between the Company's subsidiary and the industrial labour union on 13 October, 2000, the U.S. subsidiary suspended the said plan and joined, as from that date, a comprehensive pension plan of the labour union, which is a defined contribution plan.
The U.S. subsidiary will continue financing its existing liabilities under the suspended pension plan. The amount of liability for employee rights upon retirement and amounts funded, as presented in the consolidated accounts, reflect, inter alia, the U.S. subsidiary's liability in respect of the suspended plan.

c. The Swiss and German subsidiaries have a liability for payment of pension to employees in Switzerland and Germany under a defined benefit plan. The said liabilities have been transferred to these subsidiaries as part of the acquisition of subsidiaries in 2003 and 2007, respectively. The consolidated companies make deposits with pension plans in respect of these liabilities. The amount of the liability for pension (net) included in the balance sheet reflects the difference between the liability for pension payments and the assets of the pension fund.

d. The Company's severance pay liability in respect of Israeli employees for whom the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the consolidated statements of financial position.

e. Amounts charged to income statement in respect of defined benefit plan in 2017, 2016 and 2015 are $ 2,351 thousands, $ 2,493 thousands and $ 2,468 thousands, respectively.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

Changes in net liability (asset):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	US dollars in thousands		
Balance as of January 1, 2017	63,739	(28,699)	35,040
Current service cost	2,351	-	2,351
Interest expenses (income)	733	(295)	438
Past service cost	(1,837)	-	(1,837)
	1,247	(295)	952
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-	(1,655)	(1,655)
Loss (gain) from change in demographic Assumptions	8	-	8
Loss (gain) from change in financial assumptions	(787)	-	(787)
Loss (gain) arising from experience adjustments	(1,012)	-	(1,012)
	(1,791)	(1,655)	(3,446)
Differences from translation of financial statements	4,374	(1,345)	3,029
Acquisition of consolidated Companies			
Employer's contributions	745	(1,706)	(961)
Benefit payments	(3,136)	2,528	(608)
Balance as of December 31, 2017	65,178	(31,172)	34,006

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	US dollars in thousands		
Balance as of January 1, 2016	61,499	(29,279)	32,220
Current service cost	2,493	-	2,493
Interest expenses (income)	788	(303)	485
Other	63	-	63
	3,344	(303)	3,041
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-	(358)	(358)
Loss (gain) from change in demographic Assumptions	(980)	-	(980)
Loss (gain) from change in financial assumptions	1,179	-	1,179
Loss (gain) arising from experience adjustments	(1,200)	-	(1,200)
	(1,001)	(358)	(1,359)
Differences from translation of financial statements	(1,757)	709	(1,048)
Acquisition of consolidated Companies	3,855	-	3,855
Employer's contributions	835	(2,128)	(1,293)
Benefit payments	(3,036)	2,661	(375)
Balance as of December 31, 2016	63,739	(28,698)	35,041

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

The following amounts were recognized in the statement of financial position for post-employment defined benefit plans:

	December 31	
	2017	2016
	U.S. dollars in thousands	
Present value of obligations arising from fully or partially funded plans	65,178	63,739
Fair value of plan assets	(31,172)	(28,698)
Balance of liability recognized in the statement of financial position	34,006	35,041

Amounts recognized in the statement of financial position for post-employment defined benefit plans are predominantly non-current and are reported as non-current liabilities.

The Group operates defined benefit schemes in several countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the defined benefit plans, were as follows:

	U.S.A.			Germany and Austria			Switzerland		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Discount rates	3.55%	3.55%	3.55%	1.75%	1.67%	2.3%	0.8%	0.7%	0.75%
Projected rates of payroll raise	-	-	-	1.5%	1.17%	1.17%	1.5%	1.5%	1.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions assuming all other assumptions remained unchanged and which were reasonably possible and the end of the reported period is:

	Increase (decrease) in defined benefit obligation
	December 31, 2017
	US dollars in thousands
Discount rate:	
1% increase	(9,259)
1% decrease	12,042
Salary growth rate:	
1% increase	2,236
1% decrease	(1,813)

The assumptions concerning future mortality data are based on public mortality tables.

NOTE 10 – LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued):

Plan assets

The plan assets are composed as follows:

	2017	2016
	US dollars in thousands	
Government bonds	2,425	2,419
Real estate held abroad	3,122	2,847
Qualifying insurance policies	963	960
Cash and cash equivalents	21,941	19,994
Other	2,721	2,478
Total	31,172	28,698

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

a. **Commitments**:

1) Lease Commitments:

Some of the Group's premises, warehouses, sites and vehicles in the U.K., Germany, Belgium and Israel occupied by the Group are rented under various operating lease agreements. The lease agreements for the premises will expire on various dates between 2018 and 2022.

Minimum lease commitments of the Group under the above leases, at rates in effect on 31 December 2017, are as follows:

	$ in thousands
Year ending 31 December:	
2018	11,165
2019	8,885
2020	7,381
2021	6,816
2022	7,845
2023	4,436
	46,528

Rental expenses totaled $ 11,251 thousand, $ 10,148 thousand and $ 8,657 thousand, in the years ended 31 December 2017, 2016 and 2015, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

2) Royalty Commitments:

Frutarom Ltd. is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by Frutarom Ltd., linked to the dollar (as from 1 January, 1999 – with the addition of an annual interest rate based on Libor).

The maximum royalty amount payable by Frutarom Ltd. at 31 December 2017 is $2,044 thousand. The Company has not recorded liability for these royalties due to low likelihood of payment.
In 2017 and 2016, Frutarom Ltd. Has not received Chief Scientist grants.

b. Contingent Liabilities:

The consolidated companies of the Group are not a party to legal procedures in the ordinary course of business, which in the opinion of Group's management are materially affect the Group's financial position.

NOTE 12 – EQUITY:

a. Share Capital:

1) Composed of ordinary shares of NIS 1 par value, as follows:

	Number of shares in thousands and the amount thereof, denominated in NIS	
	December 31	
	2017	**2016**
Authorized	100,000	100,000
Issued and paid	59,655	59,335

Company listed shares are quoted on the TASE at NIS 320.5 ($92.44) per share as of 31 December, 2017. The GDRs representing the Company's shares are quoted on the official list of the LSE.

2) Ordinary Company shares of NIS 1 par value, are held by the company and included in the issued and paid share capital constitute 0.2% (142,633 shares) and 0.4% (235,907 shares) of the balance of ordinary issued and paid shares of this type as of 31 December 2017 and 2016, respectively.
The purchase cost of those shares was deducted from equity as part of "Cost of Company's shares held by the company" balance. The shares are held as "Treasury Shares".

NOTE 12 – EQUITY (continued):

b. Employee Shares and Option Plans for Senior Employees of Subsidiaries:

1) Commencing 2003 and on a semi-annual basis, the Board of Directors resolves to allot options to senior managers and other senior employees based on the recommendations of the remuneration committee. In accordance with the Board of Directors' resolution and taking into consideration the number of shares available to the Company for the purpose of allotment of the options, the Company acquires Company shares in the Stock Exchange and grants the options against those shares.

Commencing 2012, the options are granted in accordance with the 2012 option plan ("the 2012 plan"). The options are exercisable in three equal batches at the end of every year for a period of 3 years from date of grant. The Board of Directors has the exclusive right to declare the exercise of the options at an earlier date, and with regards to senior office holders – in accordance with compensation policy, in extraordinary cases and under weighty considerations.
The exercise price of the option granted in accordance with the said plans, as set determined by the Board of Directors equals a third of the average purchase price paid by the Company in respect of those shares. Options granted under this plan expire at the end of 6 years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee. The number of exercised shares in respect of each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, such changes originating in split of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares, excluding a number of exceptions where the employer-employee relationship between the Company and an employee are terminated; in such a case the employee shall be entitled to exercise all the options exercisable at the date of termination of employer-employee relationship within 90 days from the said date. The remaining options granted to the employee and which were not exercised by the employee shall expire. Options that are not exercisable at the time of termination of the employer-employee relationship shall expire immediately upon termination of the relationship as above.

Commencing 2013 the grant of options in accordance with plan 2012 to the Company's president and CEO ("CEO") is included in the equity component of the annual bonus; (for details regarding the compensation policy of the CEO, see Company's report of June 27, 2013 (reference 2013-01-076263)). Commencing 2014 and in accordance with plan 2012 to all senior office holders including the Company's president and CEO is included in the equity component of the annual bonus; (for details regarding the compensation policy which was approved, see Company's report of December 29, 2013 (reference 2013-01-111694)).

NOTE 12 – EQUITY (continued):

The theoretical economic value of the options in respect of grants from 2012 through 2017, is based on the following assumptions: expected dividend yield of 0.35%-0.44%, expected standard deviation of 16.94%-25.63%; risk-free interest rate of 0.67%-3.26% (based on the expected term of the option until exercise): two years in respect of the first batch, three years in respect of the second batch and four years in respect of the third batch.

The 2012 plan is managed in compliance with the provisions in section 102 to the Israel Income Tax Ordinance. In accordance with the track chosen by the company and pursuant to the terms thereof, the company is allowed to claim, as an expense for tax purposes, the work income component credited to employees, and is not entitled to claim as an expense for tax purposes the amounts credited to employees as equity benefits.

2) Set forth below are data regarding the options under the 2012 Plans, which have not yet been exercised by Company employees, as of December 31, 2017:

Year of Grant	Number of options in respect of which the vesting period ended	Number of options in respect of which the vesting period has not yet ended	Exercise price $
2012	8,178	-	3.46-3.50
2013	21,030	-	4.79-5.80
2014	20,613	-	8.27-8.68
2015	17,957	12,679	13.90-14.18
2016	11,234	23,338	19.00-19.21
2017	-	27,347	19.87-26.44
	79,012	63,364	

As of 31 December, 2017, the remaining amount of compensation, computed as the excess or the fair value of the said options granted to employees over the exercise price at the date of grant not yet recorded as expenses in the income statements is approximately $ 815 thousand. The said remaining compensation will be charged to income using the accelerated method over the remaining vesting period.

As to options granted to the president of the Company - Note 22.a.2.

NOTE 12 – EQUITY (continued):

The changes in the number of options outstanding and their related weighted average exercise prices are as follows:

	2017		2016		2015	
	Average exercise price in U.S. $ Per share	**Options**	**Average exercise price in U.S. $ per share**	**Options**	**Average exercise price in U.S. $ per share**	**Options**
Outstanding at 1 January	8.25	234,858	4.54	282,132	4.37	314,340
Granted	22.65	27,347	17.22	36,462	12.47	43,171
Forfeited	7.89	(3,402)	8.65	(7,437)	6.06	(16,805)
Exercised	5.42	(116,427)	3.51	(76,299)	3.55	(58,574)
Balance at 31 December	14.23	142,376	8.25	234,858	4.54	282,132

The following table summarizes information about exercise price and the contractual terms of options outstanding at 31 December, 2017:

Share rights outstanding			Share rights exercisable		
Exercise Prices	**Number outstanding at December 31, 2017**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at December 31, 2017**	**Weighted average remaining contractual life**
$		Years	$		Years
3.15	2,211	0.25	3.15	2,211	0.25
3.12	5,967	0.75	3.12	5,967	0.75
4.32	11,207	1.25	4.32	11,207	1.25
5.23	9,823	1.75	5.23	9,823	1.75
7.46	6,729	2.25	7.46	6,729	2.25
7.83	13,884	2.75	7.83	13,884	2.75
12.53	11,786	3.25	12.53	5,574	3.25
12.79	18,850	3.75	12.79	12,383	3.75
17.13	17,273	4.25	17.13	5,569	4.25
17.32	17,299	4.75	17.32	5,665	4.75
19.87	15,794	5.25	19.87	-	5.25
26.44	11,553	5.75	26.44	-	5.75
	142,376			79,012	

3) On 15 July 2010 the Company's Board of Directors approved a plan to grant options to senior managers ("the 2010 plan").
The options granted under this plan are exercisable in three equal batches at the end of each year commencing the end of the second year from date of grant thereof. The Board of Directors has the exclusive authority to declare the exercise of the options at an earlier date. Options granted under these plans expire within six years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee.

NOTE 12 – EQUITY (continued):

The number of exercised shares in respect of each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, such changes originating in split of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares, excluding a number of exceptions where the employer-employee relationship between the Company and an employee are terminated; in such a case the employee shall be entitled to exercise all the options exercisable at the date of termination of employer-employee relationship within 90 days from the said date. The remaining options granted to the employee and which were not exercised by the employee shall expire. Options that are not exercisable at the time of termination of the employer-employee relationship shall expire immediately upon termination of the relationship as above. As of this date, every two years, the Board decides on allocation of options to the management and senior employees, based on the recommendation of the compensation committee.

The exercise prices of the options under 2010 plan, granted in 2012 are based on the average closing prices of the ten consecutive trading days prior to a Board's resolution on such allocation. According to the Company's compensation committee approved on January 14, 2014 by the general meeting of the Company's shareholders, the exercise prices of any future allocation of options under the 2010 plan shall not be less than the average closing rate of the Company shares in the 30 days preceding the Company’s Board of Directors’ resolution regarding grant of options, plus 5%. The exercise price of options granted in 2014 and 2016 is based on the compensation policy (applies to all offerees and not only to offerees which are subject to the compensation policy).

The fair value of the options at date of grant - computed based on the binomial model due to grants for 2014 and 2016. This value is based on the following assumptions: adjusted standard deviation of 23%-30% per year, risk-free interest rate of 0.13%-1.96% and termination rate (prior to end of the vesting period) of 11.1%-13.5%.This rate is based on a sample of the changes in manpower of offerees rank for the last several years prior to the grant.

As to the fair value of the options granted to the president – see note 22.a.2.

The 2010 plan is managed in compliance with the provisions in section 102 to the Israel Income Tax Ordinance.

The Group creates deferred taxes for grants that fall into the scope of IFRS 2 – "Share Based Payment" – in accordance with the proportionate part of the estimated amount deductible for tax purposes by the Group at date of exercise of benefit by the employee and in respect of which work services were provided by the employee.

through the date of the statement of financial position (i.e., the estimated overall amount deductible for tax purposes divided by the overall vesting period and multiplied by the vesting period that has elapsed through the date of the statement of financial position). The said deferred taxes are recognized in the statement of income.

NOTE 12 – EQUITY (continued):

c. Dividend and Retained Earnings

1) The amounts of the dividend paid presented in the statement of changes in shareholders' equity are net the share of the group companies holding Company shares (Note 2m). The group companies' share in the dividend is $ 20 thousand, $ 28 thousands and $ 29 thousand in 2017, 2016 and 2015, respectively.

   In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by the group companies (that are presented as a separate item on the statement of changes in shareholders' equity) is to be deducted from the amount of retained earnings presented among Company's shareholders' equity.

2) In its meeting on March 19, 2018, the Company's Board of Directors resolved to distribute a final cash dividend out of retained earnings as of December 31, 2017 in the amount of NIS 0.50 per share, totaling to $ 8,604 thousand (NIS 29,840 thousand). Frutarom Ltd. does not intend to distribute dividend out of tax exempt income arising from "approved enterprise", as explained in Note 13c.

3) The dividend paid in 2017 and 2016 amounted to $ 7,234 thousand (NIS 0.44 per share) and $ 6,380 thousands (NIS 0.41 per share). The dividend in respect of the year ended 31 December 2017 at NIS 0.50 per share and totaling $ 8,604 thousand was discussed in the Company's Board of Directors, as aforementioned above.

NOTE 13 - TAXES ON INCOME:

a. Corporate taxation in Israel

1) The Israeli companies are companies of foreign investors and have elected to keep their books and records in dollars for tax purposes, as permitted under the Income Tax Regulations (Principles for the Bookkeeping of Foreign Invested Companies and of Certain Partnerships and the Determination of Their Taxable Income), 1986.

2) Tax rates

   The income of the Company and its Israeli subsidiaries (except for income of "approved enterprises" or "benefited enterprises", see c. below) is liable to normal corporate tax rate.

   The Law for Change of National Priorities (Legislative Amendments for the Achievement of Fiscal Objectives for 2013 and 2014), 2013, which was published in the official gazette on August 5, 2013, enacted, among other things, that the corporate tax rate will be 26.5% in 2014 and thereafter (as to the increase of tax rates on income of preferred enterprises under the Encouragement of Capital Investment Law, 1959, see c. below).

NOTE 13 - TAXES ON INCOME (continued):

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

As a result of lowering tax rates as above (including the reduction of tax rates on the income of a preferred enterprise, as indicated in b. below), no material change have taken place in deferred tax assets/liabilities of the Group.

Capital gains of the Company are liable to the corporate tax rate beginning in the tax year.

b. Subsidiaries outside Israel

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside Israel are as follows:

Companies incorporated in the USA – tax rate of 36% - 42% (Commencing 2018 21%-27%)
Companies incorporated in Germany– tax rate of 30%
Company incorporated in Belgium – tax rate of 34%
Company incorporated in Italy – tax rate of 31.4%
Companies incorporated in the UK – tax rate of 19% (April 2016 through March 2017 tax rate of 20%; commencing April 2017 - tax rate of 19%)
Company incorporated in the Switzerland – tax rate of 22%
Company incorporated in Slovenia – tax rate of 19%
Companies incorporated in China – tax rate of 25%
Companies incorporated in Brazil – tax rate of 34%
Company incorporated in South Africa – tax rate of 28%
Companies incorporated in Russia – tax rate of 20%
Companies incorporated in Guatemala – tax rate of 7% of revenues
Company incorporated in the Peru – tax rate of 29.5%
Company incorporated in Canada – tax rate of 26.5%
Companies incorporated in Spain – tax rate of 25%
Companies incorporated in Austria – tax rate of 25%
Companies incorporated in Mexico – tax rate of 30%
Companies incorporated in India – tax rate of 34%

NOTE 13 –TAXES ON INCOME (continued):

c. Encouragement Laws in Israel

1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereinafter - the Law)

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the “approved enterprise” or “benefited enterprise” status granted to certain enterprises of the Company, and by virtue of the “Foreign Investors’ Company“ status it was granted, Frutarom Ltd. is entitled to various tax benefits.

2) Amendment to the Israel Capital Investment Encouragement Law, 1959

The Economic Policy Law for 2011 and 2012 (Legislation Amendments), 2011, which was approved by the Knesset (the Israeli Parliament) on December 29, 2010 includes an amendment to the Israel Capital Investments Encouragement Law, 1959 (hereinafter - the amendment). The amendment became effective on January 1, 2011.

The amendment sets out new benefit programs to replace those previously provided by the Encouragement of Capital Investment Law, 1959 (hereinafter - the Law) prior to the amendment, as follows: a grants program for entities in Development Area A, and two new tax benefit programs ('preferred enterprise' and 'special preferred enterprise'), which mainly provide a uniform tax rate on the entire preferred income of an entity, as the term preferred income is defined in the Law.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing two new benefit tracks for the hi-tech industry: "preferred technology enterprise" and "special preferred technology enterprise".

Frutarom Ltd elected to be governed by the amendment to the Law beginning in 2011, and to take advantage of tax benefits under the "preferred enterprise" track.

According to the outline in the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Objectives for 2013-2014), 2013, which was published in the Israeli government official gazette on August 5, 2013 (see a(2) above), it was enacted that the tax rate applicable to preferred income in 2014 and thereafter will be as follows: the tax rate applicable to income of companies whose enterprises are located in Development Zone A will be 9% and the tax rate on companies whose enterprises are located other than in Development Zone A will be 16%. As part of the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016, which was published in December 2016, the tax rate applicable to preferred income of companies whose enterprises are located in Development Zone A will be 7.5% in 2017 and thereafter.

NOTE 13 –TAXES ON INCOME (continued):

c. Encouragement Laws in Israel (continued):

2) Amendment to the Israel Capital Investment Encouragement Law, 1959 (continued):

Until the 2010 tax year, the Company took advantage of tax benefits under the Encouragement of Capital Investments prior to its amendment, under which, income of the Company attributable to "preferred enterprises" or "benefited enterprises" it owns were subject to reduced tax rates/tax exemption during the benefits period set by the Law.

In the event of cash dividend distribution from the exempted income, the companies will be liable to pay tax on the grossed-up amount of distributed dividend, according to the tax rate that would have applied to the income in the year it was earned had no exemption been applicable.

3) The Law for the Encouragement of Industry (Taxation), 1969:

a. Frutarom Ltd. is an “industrial company” as defined by this law. As such, Frutarom Ltd. is entitled to claim amortization over 8 years of acquired product formulas, as well as depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law, and have done so.

b. The Company and Frutarom Ltd. file a consolidated tax return in accordance with the Law for the Encouragement of Industry. Accordingly, each company is entitled to set-off its tax losses (created commencing the year in which consolidated reporting for tax purposes began) against the taxable income of the other company, subject to certain restrictions.

NOTE 13 –TAXES ON INCOME (continued):

d. Deferred Income Taxes

1) Composition of deferred taxes as of dates of statements of financial position and changes therein in those years are as follows:

	Depreciable fixed assets	Provisions for employee rights: Severance Pay	Provisions for employee rights: Vacation and recreation pay	Inventories	Other	Depreciable intangibles	In respect of Carry forward tax losses	Total
	U.S. dollars in thousands							
Balance at 1 January, 2016	16,074	(5,905)	(190)	(1,947)	(1,355)	37,041	(6,231)	37,487
Changes in 2016:								
Additional taxes as a result of acquisition of Subsidiaries	(278)	(72)	-	(167)	(61)	17,429	-	16,851
Changes in the excess of cost of acquisition	-	-	-	-	-	-	-	-
Differences from translation of foreign currency financial statements of subsidiaries	(198)	202	-	(132)	(417)	(582)	(99)	(1,226)
Charged directly to the equity	-	238	-	-	973	-	-	1,211
Amounts carried to income statement	(1,839)	(581)	(6)	184	(1,030)	(786)	(3,595)	(7,653)
Balance at 31 December 2016	13,759	(6,118)	(196)	(2,062)	(1,890)	53,102	(9,925)	46,670
Changes in 2017:								
Additional taxes as a result of acquisition of Subsidiaries	-	-	-	-	(12)	12,386	(320)	12,054
Changes in the excess of cost of acquisition	-	-	-	-	-	(1,538)	-	(1,538)
Differences from translation of foreign currency financial statements of subsidiaries	603	(470)	-	64	155	4,114	209	4,675
Charged directly to the equity	-	730	-	-	512	-	-	1,242
Amounts carried to income statement	(1,977)	1,248	(53)	466	(263)	(7,720)	(384)	(8,683)
Balance at 31 December 2017	12,385	(4,610)	(249)	(1,532)	(1,498)	60,344	(10,420)	(54,420)

NOTE 13 –TAXES ON INCOME (continued):

2) Deferred taxes are presented in the statements of financial position as follows:

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
Among non-current assets	3,886	3,477
Among non-current liabilities	(58,306)	(50,147)
	(54,420)	(46,670)

3) The deferred taxes in respect of Group activities in Israel are computed at the tax rate of 12.0%. This rate is an average taking into account the tax rates applicable to income from Frutarom Ltd.'s preferred enterprises (in accordance with the amendment to the law, see also note 13c.2).

Deferred taxes of foreign subsidiaries not in Israel are computed at the tax rates applicable to these companies (see b above).

e. Taxes on Income Included in The Income Statements for the presented periods:

1) As follows:

	2017	**2016**	**2015**
	U.S. dollars in thousands		
Current taxes:			
For the reported year's income	42,521	34,815	24,836
Adjustments in respect of previous years	958	(1,816)	(2,466)
	43,479	32,999	22,370
Deferred taxes:			
Creation and reversal of deferred taxes	(8,682)	(7,653)	(398)
T o t a l	34,797	25,346	21,972

Current taxes are computed in accordance with the statutory tax rates of Group entities around the world (see above) and in accordance with relevant tax benefits for each country.

NOTE 13 –TAXES ON INCOME (continued):

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 13c above) and the actual tax expense:

	2017	2016	2015
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	186,360	136,415	118,057
Theoretical tax expense in respect of this income – at 24% (2016 – 25.0%; 2015 – 26.5%)	44,726	34,104	31,285
Less – tax benefit arising from approved enterprise /benefited enterprise status	(1,459)	(1,249)	(1,698)
Increase in taxes resulting from different tax rates applicable to foreign subsidiaries	(1,946)	(2,645)	(3,667)
Decrease in taxes arising from computation of deferred taxes at a rate which is different from the theoretical rate	(944)	(2,114)	(2,530)
Increase (decrease) in deferred taxes as a result of future changes in the tax rates	(4,272)	-	(208)
Increase (decrease) in taxes arising from permanent differences – disallowable expenses (income)	(2,607)	27	1,110
Capital gains	152	-	-
Decrease in taxes resulting from utilization, in the reported year, of carry forward tax losses and other expenses for which deferred taxes were not created (net of increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were not created)	-	(728)	(50)
Other	191	(233)	196
Taxes on income for the reported year	33,841	27,162	24,438

f. Tax Assessments

The Company and its Israeli subsidiaries have received final tax assessments through the year 2009.

NOTE 13 –TAXES ON INCOME (continued):

g. Effect of adoption of IFRS in Israel on tax liability

As mentioned in Note 2a, the Group prepares its financial statements in accordance with IFRS.
As also indicated in the said note, IFRS vary from Accounting Principles Generally Accepted in Israel and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the law for the amendment of the Income Tax Ordinance (No. 174 – Temporary Order as to Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 and published in the official gazette on February, 4, 2010 (hereafter – the amendment to the ordinance), Accounting Standard No. 29 issued by the Israel Accounting Standard Board would not apply upon determining the taxable income for tax purposes in respect of tax years 2007-2011; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements.
The meaning of the amendment to the ordinance is that IFRS would actually not be applied upon computation of the income reported for tax purposes for the said tax years.
On 31 October, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not comply with the principles of the tax method applied in Israel. At the same time, the law memorandum generally adopts IFRS. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they shall be completed in the near future.
Since the legislation procedures relating to the law memorandum have not yet been completed the Company estimates that the term of the temporary order which applies to the years 2007 to 2013 shall be extended to the years 2014-2017 as well. Therefore, the Group's management expects that at this stage the new legislation shall not apply to tax years preceding 2018.

h. US tax reform

On December 22, 2017, the President of the United States signed into law a legislation that overhauls the US tax system ("the reform"). The reform introduced significant changes to US tax law, including several provisions that are expected to have impact on the tax liability of the Company in the US.

The following are provisions in the reform that are relevant to the Company:

a) US federal corporate tax rate was cut from 35% to 21%, effective January 1, 2018.

b) Deduction of net operation losses is limited to 80% of taxable income.

c) Interest expenses – According to the new legislation, in 2018 through 2021, interest expense deductions are capped at 30% of EBITDA. After 2021, companies will no longer be able to deduct interest expenses that are 30% of their EBIT. Any non-deductible amount can be carried forward based on the same mechanism and without time limit.

d) Bonus depreciation – the reform includes a provision allowing companies to immediately write off expense of certain types of property acquired and placed in service between September 27, 2017 and January 1, 2028.

The impact on the financial statements of the Company as of December 31, 2017 and for the year then ended, as a result of the reform becoming effective, is as follows:

Deferred tax liabilities were reduced by $4,249 thousand due to the tax rate reduction, which was recognized against deferred tax income in profit or loss.

NOTE 14 – LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

a. To secure short-term borrowings and long-term loans received by a US subsidiary, this subsidiary recorded a negative pledge on its assets. Additional obligation for negative pledge on its assets carried out by a subsidiary in Israel.

b. To secure long-term loans and other services received by subsidiaries in Israel and the UK, the subsidiary in Israel and subsidiary in the UK recorded a negative pledge on their assets.

C To secure long-term loans from financial institutions received by subsidiaries in Switzerland and Spain, these subsidiaries recorded a negative pledge on its assets.

d. To secure the long-term loan extended by local and international banks and financial institutions the Group has undertaken upon itself to meet the following financial criteria:

1) The amount representing the Group's equity would not be lower than $375 million at any given time. As of 31.12.2017 the Group's equity amounts to $ $879 million.
2) The amount representing the Group's equity would not be lower than 25% of total assets. As of 31 December, 2017, the Company's equity equals 45% of total Company balance sheet.
3) The ratio, which is the result of dividing the total financial liabilities of the Group by its pre-tax pro-forma operating profit from operating activities plus depreciation and amortization, will not exceed 4.0 as of December 31, 2017. As of December 31, 2017 the above ratio is 1.85.

NOTE 14 – LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES (continued)**:**

e. The Company has undertaken upon itself to meet restrictions regarding dividend distribution. The Company shall be allowed to distribute dividends as follows:

1) Up to 50% of the retained earnings accumulated through 31 December 2011; based on the retained earnings balance recorded in the Company's balance sheet as of 31 December 2011.

2) Up to 50% of the Company's net income for each calendar year based on the net income data recorded in the Company's statement of income for the calendar year during which the said income was accumulated.

As mentioned above, as of 31 December 2017, the Group meets its obligations.

NOTE 15 – INVESTMENTS IN ASSOCIATES:

a. Composition:

	December 31 2017					December 31 2016
	Cost	Company's share of earnings (losses) of associate	Total	Adjustment from translation	Total	Total
	U.S. dollars in thousands					
Associates	76,879	265	77,144	397	77,541	27,976

NOTE 15 – INVESTMENTS IN ASSOCIATES:

b. The following is information about associates of the Company, as of December 31, 2017. Those associates are accounted for using the equity method. Those associates have share capital composed of ordinary shares only. The rate of voting rights of the Company in the associates is identical to its interest in ordinary shares. The incorporation country or registration countries of those companies and the main location of their business.

The nature of investment in material associates in 2017:

Name of Company	Country of registration	Company's equity and voting rights
Wiberg Corporation	Canada	50%
Algalo	Israel	50%
Enzymotec	Israel	18.75%

1) Wiberg and Algalo are private companies and their share prices are not quoted.
2) During the year, the Company completed a $ 42 million investment in 18.75% of the share capital of Enzymotec Ltd, a Company listed on NASDAQ.
On October 28, 2017, the Company engaged by way of reverse triangular merger with Enzymotec, and following that merger transaction, the Company acquired the remaining shares of Enzymotec. Merger closing was subject to conditions precedent and approval of the merger agreement by the meeting of shareholders of Enzymotec. The meeting of shareholders approved the merger agreement on December 11, 2017. Following that approval by the meeting of shareholders, and given the right of the Company to appoint directors, the Company obtained significant influence, and therefore, this investment, at $52 million, was accounted for using the equity method. Accordingly, a capital fund amounted $ 9.9 million, which was recognized before in other comprehensive income was released to profit and loss in "Other expenses – net". The conditions precedent for the deal were satisfied on January 11, 2018. Accordingly, after the balance sheet date, the acquisition completed and Enzymotec became a wholly-owned subsidiary of the Company.

NOTE 16 – ACCOUNTS RECEIVABLE:

	December 31	
	2017	2016
	U.S. dollars in thousands	
a. Trade – composed as follows:		
Open accounts	246,303	197,497
Cheques collectible	1,740	2,609
	248,043	200,106
The item includes – provision for doubtful accounts	7,873	6,709

NOTE 16 – ACCOUNTS RECEIVABLE (continued)**:**

As of 31 December, 2017 certain trade receivable balances– amounting to $ 47,376 thousands (2016 - $ 31,977 thousands) are in arrears of up to 120 days after date in which payment was due. A provision for doubtful account in the total amount of $214 thousand (2016 - $ 79 thousands) was made in respect of it of those balances. Those balances include the accounts of a large number of customers, in respect of which the Company has not encountered lately any collection problems. The carrying amount of accounts receivable is a reasonable approximation of their fair value since the effect of discounting is immaterial.

The aging analysis of these trade-receivable balances is as follows:

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
Through 90 days	44,313	29,287
90 to 120 days	3,063	2,690
	47,376	31,977
Provision for doubtful accounts	(214)	(79)
	47,162	31,898

As of 31 December, 2017, the Company made a provision for doubtful accounts in respect of balances in the total amount of $10,463 thousand (2016 – $8,256 thousand) in arrears of more than 120 days. The amount of the provision as of 31 December, 2017 was $7,636 thousand (2016 – $6,530 thousand).

The aging of the said balances is presented below:

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
120 days to 1 year	3,742	3,491
Over 1 year	6,721	4,765
	10,463	8,256
Provision for impairment of receivables	(7,636)	(6,530)
	2,827	1,726

Amounts charged to provision for doubtful accounts or released therefrom were included among "selling, marketing, research and development expenses" in the statement of income (see note 21b).

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
b. Other:		
Employees and institutions	1,690	491
Government institutions	18,880	19,927
Sundry	3,077	9,470
	23,647	29,888

NOTE 17 – INVENTORIES

	December 31	
	2017	2016
	U.S. dollars in thousands	
Raw materials and supplies	143,748	117,916
Products in process	22,518	16,827
Finished products	133,568	115,297
	299,834	250,040
Inventories for commercial operations – purchased products	9,057	10,911
	308,891	260,951

NOTE 18 – OTHER

	December 31	
	2017	2016
	U.S. dollars in thousands	
Long term deposits	3,393	2,474
Sundry	206	212
	3,599	2,686

NOTE 19 – CASH AND CASH EQUIVALENTS:

Classified by currency, linkage terms, the cash and cash equivalents are as follows:

	December 31	
	2017	2016
	U.S. dollars in thousands	
In Dollars	20,950	20,290
In Pounds sterling	12,026	5,972
In Euro	36,332	55,181
In Swiss Francs	3,186	3,731
Yuan	5,069	3,726
NIS	858	97
Guatemalan Quetzal	1,832	741
Peruvian sol	5,457	2,019
Brazilian real	6,396	848
Ruble	7,321	13,046
Canadian dollar	1,392	938
New Zealand dollar	1,755	1,109
Polish zloty	6,619	1,853
Mexican peso	2,161	725
South African Rand	1,100	516
Other	5,760	2,736
	118,214	113,528

NOTE 20 – ACCOUNTS PAYABLE:

	December 31	
	2017	**2016**
	U.S. dollars in thousands	
a. Trade:		
Open accounts	98,813	81,630
b. Other:		
Payroll and related expenses	30,097	27,422
Government institutions	41,750	28,582
Provision for commissions and discounts	6,591	4,143
Accrued expenses	19,118	12,242
Conditional consideration in respect of acquisition of subsidiaries	34,300	30,069
Sundry	8,704	7,149
	140,560	109,607

The carrying amount of accounts payables is a reasonable approximation of their fair value since the effect of discounting is immaterial.

NOTE 21 – INCOME STATEMENT ANALYSIS:

	Year ended 31 December		
	2017	**2016**	**2015**
	U.S. dollars in thousands		
a. Cost of Sales:			
Industrial operations:			
Materials consumed	614,677	496,729	362,402
Payroll and related expenses	98,583	87,541	66,125
Depreciation and amortization	17,970	15,838	13,182
Other production expenses	53,399	49,206	41,265
	784,629	649,314	482,974
Decrease (increase) in work in process and finished products inventories	(18,530)	1,345	(11,326)
	766,099	650,659	471,648
Commercial operations – cost of products sold	71,172	58,829	63,089
	837,271	709,488	534,737

NOTE 21 – INCOME STATEMENT ANALYSIS (continued):

	Year ended 31 December		
	2017	2016	2015
	U.S. dollars in thousands		
b. Selling, Marketing, Research and Development Expenses – net:			
Payroll and related expenses	104,637	97,707	71,925
Transportation and shipping	27,243	23,785	18,849
Marketing commissions	24,081	16,957	11,788
Doubtful accounts	2,093	813	506
Depreciation and amortization	24,431	21,041	13,990
Travel and entertainment	17,300	17,014	11,105
Office rent and maintenance	6,660	6,254	5,787
Other	13,569	12,430	7,287
	220,014	196,001	141,237
The item includes expenses for product development and research activities, net*	50,977	44,372	37,200
* net of participation from government departments and others	180	204	219

	Year ended 31 December		
	2017	2016	2015
	U.S. dollars in thousands		
c. General and Administrative Expenses:			
Payroll and related expenses	55,218	47,569	37,685
Depreciation and amortization	4,396	6,236	5,754
Professional fees	7,401	6,866	4,760
Rent and Office maintenance	4,106	3,889	3,177
Computer and communication	6,191	4,935	3,864
Travel and entertainment	2,851	2,529	2,078
Other	11,992	9,613	6,424
	92,155	81,637	63,742

NOTE 21 – INCOME STATEMENT ANALYSIS (continued):

	Year ended 31 December		
	2017	**2016**	**2015**
	U.S. dollars in thousands		
d. Other Expenses (income) – net:			
Capital loss on sale of fixed assets	966	(4,003)	(250)
Expenses relating to acquisition of subsidiaries	1,559	2,689	2,049
Net impact relating to the acquisition of Enzymotec*	(2,250)	-	-
Expenses for site shutdown	1,926	13,680	754
Other	1,191	(594)	273
	3,392	11,772	2,826

*Release of capital fund due to available for sale asset net of reorganization and acquisition costs. For the acquisition of Enzymotec see note 15b.2.

e. Financial Expenses – net:			
In respect of long-term loans and credit	8,707	6,686	3,208
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other – net	1,368	2,092	2,104
In respect of exchange differences of trade receivables and trade payable balances – net	14,531	4,063	(3,043)
revaluation of put option	-	-	9,928
	24,606	12,841	12,197

NOTE 22 - RELATED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions with Related Parties:

"Interested parties" - As this term is defined in Israel Securities Regulations (Annual Financial Statements), 2010.
"A related party" - As this term is being defined in IAS 24 - "Related Party Disclosure" (hereafter – IAS 24R).

Key management personnel, who are included together with other officer holders, in the definition of "related party" as per IAS 24R) include the members of the board of directors and the president and CEO of the Company

The main shareholder of the company is ICC Industries Inc. which is holding 36.1% of company shares. The remaining shares are widely held. The controlling shareholder in ICC Industries Inc. is Dr. John Farber – the Chairman of the Board of Directors, who also holds 0.08% of Company's shares.

NOTE 22 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

1) Transactions with the controlling shareholder and its affiliates:

During the ordinary course of business, the Company and its affiliates conduct negligible transactions with the companies affiliated to the controlling shareholder. As part of these transactions, the Company's subsidiary sells to Fallek Chemical Japan, an affiliate of the controlling shareholder, products at market prices for marketing to a specific customer in Japan. In addition, as part of these transactions, the Company purchases from Azur S.A., an affiliate of the controlling shareholder, raw materials at cost prices and production services at market price. Additionally, subsidiaries of the company purchase raw materials at market value from companies affiliated to the controlling shareholder. These transactions were approved by the Company's Audit Committee and Board of Directors and they are considered to be negligible as this term is defined by the Securities Regulations (Annual Financial Reports), 2010 and in accordance with the Company's Guidelines on Negligible Transactions as approved by the Company's Audit Committee and Board of Directors on March 19, 2017 and March 22, 2017 respectively.

	2017	**2016**	**2015**
Income (expenses):	**U.S. dollars in thousands**		
Sales – affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan	228	137	119
Other	-	9	13
	228	146	132
Purchases:			
Affiliates (companies controlled by the controlling shareholder):			
ICC	(56)	(26)	(157)
Azur S.A	(2,467)	(2,459)	(2,012)
Dividend	(2,662)	(2,348)	(2,091)
Other expenses:			
Affiliates -			
Azur S.A.	-	-	(1)
Benefits to related parties:			
Wages and salaries	(3,285)	(3,100)	(3,023)
Director fees (in the Company)	(240)	(244)	(207)

NOTE 22 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

2) Shares granted to the President of the Company

On August 15, 2016, the Company's board of directors approved the grant of 60,845 options to the President of the Company; the value of the benefit is computed in accordance with the binomic model and was estimated at $ 0.5 million at date of grant.

The total benefit component granted to the President (see note 12) in the years 2017, 2016 and 2015 as computed at date of grant is $ 306 thousand, $ 803 thousand and $ 309 thousand, respectively.
Benefit costs that have been charged to the income statements, in respect of the said shares granted in the years 2017, 2016 and 2015 are $ 586 thousand $ 552 thousands and $ 527 thousand, respectively.

3) Terms of the employment for the President of the Company

On January 14, 2014, the general meeting of the Company's shareholders approved the compensation policy for senior office holders in the Company, including the Company's president; On January 10, 2017, the general assembly approved the compensation policy after it was approved by the compensation committee and the Company's Board of Directors ("compensation policy"). For details regarding the compensation policy see Company's report of December 29, 2013 (reference 2013-01-111694) and for details regarding the updated compensation policy see Company's report of November 29, 2016 (reference 2016-01-133543).

Under the compensation policy the components of the president's compensation package include the following:

The terms of employment of Mr. Yehudai include a monthly salary (index-linked), social benefits as is customary in the economy (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13^{th} month salary, other benefits (including mobile phone, landline at home and newspapers), and an executive car. Mr. Yehudai is also entitled to an annual bonus and is allocated options. The employment of Mr. Yehudai will end 6 months from the date on which the Company serves notice of its desire to end the engagement and 3 months from the date on which Mr. Yehudai notifies the Company of his desire to end the engagement. In the case the employment of Mr. Yehudai ends within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Yehudai shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 12 months starting at the end of the notice period. In such case Mr. Yehudai will also be entitled to immediately exercise all options previously granted him even if their vesting period has not yet ended. Upon termination of his employment with the Company, Mr. Yehudai is entitled to receive double the amount of severance pay stipulated by law.

4) The articles of incorporation of the company allow insurance coverage to officials in the company as outlined by Israeli legislation. The company applied a policy of indemnifying officers and other officials in subsidiaries. The company decided to buy insurance to officers in relation to their job, subject to the law and other restrictions.

NOTE 22 – RELATED PARTIES – TRANSACTIONS AND BALANCES (continued):

b. Balances with Related Parties:

	31 December		
	2017	**2016**	**2015**
	U.S. dollars in thousands		
1) Current receivables – presented among “other receivables-other” and “trade receivables"			
Affiliated companies:			
Fallek	110	105	-
ICC	7	7	-
	117	112	-
Highest balance during the year	292	116	122
2) Current payables shareholder and related parties:			
Azur S.A.	50	55	347

NOTE 23 – SUBSEQUENT EVENTS

a. Distribution of dividend

On Mars 19, 2018 the Company's Board of Directors announced the distribution of dividend in the amount of NIS 0.50 per share, totaling to $ 8,604 thousands (exchange rate of report approval date).

b. Acquisition of Enzymotec

Following a total investment of 18.75% of the share capital of Enzymotec Ltd. ("Enzymotec"), an Israeli public Company traded, in the NASDAQ (under the symbol ENZY), in a total sum of approximately $ 42 million, Frutarom signed an agreement on October 28, 2017, through its fully-owned subsidiary Frutarom Ltd. (the “Acquiring Company”), 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 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 $ 11.9 per 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 transaction was completed on January 11, 2018. On January 17, 2018 Frutarom sold Enzymotec Krill business, which is not a core activity to the Norwegian Company Aker BioMarine Antarctic AS for approx. $ 26.4 million. The overall net consideration (offsetting the cash and cash equivalents, deposits and tradeable securities in Enzymotec’s treasury and net of the krill transaction consideration) that was paid by Frutarom for 100% of Enzymotec’s shares, stands at approx. $ 184 million (including cost of vested options, RSU's and estimated transaction expenses). The transaction was financed through bank debt.

c. Acquisition of 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. (including the activity of Maharaj Food Co. Ltd. and Mighty International Co. Ltd., and hereinafter collectively: “Mighty”) for approx. $ 12 million (approx. THB 393 million) (not including debt). All, according to value of approx. $ 20 million (net of debt) (approx. THB 655 million). In the framework of the transaction Frutarom initially acquired 49% of Mighty and, subject to a number of conditions precedent and regulatory approvals in Thailand, will raise its holdings to 60%.

NOTE 23 – SUBSEQUENT EVENTS (continued):

The transaction includes a mechanism for future consideration subject to Mighty’s future performance and 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 the transaction is completed, at a price based on Mighty's future business performance. In February 2018, the conditions of the first part were met, hence the Company holds, as of the date of this report 49% of the share capital of Mighty. According to the Company expectation, raising the holdings to 60% will be completed in several months. The transaction will be financed through bank debt and by the Company own means

d. Acquisition of Bremil

On December 20, 2017 Frutarom signed an agreement for the purchase of 51% of the shares of the Brazilian company Bremil Indústria De Produtos Alimenticios Ltda. (“Bremil”), in exchange for approx. US$ 31 million (approx. BRL 103 million). (including estimated asset adjustments to the date of completion). The transaction includes a mechanism for future consideration based on Bremil’s future business performance in 2017 and 2018. The purchase agreement includes an option for the purchase of the balance of shares of Bremil to take effect starting five years from the date of the transaction’s completion at a price based on Bremil’s business performance during that period. The transaction is expected to be completed in the coming few weeks and will be financed through bank debt.

e. Acquisition of IBR

On February 1, 2018, after the balance sheet date, Frutarom signed an agreement for the purchase of 100% of the shares capital of the Israeli company I.B.R - Israeli Biotechnology Research Ltd. ("IBR") in exchange for approx. US$ 21 million. The transaction was completed upon signing and financed through bank debt.

f. Acquisition of Meroar

On March 13, 2018, Frutarom signed an agreement for the purchase of 70% of the shares capital of the Argentinian company Meroar S.A. and Meroaromas S.A. ("Meroar") in exchange of approx. $ 11.2 million. The purchase agreement includes an option for the purchase of the balance of shares of Meroar to take effect starting three years from the date of the transaction’s completion at a price based on Meroar's business performance during that period. The transaction is expected to be completed in the coming few months and will be financed through bank debt.

NOTE 24 – LIST OF MATERIAL CONSOLIDATED SUBSIDIARIES AND INVESMENT IN SUBSIDIARIES

LIST OF MATERIAL CONSOLIDATED SUBSIDIARIES

Name of company	Percentage of shareholding and control	
	31 December	
	2017	2016
	%	%
Subsidiaries:		
Frutarom Ltd.	100	100
Frutarom Switzerland Ltd.	100	100
Frutarom (UK) Ltd.	100	100
Frutarom U.S.A. Inc.	100	100
Frutarom Savory Solutions GmbH	100	100
Frutarom Etol Tovarna arom in etericnih d.o.o.	100	100
Vantodio Holdings Limited	100	75
Frutarom Italy S.R.L	100	100
Frutarom Germany GmbH	100	100
Frutarom Belgium N.V	100	100
Frutarom Peru	100	100
Taura Natural Ingredients Holding Pty Ltd	100	100
Frutarom Canada	100	100
Frutarom GmbH Austria	100	-
Ingenieria Alimentaria, S.A. De C.V	75	75

Section D

Additional Information

Chapter D – Additional Information on the Corporation

Company name:	**Frutarom Industries Ltd.**
Registration number:	**52-004280-5**
Address:	**2 Hamenofim St. Herzeliya, 4672553**
Email:	**ir@frutarom.com**
Telephone:	**+972-9-960 3800**
Fax:	**+972-9-960 3826**
Balance Sheet date:	**December 31, 2017**
Date of report:	**March 19, 2018**
Period of report:	**January 1, 2017 - December 31, 2017**

Regulation 10A - Summary of Quarterly Profit and Loss Reports

Following is a summary of the corporation's overall P&L statements for each calendar quarter of the reported year:

IN US$ 000	Q1 - 2017		Q2 -2017		Q3 - 2017		Q4 - 2017		2017 Total	
SALES	**302,531**	**100.0%**	**343,589**	**100.0%**	**358,785**	**100.0%**	**357,491**	**100.0%**	**1,362,396**	**100.0%**
Cost of sales										
Material consumed	148,507	49.1%	170,624	49.7%	176,178	49.1%	174,423	48.8%	669,732	49.2%
	-									
Other manufacturing	38,310	12.7%	40,802	11.9%	44,175	12.3%	44,252	12.4%	167,539	12.3%
Total	**186,817**	**61.8%**	**211,426**	**61.5%**	**220,353**	**61.4%**	**218,675**	**61.2%**	**837,271**	**61.5%**
GROSS PROFIT	**115,714**	**38.2%**	**132,163**	**38.5%**	**138,432**	**38.6%**	**138,816**	**38.8%**	**525,125**	**38.5%**
R&D, Selling and G&A										
Selling expenses& R&D	49,163	16.3%	52,629	15.3%	57,800	16.1%	60,422	16.9%	220,014	16.1%
General & Administration	21,883	7.2%	23,718	6.9%	22,223	6.2%	24,331	6.8%	92,155	6.8%
Other expenses	(280)	(0.1)%	665	0.2%	1,092	0.3%	1,915	0.5%	3,392	0.2%
Total	**70,766**	**23.4%**	**77,012**	**22.4%**	**81,115**	**22.6%**	**86,668**	**24.2%**	**315,561**	**23.2%**
Equity Gains	399	0.1%	45	0.0%	442	0.1%	516	0.1%	1,402	0.1%
OPERATING PROFIT	**45,347**	**15.0%**	**55,196**	**16.1%**	**57,759**	**16.1%**	**52,664**	**14.7%**	**210,966**	**15.5%**
Financing expenses net	2,173	0.7%	8,031	2.3%	5,615	1.6%	8,787	2.5%	24,606	1.8%
PROFIT BEFORE TAX	**43,174**	**14.3%**	**47,165**	**13.7%**	**52,144**	**14.5%**	**43,877**	**12.3%**	**186,360**	**13.7%**
TAX	9,439	3.1%	9,974	2.9%	11,311	3.2%	4,073	1.1%	34,797	2.6%
NET PROFIT	**33,735**	**11.2%**	**37,191**	**10.8%**	**40,833**	**11.4%**	**39,804**	**11.1%**	**151,563**	**11.1%**

Regulation 10C - Use of Securities' Proceeds

Not relevant.

Regulation 11 – List of Investments in Subsidiaries and Affiliates

					Holding %		
Name of company	Type of Share	Par Value	Number of Shares	Total Par Value	Equity	Voting	Right to appoint directors
Frutarom Ltd.* 51-013293-9	Ordinary	NIS 1	23,972,645	23,972,645	100	100	100

* All other companies in the Frutarom Group are held through Frutarom Ltd., directly or indirectly. For further details regarding the consolidated companies in the Frutarom Group and holdings in them, see Note 24 to the Company's financial statements of December 31, 2017.

Regulation 12 - Changes in Investments in Subsidiaries and Affiliates[1]

A. Purchase of the Balance of Holdings in PTI by way of Exercising an Option

Further to the acquisition in November 2013 of approx. 75% of the share capital of Vantodio Holdings Limited ("**Vantodio**"), owner of the Russian group Protein Technologies Ingredients ("**PTI**"), on February 1, 2017 the option granted under the original purchase agreement for the purchase of the approx. 25% balance of the share capital of Vantodio (the **"Option**") was exercised. The Option was exercised in exchange for the overall sum of approx. US$ 40 million and was financed through bank debt. As of the date of the exercise of the Option, the Company owns (indirectly) the entire issued and paid-up capital of Vantodio. It should be noted that the acquisition of approx. 75% of Vantodio's share capital, as mentioned above, was performed in exchange for a cash payment of approx. US$ 50 million (which reflected a company value of US$ 67 million).

For further information on the exercise of the Option in PTI, see Section 1.8.11(a) of Chapter A of the Periodic Report.

B. Acquisition of Unique

On February 8, 2017, Frutarom purchased 100% of the share capital of the South African companies Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited ("**Unique**") in exchange for approx. US$ 6.4 million (ZAR 90 million). The purchase agreement includes a mechanism for future consideration

[1] The sums for the acquisitions described below relate to the exchange rate of the US dollar on the date the transaction took place.

contingent on Unique’s future business performance and in light of the good results of Unique's activity, on February 8, 2018 Frutarom paid an additional consideration of approx. US$ 493,000 (ZAR 6.1 million). The transaction was financed through bank debt.

For further information on the acquisition of Unique, see Section 1.8.11(b) of Chapter A of the Periodic Report.

C. Acquisition of René Laurent

On April 3, 2017 Frutarom purchased 100% of the share capital of the French company René Laurent (“**René Laurent**”) for approx. US$ 21 million (Euro 20 million). The transaction was financed through bank debt.

For further information on the acquisition of René Laurent, see Section 1.8.12(c) of Chapter A of the Periodic Report.

D. Acquisition of Control in WFF

On April 5, 2017, Frutarom signed an agreement for the purchase of 60% of share capital of the Vietnamese company Western Flavors Fragrances Production Joint Stock Company (“**WFF**”) for approx. US$ 1.1 million (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. The transaction was financed through independent sources.

For further information on the acquisition of WFF see Section 1.8.11(d) of Chapter A of the Periodic Report.

E. 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 approx. US$ 2.4 million (approx. Euro 2.1 million) thereby completing the acquisition of 100% of Nutrafur's shares further to its purchase of approx. 79% of Nutrafur's share capital on September 2015.

For further information on the acquisition of Nutrafur, see Section 1.8.11(e) of Chapter A of the Periodic Report.

F. Acquisition of Control in SDFLC

On June 22, 2017, Frutarom purchased 80% of the share capital of Brazilian company SDFLC Brasil Indústria E Comércio Ltda. ("**SDFLC**"), in exchange for approx. US$ 29.5 million (approx. BRL 98 million), plus future consideration based on SDFLC’s future business performance. The agreement includes an option for the purchase of the balance of shares of SDFLC's 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 this period. The transaction was financed through bank debt.

For further information on the acquisition of SDFLC, see Section 1.8.11(f) of Chapter A of the Periodic Report.

G. The Exercise of the Option to Acquire the Balance of Shares in BSA

On July 5, 2017, Frutarom purchased the remaining 5% balance of share capital of Les Ingredients Alimentaires BSA Inc. ("**BSA**") of Canada in exchange for approx. US$ 2 million (approx. CAD 2.75 million), thus completing its acquisition of 100% of BSA's share capital, further to the purchase of 95% of BSA's share capital in May 2015.

For further information on the acquisition of BSA, see Section 1.8.12(g) of Chapter A of the Periodic Report.

H. Acquisition F&E

On August 14, 2017, Frutarom purchased 100% of the share capital of UK company Flavours and Essences (UK) Ltd. ("**F&E**") in exchange for approx. US$ 20.3 million (£ 15.6 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.

For further information on the acquisition of F&E, see Section 1.8.11(h) of Chapter A of the Periodic Report.

I. Acquisition of Muhlehof

On August 21, 2017 Frutarom purchased 100% of the shares capital of the Swiss company Muhlehof Gewurz AG ("**Muhlehof**") for approx. US$ 7 million (CHF 6.7 million). The transaction was financed through bank debt.

For further information on the acquisition of Muhlehof, see Section 1.8.11(i) of Chapter A of the Periodic Report.

J. Acquisition of Control in Turpaz

On September 6, 2017, Frutarom purchased approx. 51% of the shares capital of Turpaz Perfume and Flavor Extracts Ltd.("**Turpaz**") and BKF Perfume Compounding Ltd. (a company owning 80% of the share capital of Turpaz, "**BKF**"). The transaction was performed in exchange for approx. US$ 11.5 million (approx. NIS 41.5 million) cash free debt free. In addition, the purchase 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.

For further information on the acquisition of Turpaz, see Section 1.8.11(j) of Chapter A of the Periodic Report.

K. Acquisition of Control in Mighty

On October 18, 2017 Frutarom signed an agreement for the purchase of 60% of the shares capital of the Thai company The Mighty CO. LTD. (including the activity of Maharaj Food Co. Ltd. and Mighty International Co. Ltd., and hereinafter collectively: “**Mighty**”) in exchange for approx. US$ 12 million (approx. THB 393 million) (not including debt), and a future consideration based on Mighty's performance, all at a company value of approx. US$ 20 million (not including debt) (approx. THB 665 million) In the framework of the transaction, on February 1, 2018 Frutarom initially acquired 49% of Mighty and, subject to a number of conditions precedent and regulatory approvals in Thailand, will raise its holdings to 60%. The transaction includes a mechanism for future consideration subject to Mighty’s future performance and 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 the transaction is completed, at a price based on Mighty's future business performance. Frutarom estimates that raising its holdings to 60% will be completed within several months. The acquisition was financed through bank debt.

For further information on the acquisition of Mighty, see Section 1.8.12(k) of Chapter A of the Periodic Report.

L. Acquisition of Enzymotec

Following Frutarom's investment in approx. 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 approx. 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 and with subsidiary of the Acquiring Company (the "**Merger Sub**").

In the framework of the merger transaction, and subsequent to the balance sheet date the remaining balance (81%) of Enzymotec shares were purchased in return for a cash payment of US$ 11.9 per share by a way of a full merger of the Merger Sub into Enzymotec such that Enzymotec becoming a an indirectly fully owned subsidiary of Frutarom and being delisted from trading on NASDAQ. On January 17, 2018 Frutarom sold Enzymotec’s krill oil business, which is not a core activity of Frutarom, to Aker BioMarine of Norway for approx. US$ 26.4 million.

The overall net consideration (offsetting of the cash, cash equivalents, deposits and tradeable securities in Enzymotec’s treasuryand net of the krill transaction consideration)that was paid by Frutarom for 100% of Enzymotec's shares stands at approx. US$ 184 million (including cost of vested options, RSU's and estimated transaction expenses). The merger transaction was completed on January 11, 2018 and financed through debt from financial institutions.

For further information on the acquisition of Enzymotec, see Section 1.8.11(l) of Chapter A of the Periodic Report

M. Acquisition of the Activity of AB-Fortis

On November 7, 2017 Frutarom acquired the AB-Fortis activity from the Spanish company AB Biotics S.A.

For further information on the acquisition of AB-Fortis, see Section 1.8.11(m) of Chapter A of the Periodic Report.

N. Acquisition of Pollena-Aroma, Poland

On December 19, 2017 Frutarom purchased the Polish company Fabryka Substancji Zapachowych "Pollena-Aroma" Sp, z.o.o. ("**Pollena-Aroma**") for approx. US$ 8.4 million (approx. PLN 29.2 million). The transaction was completed upon signing and financed from independent sources.

For further information on the acquisition of Pollena-Aroma, see Section 1.8.11(n) of Chapter A of the Periodic Report.

O. Acquisition of Control in Bremil, Brazil

On December 20, 2017 Frutarom signed an agreement for the purchase of 51% of the shares of the Brazilian company Bremil Indústria De Produtos Alimenticios Ltda. ("**Bremil**"), for approx. US$ 31 million (approx. BRL 103 million) (including estimated asset adjustments to the date of completion) and a future consideration based on Bremil's future business performance in 2017 and 2018. The purchase agreement includes an option for the purchase of the balance of shares of Bremil, to take effect starting five years from the date of the transaction's completion at a price based on Bremil's business performance during that period. The transaction is expected to be completed over the weeks to come and will be financed through bank debt.

For further information on the acquisition of Bremil, see Section 1.8.11(o) of Chapter A of the Periodic Report.

P. Acquisition of IBR, Israel

On February 1, 2018 and subsequent to the balance sheet date,Frutarom purchased 100% of the shares capital of the Israeli company I.B.R - Israeli

Biotechnology Research Ltd. ("**IBR**") for approx. US$ 21 million. The transaction was completed upon signing and financed through bank debt.

For further information on the acquisition of IBR, see Section 1.8.11(p) of Chapter A of the Periodic Report.

Q. Acquisition of Meroar, Argentina

On March 13, 2018, subsequent to the date of the balance sheet, Frutarom signed an agreement for the purchase of 70% of the share capital of the Argentinian companies Meroar S.A and Meroaromas S.A. ("**Meroar**") for US$ 11.2 million. The purchase agreement includes an option to purchase the balance of Meroar's shares, starting from the elapse of 3 years of completion of the transaction, at a price based on Meroar's business performance during this period. The transaction is expected to be completed over the coming months and it will be financed through bank debt.

For further information about the acquisition see section 1.8.11(q) of chapter A of the periodic report.

For further details regarding the Frutarom Group's subsidiaries see Note 5 and Note 23 to the Company's financial statements of December 31, 2017.

Regulation 13 - Income of and from Subsidiaries and Affiliates

Company name	Profit (loss) for the reporting period (US$ 000)	Other profit (loss) (US$ 000)	Total profit (loss) for the reporting period	Dividend (US$ 000)		Management fee (US$ 000)		Interest	
				Until the reporting date	After the reporting date	Until the reporting date	After the reporting date	Until the reporting date	After the reporting date
Frutarom Ltd.	134,794	66,531	201,325	7,234	-	-	-	-	-

Regulation 20 - Trading on Stock Exchange

During the reporting period the Company issued 320,001 ordinary shares of NIS 1 par value each upon the exercise of stock options by Company employees.

There was no suspension in the trading of the Company's shares during the reporting period.

Regulation 21 –Payments to Related Parties and Senior Officeholders

Following is a breakdown of remuneration reflected in the Company's financial statements for December 31, 2017 to each of the five highest paid senior officeholders of the Company or corporation under its control and provided to them in connection with their position in the Company or corporation under its control:

Details of Officeholder				Remuneration for Services [1]							Other Payments			Total [1]
Name	Position	% Position	% of Holdings [2]	Salary [3]	Bonus [4]	Shares' Based Payment [5]	Manage-ment Fees	Consu-lting Fees	Comm-ission	Other	Interest	Rent	Other	
Ori Yehudai	President & CEO [6]	100%	1.39% [7]	1,079	1,620 [4a]	586 [8]	-	-	-	-	-	-	-	3,285
Amos Anatot	EVP, Global Supply Chain and Operations [9]	100%	0.15% [10]	280	144 [4b]	134 [11]								558
Alon Granot	EVP & CFO [12]	100%	0.15% [13]	286	144 [4c]	134 [14]	-	-	-	-	-	-	-	563
Tali Mirsky Lachman	Global VP – Legal & Company Secretary [15]	100%	0.09% [16]	221	63 [4d]	66 [17]	-	-	-	-	-	-	-	351
Guy Gill	VP – Finance [18]	100%	0.13% [19]	193	61 [4e]	63 [20]	-	-	-	-	-	-	-	317

* On February 5, 2018, Ms. Tali Mirsky-Lachman stopped serving as an officeholder in the company, for further information see the Company's immediate report dated February 5, 2018.

Notes to the table above:
[1] Remuneration amounts are shown in terms of cost to the Company. The amounts are in US$ thousands.
[2] On a fully diluted basis as of December 31, 2017.
[3] Including fringe benefits (car maintenance, telephone, social benefits, provisions for severance pay and any other charge made with respect to payment [made] to the senior officeholders).
[4] The amounts of bonuses to senior officeholders were determined in accordance with the Compensation Policy for Company officeholders and approved by the Compensation Committee and the Board of Directors. The amount shown in this column above reflects just the cash component of the annual bonus. For information on the mechanisms for determining the annual bonuses to Company officeholders, including the division of the annual bonus into a cash component and a deferred equity component, see the Company's previous compensation policy as published on December 29, 2013 and amended by the General Meeting of Company shareholders on May 8, 2016 (see the immediate report from March 31, 2016) (hereinafter collectively: the **"Previous Compensation Policy**") and chapter C (Results of Operations in 2017 – Profit and profitability) of the Company's Directors' Report for December 31, 2017. For information on the updated compensation policy which was approved on January 10, 2017, by the Company's General Meeting, see the Company's report from November 29, 2016 (the **"Compensation Policy**").
[4a] For information on the options to be granted to Mr. Yehudai in 2018 in the framework of the deferred equity-based component as part of the 2017 annual bonus which shall vest from 2018 to 2020, see the Previous Compensation Policy.
[4b] The cash bonus granted to Mr. Anatot constitutes 69% of the total bonus for 2017. The remaining portion shall be granted as stock options in the framework of the deferred equity-based component during 2018, which shall vest from 2018 to 2020, and all as listed in the Previous Compensation Policy.
[4c] The cash bonus granted to Mr. Granot constitutes 69% of the total bonus for 2017. The remaining portion shall be granted as stock options in the framework of the deferred equity-based component during 2018, which shall vest from 2018 to 2020, and all as listed in the Previous Compensation Policy.
[4d] Ms. Mirsky will only be granted the cash portion of the annual bonus, since on February 5, 2018 she stopped serving as an officeholder in the company, and therefore is not entitled to receive equity-based component of the bonus.
[4e] The cash bonus granted to Mr. Gill constitutes 61% of the total bonus for 2017. The remaining portion shall be granted as stock options in the framework of the deferred equity-based component during 2018, which shall vest from 2018 to 2020, and all as listed in the Previous Compensation Policy.
[5] The amounts in the table reflect the benefit component for the options granted under the 2003 Plan and the 2012 Plan (for grants made from 2013 through 2017), and options granted under the 2010 Plan from 2013 through 2016, as reflected in the Company's 2016 Financial Statements. For further details on the Company's option plans see Note 12b to the Company's Financial Statements for December 31, 2017. It should be noted that the options under the 2003 Plan and the 2012 Plan may be exercised into shares acquired by the Company, for this purpose, and that beginning in 2014 the granting of options to the Company's officeholders under the 2012 Plan is done in the framework of the equity-based component of the annual bonus.

[6] Mr. Yehudai has been employed with the Company since 1986, and in 1996 began serving as its President & CEO. Mr. Yehudai's terms of employment include a monthly salary (index-linked), social benefits as is customary in the industry (including executive insurance, study fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13th month salary, other benefits (including mobile phone, landline at home and newspapers), and an executive car. Mr. Yehudai is also entitled to an annual bonus (which includes a cash component and an equity-based component) and is granted options in accordance with the Company's options plans as specified in notes [7] and [8] below, and all in accordance with the Compensation Plan. Mr. Yehudai's employment will end 6 months from the date on which the Company serves notice of its desire to terminate the engagement and 3 months from the date on which Mr. Yehudai notifies the Company of his desire to end the engagement. In the event that Mr. Yehudai's employment come to an end within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Yehudai shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 12 months starting at the end of such notice period. In such case Mr. Yehudai will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended. Upon termination of his employment with the Company, Mr. Yehudai is entitled to receive double the amount of severance pay stipulated by law.
[7] As of December 31, 2017 Mr. Yehudai held 482,162 ordinary shares of the Company of 1 NIS each par value and 185,643 options exercisable into 185,643 of the Company's ordinary shares.
[8] As at the date of this report Mr. Yehudai owns 482,162 ordinary shares of the Company of 1 NIS each par value, whereas the balance of options granted to Mr. Yehudai under the 2012 Plan is 33,132 and the balance of options granted to Mr. Yehudai under the 2010 plan is 152,511.
[9] Mr. Anatot has been employed with the Company since 2010. Mr. Anatot's terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), an annual bonus at the Company's discretion (part in cash and part in deferred equity), a mobile phone and a vehicle. He is also granted options according to the Company's options plans as specified in notes [10] and [11] below, and all in accordance with the Compensation Policy. The engagement between the parties will end 3 months from the date on which either party serves notice on the other of a desire to terminate the engagement. In the event that Mr. Anatot's employment with the Company come to an end within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Anatot shall be entitled to receive his salary from the Company (except for vacation pay, sick leave, bonuses and options) for a period of 6 months from the end of such notice period. In such case Mr. Anatot will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended.
[10] As of December 31, 2017 Mr. Anatot held 46,215 options exercisable into 46,215 of the Company's ordinary shares.
[11] As of the date of this report, the balance of options granted to Mr. Anatot under the 2012 Plan is 10,225 and the balance of options granted to Mr. Anatot under the 2010 Plan is 35,990.
[12] Mr. Granot has been employed with the Company since 2001. Mr. Granot's terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13th month salary, an annual bonus at the Company's discretion (part in cash and part in deferred equity), other benefits (including mobile phone, newspapers, and a landline at home), and a vehicle. He is also granted options according to the Company's options plans

as specified in notes [13] and [14] below, and all in accordance with the Compensation Policy. Mr. Granot’s employment will end upon 3 months from the date on which either side serves notice on the other of a desire to end the engagement. In the event that Mr. Granot's employment with the Company come to an end within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Granot shall be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 6 months from the end of such notice period. In such case Mr. Granot will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended.

[13] As of December 31, 2017 Mr. Granot held 47,136 options exercisable into 47,136 ordinary Company shares.

[14] As of the date of this report the balance of options granted to Mr. Granot under the 2012 Plan is 5,067 and the balance of options granted to Mr. Granot under the 2010 plan is 27,500.

[15] Ms. Mirsky was employed with the Company from 2010 until February 2018. Ms. Mirsky’s terms of employment included a monthly salary, social benefits as is customary in the industry (including managers’ insurance, education fund, disability, recuperation pay, sick days and vacation days), an annual bonus at the Company’s discretion (part in cash and part in deferred equity), an acclimation bonus, a mobile phone and a vehicle. In addition, Ms. Mirsky was granted options according to the Company’s option plans, as detailed in notes [16] and [17] below, and all in accordance with the Compensation Policy. As previously mentioned, as of February 5, 2018, Ms. Mirsky is no longer with the company

[16] As of December 31, 2017 Ms. Mirsky held 30,121 options exercisable into 30,121 ordinary shares of the Company.

[17] As of the date of this report, the balance of options granted to Ms. Mirsky under the 2012 Plan is 2,547 and the balance of options granted to Ms. Mirsky under the 2010 Plan is 14,666.

[18] Mr. Gill has been employed with the Company since 2006. Mr. Gill’s terms of employment include a monthly salary, social benefits as is customary in the industry (including executive insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), an annual bonus at the Company’s discretion (part in cash and part in deferred equity), a mobile phone and a vehicle. He is also granted options according to the Company’s options plans as specified in notes [19] and [20] below, and all in accordance with the Compensation Policy. The engagement between the parties shall end 3 months from the date on which either party serves notice on the other of a desire to terminate the engagement.

[19] As of December 31, 2017 Mr. Gill held 39,961 options exercisable into 39,961 ordinary Company shares.

[20] As of the date of this report, the balance of options granted to Mr. Gill under the 2012 Plan is 8,961 and the balance of options granted to Mr. Gill under the 2010 Plan is 28,000.

For information on insurance, indemnification and the exemption arrangements for Company officeholders, see Regulation 29A below.

<u>Section (a)(2)</u>

There are no senior officeholders in the corporation receiving higher remuneration for their service to the corporation itself who are not included in the above table.

<u>Section (a)(3)</u>

There are no interested parties in the Company receiving remuneration who are not mentioned above, except for Company directors, as follows: All Company directors are entitled by their service to annual remuneration and participation remuneration equal to a fixed amount as specified in the Second and Third Schedules to the Companies Regulations (Rules on Honorarium and Expenses of Outside Directors) 5760-2000 (hereinafter: the "**Remuneration Regulations**"), in accordance with the Company's grade as it is determined from time to time.

The remuneration paid to all of the directors, as stated above, totaled US$ 244 thousand in the reported year.

For information on insurance arrangements, indemnification and the exemption for Company officeholders and directors, see Regulation 29A below.

Section (b)
No remuneration has been given to senior officeholders after the reporting period and prior to the submission of this report in connection with their service or employment in the reporting period which were not reflected in the Financial Statements for the reporting period except as outlined in Notes [4a] – [4e] to the table above.

Regulation 21A – Control of the Corporation

The controlling shareholder in the Corporation is ICC Industries Inc. (hereinafter: "**ICC**") which holds (through subsidiaries) 21,358,034 ordinary shares of the Company (constituting approx. 35.87% of the Company's issued capital and voting rights (35.52% on a fully diluted basis) as of the date of this report. In addition to these shares, 48,888 (approx. 0.08% of the Company's issued capital) is held directly by Dr. John J. Farber and his wife, Mrs. Maya Farber, who also respectively serve as Chairman of the Company's Board of Directors and as a member of its Board of Directors and are the controlling shareholders in ICC. Their daughter, Ms. Sandra Farber, also serves on the Company's Board of Directors and owns approx. 6.86% of ICC's issued capital.

Regulation 22- Transactions with Controlling Shareholders

Following are details, to the best of the Company's knowledge, of any transaction with the controlling shareholder or in which the controlling shareholder has personal interest in its approval, in which the Group engaged in 2017 or later, through the date of publication of this report or which is still valid at the time of the publication of the report:

Transactions included in Section 270(4) of the Companies Law, 5759-1999 (the "**Companies Law**")

(a) According to a resolution of the Company's Board of Directors from February 9, 2011, passed after having been approved by the Audit Committee, starting as of February 10, 2011 an annual remuneration and participation remuneration is being paid to the Company's directors (including external directors and directors who are controlling shareholders or relatives thereof) in amounts equivalent to the fixed amount prescribed under the Remuneration Regulations, according to the Company's grade as may be from time to time.

(b) On May 8, 2016 the General Meeting of Company shareholders, following the approval of the Company's Compensation Committee and Board of Directors on March 13, 2016 and March 16, 2016 respectively, approved the extension of validity and amendment to the letters of indemnity for directors in the Company who are controlling shareholders in the Company or relatives thereof for a period of three years from the date of approval given by the meeting of shareholders. The amendment was aimed mainly at adding clarifications, details and expansions to the list of incidents listed in the addendum to the original letter of indemnity as approved by the meeting of Company shareholders on June 10, 2012. For further information on the above-mentioned resolution, including the up-to-date version of the letter of indemnity to directors who are controlling shareholders in the Company, see the Company's reports from March 31, 2016 and May 15, 2016 (the **"Shareholders' Meeting from May 2016**").

(c) Director's' Insurance Policies

At the Company's General Meeting held on January 14, 2014 the purchase of insurance policies for directors and officeholders who are not controlling shareholders or relatives thereof, was approved for a period of 3 years from the date of approval of this resolution or until the annual General Meeting to be held in 2016, the later of the two. On February 16, 2016 the Company's Board of Directors ratified, following the approval of the Company's Compensation Committee, in accordance with Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000 (hereinafter: "**Relief Regulations**"), that the stated policy applies to all of the directors and officeholders in the Company, including but not only directors and officeholders who are the controlling shareholders and relatives thereof, as well as to the Company's President & CEO. For further information on this matter, see the Company's report from February 17, 2016.

In the framework of the Shareholders' Meeting from May 2016, the shareholders' meeting approved, further to approval by the Company's Compensation Committee and Board of Directors on March 13, 2016 and March 16, 2016 respectively, the purchase of directors' and officeholders' insurance policies for a period of three years beginning on the date of approval by the shareholders' meeting (for information on the terms of the stated policies, see Regulation 29A below). Further to the stated approval by the shareholders' meeting, the Company's Board of Directors approved on May 23, 2016, following the approval of the Company's Compensation Committee, in accordance with Regulation 1b to the Relief Regulations, the application of the insurance policies, as stated above, also to directors and officeholders who are the controlling shareholders in the

Company and relatives thereof and to the Company's President & CEO. For further information on this matter, see the Company's immediate report from May 24, 2016.

Transactions not included in Section 270(4) of the Companies Law

During its ordinary course of business the Group executes negligible transactions with companies under the controlling shareholder's control. In the framework of such transactions the Company purchases raw materials at cost and production services at market price from a company controlled by the controlling shareholder. In addition, a subsidiary of the Company sells products at market prices to a company under the controlling shareholder's control for marketing them to a specific customer in Japan. Also, subsidiaries of the Company purchase raw materials at market prices from companies under the controlling shareholder's control. For more information regarding the above transactions see Note 22 of the Financial Reports.

Transactions are classified as negligible in accordance with the approval of the Company's Audit Committee and Board of Directors dated March 19, 2017 and March 22, 2017, respectively of guidelines and rules for the classification of a transaction by the Company or by a consolidated or associated company with an interested party as negligible ("**Negligibility Guideline**"). For information regarding the Negligibility Guidelines, see Note 22 of the Financial Reports.

Regulation 24 - Convertible Shares and Securities Held by Interested Parties

For details regarding holdings in the Company by interested parties, see the immediate report on the status of holdings of interested parties and senior officeholders issued by the Company on January 7, 2018. To the best of the Company's knowledge, there have been no material changes in interested parties' holdings since the date referred to in this status report.

Regulation 24A – Registered and Issued Share Capital and Convertible Securities

As at the date of this report, the Company's registered share capital is NIS 100,000,000 divided into 100,000,000 shares of NIS 1 par value each.

As at the date of this report, the Company's issued share capital is NIS 59,680,493 divided into 59,680,493 shares of NIS 1 par value each.

Issued share capital after deduction of dormant shares: NIS 59,544,157 divided into 59,544,157 shares of NIS 1 par value each.

As of the date of this report the Company holds 136,336 of its shares in accordance with the Company's 2003 Plan and 2012 Plan. These shares are dormant shares under Section 308(A) to the Companies Law, and therefore do not confer any rights.

As at December 31, 2017 the balance of options existing under the option plans which the Board of Directors adopted in 2010 and 2012 is 467,710 and 142,378, respectively. For further details regarding the above option plans, see regulation 21 above and Note 12 to the Company's Financial Statements

<u>Regulation 24B - Registry of the Company's Shareholders</u>

For the updated registry of the Company's shareholders, see the Company's immediate report dated February 20, 2018.

<u>Regulation 25A – Registered Office</u>

Registered office:	2 Hamenofim St, Herzeliya, 4672553
Email:	ir@frutarom.com
Telephone:	+972 9 960 3800
Fax:	+972 9 960 3826

Regulation 26 – Members of the Board of Directors

Name of Director	Dr. John J. Farber, Chairman	Maya Farber	Sandra Farber	Hans Abderhalden
ID \Passport no.	520850285 (US Passport)	520777916 (US Passport)	453588940 (US Passport)	x4983003 (Swiss Passport)
DOB	1925	1936	1957	1939
Address for service of court processes	435 E. 52 St., New York, N.Y. 10022, U.S.A.	435 E. 52 St., New York, N.Y. 10022, U.S.A.	340 Riverside Drive, New York, N.Y. 10025 US	Lerchenbergstrasse 114, 8703 Erlenbach 8703, Switzerland
Nationality	U.S.A.	U.S.A.	U.S.A.	Swiss
Member of BOD committees	No	No	No	No
Independent \ external director	No	No	No	No
Director with financial and accounting expertise or professional capacity	Financial and Accounting Expertise and Professional Capacity	Professional Capacity	Professional Capacity	Financial and Accounting Expertise and Professional Capacity
Company , subsidiary or related company employee or related party	Chairman of ICC Industries Inc.	Director in ICC Industries Inc.	Vice-Chair of ICC Industries Inc.	No
Year began serving as director	1996	1996	2011	2004
Education	Ph.D. in Chemistry from Polytechnic Institute of Brooklyn, New York	Hunter College, New York and Art Students' League	Juris Doctor, New York University School of Law	IMD Program for Executive Development from IMD, Switzerland
Occupation over past five years	Chairman of the Board of the Company and of ICC Industries Inc.	A director in the Company; Artist	A director in the Company; Vice-Chair of ICC Industries Inc.	Director in Frutarom Switzerland Ltd. and advisor

Names of corporations where serves as director	Chairman of the Board of ICC Industries Inc. and serves as Director in ICC Industries Inc. subsidiaries	ICC Industries Inc.	Vice-Chair of ICC Industries Inc. and director in ICC subsidiaries	Served as Director in Frutarom Switzerland Ltd. until August 2013
Relative of other Related party in the corporation	Married to Mrs. Maya Farber and father of Ms. Sandra Farber, both directors in the Company	Married to Dr. John J. Farber, Chairman of the Board and the mother of Ms. Sandra Farber, director in the Company	Daughter of Dr. John J. Farber, the Chairman of the Board and Mrs. Maya Farber, director in the Company	No
Accounting and financial expertise for purposes of minimal no. of directors under section 92(A)(12) to the Companies Law	Yes	No	No	Yes

Name of Director	Gil Leidner	Dafna Sharir	Ziv Gil
ID \Passport no.	50776889 (Israeli)	23761455 (Israeli)	058831645 (Israeli)
DOB	1951	1968	1964
Address for service of court processes	11 HaSnir St. Ramat Hasharon	17 Rabina St., Tel Aviv	37 Ha'tomer St., Ramat Hasharon
Nationality	Israeli	Israeli	Israeli
Member of BOD committees	Member of the Audit Committee, Balance Sheet Committee and Compensation Committee	Member of the Audit Committee, Balance Sheet Committee and Compensation Committee	Member of the Audit Committee, Balance Sheet Committee and Compensation Committee
Independent \ external director	Independent director	External director	External director
Director with financial and accounting expertise or professional capacity	Financial and Accounting Expertise and Professional Capacity	Financial and Accounting Expertise and Professional Capacity	Financial and Accounting Expertise and Professional Capacity
Company , subsidiary or related company employee or related party	No	No	No
Year began serving as director	2010	2014	2017
Education	LLB, Tel Aviv University	MBA,Insead; LLM, New York University; LLB and BA Economics, Tel Aviv University	BA Mathematics and Economics, Tel Aviv University; MBA, Rotterdam School of Management
Occupation over past five years	Managing partner at Galram Consultants	Consultant on mergers and acquisitions (2008-2010), Director at Ormat Industries Ltd. until February 2015.	Founder and CEO at Rimon Funds and Rimon Advisors; 2007-2015 served as a director at Waterlogic International
Names of corporations where serves as director	Member of the Management Committee of the Research Fund of Tel Aviv Sourasky Medical Center	Director at Gilat Satellite Networks Ltd.	2010 until the present day: Member of the Investments Committee of The Phoenix Insurance Company Ltd.
Relative of other related party in the corporation	No	No	No
Accounting and financial expertise for purposes of minimal no. of directors under section 92(A)(12) to the Companies Law	Yes	Yes	Yes

Regulation 26A - Senior Officeholders

Name of officeholder	Ori Yehudai	Alon Granot	Amos Anatot
Position in corporation, subsidiary, related company or related party	President & CEO. Serves as director in Frutarom subsidiaries.	Executive Vice President & CFO. Serves as director in Frutarom subsidiaries and as the Group's officer responsible for managing market risks.	Executive Vice President. Global Supply Chain and Operations. Serves as director in Frutarom subsidiaries.
ID no.	052731569	057210247	51923548
DOB	1954	1961	1953
Year began serving in the company	President & CEO as of 1996 (first began working for the Company in 1986)	2001	2010
Independent authorized signatory	No	No	No
Interested party in the corporation or relative of senior officeholder or of related party	Interested Party by his service as the Company's President & CEO	No	No
Education	BA in Economics (Tel Aviv University) MA in Business Administration (Tel Aviv University)	BA in Economics and Business Administration (Haifa University) MA in Economics (Technion)	B.Sc. in Industrial Engineering and Management (Technion)
Business experience over past five years	President & CEO of the Company	Executive Vice President & CFO of the Company	Executive Vice President Global Supply Chain and Operations

Name of officeholder	Tali Mirsky-Lachman *	Guy Gill	Yoav Barak
Position in corporation, subsidiary, related company or related party	Global Vice President, Legal Affairs and Corporate Secretary	Vice President Finance. Serves as director in Frutarom subsidiaries.	Internal Auditor
ID no.	029423837	24223380	53670352
DOB	1972	1969	1955
Year began serving in the company	2010. On February 5, 2018, Ms. Tali Mirsky-Lachman stopped serving as an officeholder in the company	2006	2004
Independent authorized signatory	No	No	No
Related party in the corporation or relative of senior officeholder or of related party	No	No	No
Education	L.L.B in Law and Business Administration, IDC, Herzliya	BA in Economics and Accounting, Haifa University. Certified accountant.	BA in Economics and Accounting, Haifa University.
Business experience over past five years	VP, General Counsel and Corporate Secretary	VP Finance of the Company	Has served as Internal auditor for corporations and as chairman and a director in various companies.

* For further details see the Company's immediate report dated February 5, 2018

Regulation 26B – Independent Signatories

The Company does not have independent signatories as the term is defined under clause 37(d) of the Securities Law, 5728-1968.

Regulation 27 – Company Auditors

The Group's external auditors are Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel Aviv 6812508

To the best of the Company's knowledge the auditors are not interested parties and/or related to any senior officeholder or interested party in the Group.

Regulation 28 – Changes to Articles of Association

In the framework of the Shareholders' Meeting from May 2016, the shareholders' meeting approved an amendment to the Company's Articles of Association intended to enable the Company to conduct itself efficiently regarding the issuance of stock certificates. According to this amendment, a stock certificate could also be signed by one person appointed for this purpose by the Board of Directors and the Corporate Secretary. In addition, in accordance with this amendment the Board of Directors shall be entitled to decide that such signature or signatures be performed by means of electronic signature or by other mechanical means, as it so determines. For the amended and full text of the Company's Articles of Association, see the Company's report from May 9, 2016.

Regulation 29 – Recommendations and Resolutions by the Directors and Resolutions of the Special General Meeting of Shareholders

Recommendations of the Board of Directors to the General Meeting of Shareholders and its resolutions that do not require the approval of the General Meeting of Shareholders:

a) On March 22, 2017, the Company's Board of Directors resolved on the distribution of a dividend of NIS 0.44 per share. The total amount to be paid out is NIS 26,008 thousand. For further information, see the Company's immediate report from March 23, 2017.

b) on March 22, 2017 the Company's Board of Directors approved the repurchase of Company shares for a total of US$ 900 thousand for the purpose of granting options in the framework of the 2012 Plan, of which 3,362 shares (whose value as of the date of the above-stated decision was approx. US$ 186 thousand) were already held by the Company. For further information on this matter, see the Company's immediate report from March 23, 2017.

c) On August 16, 2017 the Board of Directors approved the repurchase of Company shares for a total of US$ 900 thousand for the purpose of granting options in the framework of the 2012 Plan, of which 1,104 shares (whose value as of the date of the above-stated decision was approx. US$ 78.8 thousand) were already held by the Company. For further information on this matter, see the Company's immediate report from August 17, 2017.

d) On March 19, 2018 the Company's Board of Directors resolved on the distribution of a dividend of NIS 0.50 per share. The total amount to be paid out is NIS 29,840 thousand. For further information, see the Company's immediate report from March 20, 2017.

e) On March 19, 2018 the Board of Directors approved the repurchase of Company shares for a total of US$ 950 thousand for the purpose of granting options in the framework of the 2012 Plan, of which 2,997 shares (whose value as of the date of the above-stated decision was approx. US$ 267 thousand) were already held by the Company. For further information on this matter, see the Company's immediate report from March 20, 2018.

Resolutions of the Special General Meeting:

In the framework of the Shareholders' Meeting from May 2016, the following resolutions, *inter alia,* were adopted: amendment to the Company's Articles of Association (as described in Regulation 28 above); amendment to the letters of indemnity for directors who are not controlling shareholders in the Company and directors who are controlling shareholders or relatives thereof (as described in Regulation 22 above); resolution on the purchase of directors' and officeholders' insurance policies (as described in Regulation 29A above); and an amendment to the Company's previous compensation policy. For further information, including the full texts of the stated resolutions of the General Meeting, see the Company's reports from March 31, 2016 and from May 15, 2016.

In the framework of the Company's Shareholders' Meeting on January 10, 2017 the General Meeting of Shareholders approved the appointment of Mr. Ziv Gil as an external director in the Company for an initial term of three years, under section 239(b) of the Companies' Law; extension of the appointment of Ms. Dafna Sharir as an external director in the Company for a second three year term under section 239(b) of the Companies' Law; and compensation policy for officeholders in the Company under section 267a of the Companies Law. For further information, including the full texts of the stated resolutions of the General Meeting, see the Company's reports from November 29, 2016 and from January 11, 2017.

Regulation 29A – Company Resolutions

Exemption, indemnification and insurance for directors and officeholders in the Company

All of the officeholders and directors in the Company are entitled to be included in the Company's existing exemption[2], indemnification and insurance arrangements.

In the framework of the compensation policy for Company officeholders, as approved by the General Meeting of Shareholders on January 10, 2017, it has been decided that the company is permitted to purchase, extend, and/or renew directors' and officeholders' liability insurance for a period of three years, and this on the following conditions:
(a) subject to item (b) below, the scope of coverage shall be no less than a total of US$ 100 million (per case and period); (b) the annual premium shall not exceed a total of US$ 300 thousand; and (c) all other terms of the insurance policies shall be determined in each insurance period by Company management according to market conditions on the date of insurance renewal. Company management is entitled to deviate from the stated amounts by up to 5% of any amount.

Date: March 19, 2018

Frutarom Industries Ltd.

By:	______________	______________
Name:	Dr. John Farber	Ori Yehudai
Office:	Chairman of the Board	President & Chief Executive Officer

[2] Except for controlling shareholders.

Section E

Report on the Effectiveness of the Internal Controls on the Financial Reporting and Disclosure

Annual Report on the Effectiveness of the Internal Controls on the Financial Reporting and Disclosure

The management of Frutarom Industries Ltd. (the "**Corporation**"**)**, supervised by the Corporation's Board of Directors, is responsible for prescribing and conducting proper internal control on the Corporation's financial reporting and disclosure.

For this matter, the members of management are:

1. Ori Yehudai, President and CEO
2. Alon Granot, Executive Vice President and CFO
3. Amos Anatot, Executive Vice President Global Supply Chain and Operations.
4. Sharon Ganot, Global Vice President, Human Resources
5. Guy Gill, Vice President Finance
6. Flora Lewin, Global Chief information officer

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

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

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

Management, supervised by the Board of Directors, tested and assessed the internal auditing of the financial reports and the Corporation's disclosure and its effectiveness. The assessment of the effectiveness of the internal control on financial reporting and on disclosure performed by management, supervised by the Board of Directors, included:

Mapping out and identification of the business processes which management deems very material to the financial reports and disclosure. Testing key controls and testing the effectiveness of the controls. Components of the internal control included control of closing processes for accounting periods, preparation and editing of financial reports and disclosures, controls on the level of the organization, general controls on information systems and controls on business processes: (1) sales and customers (2) material consumption, inventory and procurement (3) the purchase price allocation process (4) the methodology use for the valuation of intangible assets.

Based on the assessment of effectiveness performed by management, supervised by the Board of Directors as explained above, the Board of Directors and Corporation's management have concluded that the internal control on the Corporation's financial reporting and disclosure as at December 31, 2017 is effective.

Manager's Declarations

Declaration of the President and CEO

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

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

material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Compiling Annual Financial Reports), 5770-2010, is brought to my attention by others in the Corporation and the consolidated companies, particularly during the preparation of the Reports; and

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

c. I have assessed the effectiveness of the internal control on the Corporation's financial report and on the disclosure, and presented the conclusions of the Board of Directors and of the management regarding said effectiveness of the internal control in this report as of the date of the report.

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

Date: March 19, 2018

____

Ori Yehudai

President and CEO

Manager's Declarations

Declaration of the Executive Vice President and CFO

The undersigned, Alon Granot, hereby declares as follows:

1. I have reviewed the financial reports and other financial information contained in the reports of Frutarom Industries Ltd. (the "**Corporation**") for 2017 (the "**Reports**");

2. To my knowledge, the financial reports and other financial information contained in the Reports do not include any false representations of any material fact and do not omit representation of any material fact required in order to ensure that the representations contained in these, in light of the circumstances under which such representations were included, are not misleading in relation to the period of the Reports;

3. To my knowledge, the financial reports and other financial information contained in the reports duly reflect the Corporation's financial situation, its results of operations and cash flow for the dates and periods to which the Reports relate in all material aspects;

4. I have disclosed to the Corporation's auditors, the Board of Directors and the Audit Committee of the Company's Board of Directors, based on my most updated assessment of the internal control on financial reporting and disclosure:

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

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

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

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

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

   c. I have assessed the effectiveness of the internal control on the Corporation's financial report and on the disclosure, insofar as such relate to the financial reports and to any other financial information contained in the reports as of the date of the reports; my conclusions regarding my aforesaid assessment has been brought before the Board of Directors and the management and is contained in this report. .

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

Date: March 19, 2018

____

Alon Granot
Executive Vice President and CFO

Frutarom Industries Ltd.
Impairment Study - Flavors Segment America

As Of December 31, 2017

Disclaimer: This document represents an English translation of the impairment study originally conducted in Hebrew. Any official references to the study should be taken from the Hebrew version.

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Website: www.bdo.co.il

Dear Sirs

We were requested by Frutarom Industries Ltd. (hereinafter: **"Frutarom"** and/or the **"Company"**) to perform an Impairment Examination Study (hereinafter: the **"Study"** and/or the "**Impairment test**") of the America Flavor goodwill created by the acquisition of the Flavors operation of America (hereinafter: the "**FLV Operation**" and/or the "**CGU**"), as of December, 31, 2017 (hereinafter: **"Valuation Date")**. The study is performed under the requirements of International Accounting standards 36 (Hereinafter: "**IAS 36**").

Our Conclusions will be used by Frutarom, its management and auditors, for the purpose of financial reporting in accordance with generally accepted accounting principles and financial reporting principles in Israel, as required by law, including in accordance with IAS 36. This work is intended for the exclusive use of Frutarom, its management, and its independent auditors only.

We are aware that this study will be used and / or will be included in Frutarom's financial statements as stated in the regulations under the Securities Law, 1968. No other use may be made of this study except for the aforesaid, including quoting in whole or in part, Without our prior written permission.

In order to carry out the Study, we assumed and relied on the accuracy, completeness and timeliness of the information received from the Company and from various entities connected with the Company's operations. We have no reason to assume that the data on which this Study is based on, is inaccurate, complete or fair, and we have not conducted an independent examination of this information. The reliance on the information received as aforesaid does not constitute verification or confirmation of its correctness. No due diligence was performed as part of the opinion and does not purport to include the information, tests and tests or any other information included in the due diligence examination.

We did not independently examine the information, except for an examination of its reasonableness. We have taken a number of exams for the information as following

- Analyzing the business results of the activity in recent years and conducting a reasonableness examination of the income and expenditure forecasts used in this document;
- Examining the structure of expenses of the activity;
- Examination of the operational profitability of the activity.

An economic opinion is not an exact science, and it is supposed to reflect in a reasonable and fair manner a correct situation at a specific time, based on known data, assumptions and forecast estimated. Changes in the main variables and / or information may change the basis of the assumptions and the conclusions. The calculations in this work were carried out via excel spreadsheet, and therefore there may be rounding differences.

We hereby declare that we have no personal interest in the Company and that we are independent of the Company or of any of the Group companies as this term is defined in the Auditors Law -1955 and in the Regulations promulgated thereunder, including the Auditors' Regulations (Conflict of Interests and Damage to Independence as a Result of Other Occupation) 2008, the auditing standards and the professional conduct rules of the Institute of Certified Public Accountants in Israel.

In addition, our opinion complies with the conditions and criteria for an independent valuation in accordance with the Securities Regulations and the guidelines of the Israel Securities Authority, including the Securities Authority decision (regarding independence) under section 9B of the Securities Law -1968. It should also be noted that no conditioning have been prescribed for the payment of the fee in connection with the results of the opinion.

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- Our work was conducted in coordination with appropriate professional instructions. In other areas, procedures and practices relevant to accounting work may differ and the data presented may be different. Therefore, this document was not prepared in coordination with the procedures and practices of any professional institution from another field.
- Do not refer to this document or quote it or parts of it, in any other document exposed to a third party.

Sources of information

The principal sources of information used in performing our Annual Goodwill Impairment Test include:

- Financial report pro-forma as of for the year 2017;
- A multi-year forecast of the operation for the years 2018-2022;
- Financial and operational business data, received from Frutarom's management;
- Other information received from the company management, in writing or by discussions;
- Public data;

Discussion with the company management

Conversations and correspondence with key people:

- Mr. Guy Gil, Vice President of Finance.

Executive summary

Based on our study, we have concluded that the CGU's Goodwill is not deemed to be impaired, as of December 31, 2017, as follow (thousands USD):

Examining the Need of Impairment	USD Thousand
Recoverable amount	817,923
Carrying amount	301,031
Impairment Needed	**–**

Source: BDO analysis.

Respectfully submitted,

BDO Consulting & Management Ltd.

Moti Dattelkramer

C.P.A

Contents

Section 1

CGU Overview

CGU Overview

General

Frutarom's flavor operations develops, produces, markets and sells sweet and savory flavor solutions, including Flavors 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 products. Frutarom develops thousands of different Flavors for its customers, most of which are tailor-made for specific customers, as well as new products to suit varying consumer preferences. In accordance with the Company's strategy, Frutarom's FLV operation grew quickly and profitably, in combination with internal growth and acquisitions. In 2017 Frutarom's FLV operation accounted for 81% of Frutarom's core business and 75% of Frutarom's total sales (compared to 33% of total sales in 2000).

Over the years, Frutarom made several acquisitions within the Flavors sector and of operating activities in the EMEA region. These acquisitions have significantly increased the market share of the Company and the solutions that the FLV operation offers to its customers. These moves will contribute to further growth in the FLV operation in developing countries and developed countries in which it operates. Furthermore, These acquisitions have established Frutarom’s position as one of the top ten flavor company's, while enhancing its presence and position as a worldwide leader in solutions tastes.

New Products

Frutarom's FLV operation develops a variety of new products as a part of its ongoing operation. Frutarom generally works directly with customers in order to develop a new customized product for the specific customer needs. Among Frutarom's new product launches, there is not a specific new product that is significant in terms of expected sales volume and/or in term of development costs.

Competition

In the flavor market, the Company's competitors are large multinational manufacturers, mid-sized companies and local and small companies. The competition is very much based on innovation capabilities, quality of the products, ability to develop and maintain long-lasting relationships with customers, reliability and the ability to customize products for the costumer's specific desires and needs.

Customers in the market for flavoring solutions tend to be less influenced by cost when choosing their supplier, as flavoring costs are not a major factor in the overall costs of their products. Therefore, Frutarom's typical customers focus on doing business with flavor manufacturers who are able to differentiate themselves through deep knowledge and the understanding of the target markets, strong capabilities for innovation and R&D, and mostly, by a strong reputation and consistent and reliable customer service.

CGU Overview

Customers

The flavors produced by Frutarom are sold to an extensive customer base comprised of thousands of large multinational, mid-sized, local and small customers. The customers are mainly food and beverage manufacturers, spread over 150 countries around the world. In 2017, there were no customers whose purchases accounted for more than 2% of Frutarom's sales turnover.

Products

Frutarom markets and sells over 80,000 flavors products to more than 40,000 customers in more than 150 countries. The success of many of the flavors developed by Frutarom depends on its familiarity with local tastes and the adaptation of products to these tastes. In the FLV operation, Frutarom has an extensive deployment of 89 research and development laboratories and 109 marketing and sales offices, located near its customers at strategic target markets.

Frutarom's global deployment enables it to meet the needs of its customers in those strategic target markets, and of customers in the food and beverage market, who are launching global brands in several markets simultaneously.

Frutarom's FLV operation provides efficient and high quality solutions for her rapid growth of private label products of its customer, while providing them with assistance and support in developing and marketing new products. Frutarom offers these customers her technological support, product development and marketing assistance and a wide range of products, while providing services tailored to their unique needs, with flexibility regarding minimum quantities and supply dates.

The acquisitions made by Frutarom in recent years have significantly expanded the range of products that Frutarom offers to her private label manufacturers, while enhancing its global deployment, enabling it to maintain close relationships with her private label customers.

CGU Overview

Products (continued)

As part of the FLV operation, Frutarom offers a wide variety of flavor solutions, designed to create new flavors, enhance existing flavors and / or disguise certain flavors in processed food and beverage products.

Most of the flavor products contain a large number of raw materials (for example, extracts contain dozens of raw materials, including fruits, vegetables and spices), that are combined by unique formulas, developed by Frutarom's team of research scientists in state of the art laboratories.

The company carefully decides to develop new products through both individual initiatives and as the result of collaborating with their customers in order to meet specific demands. In addition, Frutarom is able to offer its customers solutions that include functional organic components that contribute nutritional value to food and beverage products, protect consumer health, and prolong product shelf-life. These raw materials form the basis for the branding of the final product and therefore strengthen the Company's long-term relationship with its customers.

Frutarom's products can be divided by application type (beverages, dairy products, snacks and sweets, processed meat and fish, etc.), source of raw material (natural, organic and artificial), taste (sweet, savory), texture (liquid, powder, emulsion, grains and paste), etc.

- **Application type** – The flavor products produced by the Company are mainly used as ingredients for a variety of consumer goods produced by food and beverage manufacturers.

  These consumer goods consist light beverages, juices, dairy products, ice cream, baked goods, sweets, chewing gum, processed meat and fish, meat substitutes, pharmaceuticals, and animal food. Flavor products are also used for a variety of savory products, such as, snacks, convenience food, ready-to-consume soups, and salad dressings.

- **Source** – Frutarom offers natural, organic, nature-identical, and artificial flavor products. The natural flavors are made entirely from natural raw materials that include, among other things, natural extracts and essential oils. The nature-identical and artificial flavors are produced mainly by using synthetic raw materials. Some of the flavor products that are manufactured by the Company contain unique raw materials that are made exclusively by the Company's raw materials operation for the FLV operation.

- **Flavor** – Frutarom manufactures both sweet and savory flavors. The sweet flavors are mainly used in, beverages, dairy products, ice cream, baked products and sweets. The savory flavors are mainly used in snacks, savory baked goods, processed meat and fish and in convenience food. Furthermore, Frutarom manufactures unique mixed seasonings, unique functional raw materials for processed meat, poultry and fish producers, and a variety of flavor extracts for meat substitute in order to create the meat taste in products that doesn’t contain meat

- **Texture** – Frutarom's flavor products are sold in the shape of liquid, powder, emulsion, and as grains or paste. Often, they are mixed with stabilizers and emulsifiers (raw materials that change the texture and qualities of the products they are added to).

CGU Overview

Balance Sheet

The following table presents the balance sheet of the CGU as of December 31, 2017 (Thousand USD):

USD Thousand	31.12.2017
Current Assets	
Cash & cash equivalents	16,670
Accounts receivable	35,669
Other receivable	7,870
Inventory	40,948
Total current assets	**101,157**
Long-term assets	
Net fixed assets	35,284
Other long term Debentures	204
Other assets, net	224,934
Total long-term assets	**260,422**
Total assets	**361,579**
Current liabilities	
Short-term credit	18,363
Suppliers	13,955
Accrued expenses	15,694
Total current liabilities	**48,012**
Long term liabilities	
Long-term credit	23,924
Pension liability	480
Other long term Liabilities	35,171
Long-term loans to related parties	187,653
Deferred tax	18,290
Total long term liabilities	**265,516**
Total liabilities	**313,528**
Total shareholder's equity	48,050
Total liabilities and equity	**361,579**

Source: Frutarom's audited financial statements as of December 31, 2017.

Profit & Loss

The following table present the profit and loss statements, of the CGU, in a full year performance(*), as of December 31, 2017 (Thousand USD):

USD Thousand	2017
Revenue	220,313
Cost of sales	(134,312)
Gross profit	**86,001**
Gross margin	*39.0%*
S&M	(24,072)
% of revenue	*-10.9%*
R&D	(11,495)
% of revenue	*-5.2%*
G&A	(13,082)
% of revenue	*-5.9%*
Operating profit	**37,352**
Operating margin	*17.0%*

Source: Frutarom's audited financial statements as of December 31, 2017.

(*) Pro forma - During FY2017 the Company has made a number of acquisitions and has given us pro forma data regarding their effect on the Company's financial statements (henceforth: "Pro forma 2017").

Section 2

Market Overview

Market Overview

Flavor and fragrance industry worldwide

The global market for Flavors, fragrances and raw materials in 2015, was estimated at approximately USD $24 billion. Frutarom is not active in the fragrances market, but is active in the market of natural functional food ingredients (excluding the above estimate), and therefore, it believes to sell in the markets where it operates, approximately $18.2 billion. According to Leffingwell & Associates, Frutarom is ranked as one of the ten largest companies in the field of taste and smell.

The research company IAL Consultants, estimated that sales in industrialized countries (central & north America and Western Europe) in the Flavors markets, will grow at an annual rate of 3%, between the years 2015-2020. According to these estimates, the growth rate in emerging markets, such as Asia, Central and South America, Eastern Europe and Africa, is expected to be significantly higher due to changes in consumer preferences in these markets, and the transition to processed food consumption, and might reach an average annual growth rate of 5.1% till 2020.

The manufacturers of the flavor, fragrance and fine ingredient markets can be divided into three main groups:

1. **Large multinational manufacturers** generally operate globally and have revenues in excess of $2.5 billion. In the global flavor and fragrance markets there are four such manufacturers: Givaudan, Firmenich, IFF, Symrise which markets their products mainly to large and international customers, which are food and beverage manufacturers. According to Leffingwell & Associates, represent approximately 57% of sales in the flavor, fragrance and fine ingredients markets.

2. **Medium Global Companies-** among these companies is Frutarom. These companies have revenues in the amount of USD 400 million-USD 1.2 billion. In the global flavors and fragrances segment there are 8 mid-size companies. Some of the companies operate in the global market and some concentrate in a specific geographic region (such as Japan). According to Leffingwell & Associates, these companies represent approximately 21% of the market.

3. **Local and small companies**, the majority of the local and small companies that have revenues that are less than USD 400 million are companies that their revenue is approximately few million dollars. These companies usually focus on local small costumers and they have limited ability in R&D, ingenuity and the specific service to the client. According to Leffingwell & Associates, these companies represent approximately 22% of the market.

Market Overview

Flavors market

Flavors are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining the consumer acceptance of the end products in which they are used. According IAL consultants and Frutarom the global sales in the flavor segment amounted to USD 12 billion in 2015. Flavor products are sold primarily to producers of prepared food, beverage, dairy, bakery, meat and fish, confectionery and pharmaceutical products.

The following are examples of end user products using Flavors:

- **Beverages** - carbonated, noncarbonated, sport and functional, alcoholic and juices.
- **Dairy** - yogurt, drinking yogurt, ice cream, cheese and chilled desserts.
- **Bakery** - cakes and cookies, crackers and cereals.
- **Confectionery** - candy, chocolate, jam and chewing gum.
- **Savory and convenience food** - ready meals, instant soup, ready sauces and instant noodles.
- **Snacks** - potato chips and other savory snacks.
- **Meat** - sausages and frankfurters.
- **Processed Fish**.
- **Oral hygiene and pharmaceuticals** - toothpaste, mouthwash, vitamins and medicines.
- **Others** - animal feed and pet food and tobacco.

The global market for Flavors has expanded rapidly over the last 60 years, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer end products containing Flavors. The demand for consumer goods containing flavor products has increased as a result of rapid population growth and consumer preferences resulting from various factors such as increases in personal income, leisure time, health concerns and urbanization. These factors have led to an overall increase in food and beverage products containing Flavors and to rapid growth in demand for convenience food and foods with healthier and more natural content.

Market Overview

Flavors market (Cont.)

The following table sets forth the sales of Flavors by region in 2013 and the projected annual growth rate in these geographic regions:

Country	World consumption in 2013 ($ million)	Average growth is expected in 2013-2018	Market share
Western Europe	2,187	2.4%	18.8%
Eastern Europe	946	3.0%	8.2%
North America	2,583	2.9%	22.3%
South America	1,277	3.6%	11.0%
Asia	3,885	4.8%	33.5%
Middle East and Africa	727	4.7%	6.3%
Total	**11,605**	**3.7%**	**100.0%**

According to the research company IAL Consultants, in 2013 the biggest market in the Flavor segment is Asia that accounted for approximately 33.5% of global Flavor sales, with North America in second with 22.3% of the market share. The Asian markets is expected to grow the highest (compounded annual growth rate of 4.8%) and behind are the African and middle east markets with a compounded annual growth rate of 4.7%. Frutarom is enhancing its growth in these markets through a number of efforts including a focused strengthening of the research and development, production, marketing and sales infrastructure in the important target countries and exploring options for strategic acquisitions.

Market Overview

Flavors market - Characteristics

The following are the characteristics of the Flavor Market:

- **Reliable with high levels of service** - Food and beverage producers, which are the principal customers of flavor manufacturers, expect reliable, high-quality service to meet their needs in terms of support and lead time, while maintaining high quality, regulatory and safety standards. These requirements encourage the formation of long-term relationships between flavor producers and their customers. As a result, large multinational customers, and increasingly also mid-sized customers, have pruned the flavor suppliers that they will work with, placing those that remain on "core lists" creating a barrier to entry for small flavor manufacturers.

  Research and development - The development of flavor products in general and of new flavor extracts in particular is a complex, creative and technological process that calls for depth of knowledge and skill on the part of a flavor manufacturer's research and development personnel. Effective research and development is critical in ensuring a continuous stream of innovative products and in maintaining the profitability and growth of a flavor manufacturer. The initiative for the development of new flavor products can be spurred by the flavor manufacturer or by the customer who is in need of a specific flavor for use in a newly developed end product. As such, in order to anticipate market demands, a flavor manufacturer's research and development personnel are required to be familiar with the taste requirements of various end product types and target markets. In addition, as most Flavors are tailor made for a specific customer, a close collaborative relationship with the customer is essential. These flavor formulas are treated as commercial secrets and remain the proprietary asset of the flavor manufacturer.

  As most flavor products are tailor-made for a customer, customers are less likely to replace suppliers for such flavor products during the course of the end products' life cycle.

- **Low price sensitivity** - Since flavor products play a major role in determining the flavor of the end product to which they contribute, they are a vital element of its success. Flavor products cannot be precisely matched and their cost, compared to the total cost of the end products, is negligible. When selecting a flavor supplier, a customer will generally place a greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of its Flavors. The demand for Flavors is therefore generally less sensitive to changes in price.

- **Production processes** - Flavor products in general and Flavors in particular typically contain a variety of ingredients (typically over 30 per flavor), which are blended using unique formulas created by a manufacturer's flavor expert. The production processes involved in the manufacture of flavor products are less complex and capital intensive compared to those of fine ingredients. However, the production process for flavor products requires skill and knowhow to achieve the required consistency and quality.

- **High and relatively stable profitability** - As the Flavors market tends to be characterized by long-term relationships and high customer loyalty, combined with relatively low price sensitivity and simple production processes, it generally benefits from high and stable margins. This is true also in comparison to the fine ingredient industry.

Market Overview

Food and Beverage Market - Characteristics

Flavors are sold primarily to food and beverage producers; therefore the flavor market is generally driven by trends characterizing the demands of food and beverage consumers.

According to Data Monitor, global sales in the food and beverage market amounted to USD $4,595 billion in 2015. Frutarom estimates that over 60% of such total global sales are generated by mid-sized, local and small food and beverage producers. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom estimates that mid-sized and local and small food and beverage producers will continue to play a significant role in the market, and that new mid-sized, local and small producer will continue to emerge.

The large multinational flavor manufacturers often focus on large multinational food and beverage producers, offering their customers a high level of service and tailor-made product development. Frutarom believes that these Flavors producers focus to a lesser extent on mid- sized and local customers, offering limited service and offering less customizable product offering to these customers.

Food and Beverage Market - Characteristics

However, the Company believes that mid-sized and local food and beverage producers require the same level of service and tailor-made products as their larger counterparts, and also require short lead times and manufacturing flexibility. Small, localized flavor producers generally do not have the product variety and service capabilities to support the needs of these customers. A specific example of this type of customer is the private label customer. This situation creates a business opportunity for mid-sized flavor producers to service this segment.

Food and Beverage Market - Tendencies

The following are the main trends in the consumer market for food and beverages which in turn drive the flavor market:

- **Local and global tastes** - Taste preferences vary by geographic location and among different cultures. Flavor manufacturers must have thorough knowledge of local tastes in each of the countries in which they are active. It is also important for a global flavor manufacturer to have a physical presence in its key target markets in order to facilitate direct contact with customers, to better understand local tastes and to be able to respond quickly and efficiently to changes in consumer preferences. Additionally, the trend toward globalization now characterizes the flavor industry as multinational food and beverage customers are now launching global brands in many different markets simultaneously, often by changing the taste profile to meet the preferences of the respective populations worldwide.

Market Overview

Food and Beverage Market – Tendencies (cont.)

- **Preference of natural products** - There has been a general increase in consumer demand for food and beverage products containing natural ingredients and having dietary values (reducing fat, salt, cholesterol, etc.). Natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. Similarly, there is growing demand for organic products and 'clean label' products. As a result, natural food and beverage products are viewed as specialty, premium products that can command higher prices. This trend has created new opportunities for Flavors manufacturers to develop new and innovative natural flavor products that combine solutions for food conservation and the extent of the shelf-life. Frutarom focuses in the development and manufacture of organic products and as of today over 70% of its products are organic. In the developed markets most of the increase is due to consumer transitions to products that perceived as healthier and more natural and the consumer readiness to keep purchasing those products even at times of economic slowdown. In the developing markets there is a significant trend of awareness to this matter and willingness to improve the quality of the consumed food.

- **Private label** - private label goods manufacturers, which tend to be mid-sized, local or small food manufacturers, are a growing customer segment in the flavor industry. Over the last decade consumers of food products have become increasingly price conscious, increasing sales of private label products in comparison to the branded food and beverage industry. This trend was accelerated in 2009 as a result of the economic crisis, consumers that have experienced the private label products tend to keep using those products due to positive experience.

  In addition, the growing power of supermarkets and their determination to raise profits led them to strengthen the private label by among other things, extending the products space allocation and the variety of the products.

- **Continuously growing consumption of convenience food** - There is an increase in demand for processed foods with greater convenience (consumed both inside and outside of the home). This increase in demand for convenience foods has been spurred by new packaging and cooking technologies as well as changing social habits and consumer preferences. Examples of convenience foods include "ready to eat" meals, fresh pasta; ready-to-cook, fresh seasoned or marinated meat or poultry; salads; and sauces in liquid form. This has created new opportunities for flavor manufacturers in the savory Flavors and functional fine ingredients fields which are responsible for the creation of food texture and its extended shelf life, to develop and market Flavors and unique fine ingredients products for this segment.

- **Emerging markets** - In recent years, certain developing markets, such as Asia, Central and South America, Eastern Europe and Africa have experienced above-market-average growth in demand for Flavors products. Further, these markets have been characterized by a trend towards increased consumption of processed foods, which in turn has driven the emergence of mid-sized, local and small food companies, creating new market opportunities for flavor manufacturers.

  It can be assumed that the transition to processed food and the changes in consumption habits in these markets will result in rapid growth and in a higher growth rates than the developed markets.

Market Overview

Food and beverage market - Critical Success Factors

The critical success factors in the flavor segment are:

- **Long-term relationships** - Long-term relationships with customers and collaboration in the development of new products.
- **Global and local presence in target markets** - Knowledge of the various flavor preferences in the different markets and the ability to provide global and local support to customers.
- **Superior and reliable service** - The ability to provide a high level of service and the reliability of a Flavors manufacturer in giving service are critical for mid-sized, local customers and multinational customers.
- **Presence in emerging markets** - Emerging markets grow at considerably higher rates in comparison to developed markets. Presence in these key areas, along with knowledge and understanding of their unique needs and the ability to provide support to local manufacturers is a critical success factor.
- **Innovation in research and development** - The ability to develop innovative products both at the initiative of the flavor manufacturer and in collaboration with customers is of extreme importance.
- **Compliance with strict quality, regulatory and safety standards** - Since the Flavors are intended principally for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards
- **The purchase of raw materials** - there is a great growing importance to turning resources in order to preform focused purchasing in countries that are considered to be an important source for raw materials such as China, India and Brazil. This, while expanding the supplier circle and maximizing the potential to reduce costs with a global array of purchasing and strengthening the relations with manufactures and processors of raw materials in order to ensure steady and reliable supply of raw materials.

Section 3
Methodology

Methodology

General and definitions

The objective of IAS 36 is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss.

This standard shall be applied in accounting for the impairment of all assets (other than exceptions as they appear in the standard content) including goodwill acquired from business combination. Goodwill acquired in business combination represents the value of the intangible assets which cannot be separately identified or separately recognized.

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

A **cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Fair value less the costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see IFRS 13 Fair Value Measurement), less the costs of disposal.

Costs of disposal - are incremental costs, which are directly attributed to the liquidation of an asset or cash-generating unit, excluding finance and income tax expenditures

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

Methodology

Identifying an asset that may be impaired

When to test asset for impairment

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an entity shall also:

- Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount;
- Test goodwill acquired in a business combination for impairment annually.

Indications that an asset may be impaired

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- The carrying amount of the net assets of the entity is more than its market capitalization.

Methodology

Indications that an asset may be impaired (continued)

Indications that an asset may be impaired (continued)

Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset;
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used;
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The list above is not exhaustive. An entity may identify other indications that an asset may be impaired.

Such Indications will require the entity to determine the asset's recoverable amount or in the case of goodwill, perform an impairment test.

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Goodwill

For purposes of an impairment examination of goodwill that was acquired in a business combination, the goodwill will be allocated to each of the acquirer cash generating units or groups of the cash generating units, that are predicted to benefit from the synergy of the combination, regardless the fact that any assets or liabilities of the purchased entity may be allocated to CGUs or groups of CGUs. Each CGU or group of CGUs to which goodwill had been allocated as aforesaid, will represent the lowest level of the entity in which goodwill is monitored for management purposes and will not be larger of an operating segment as defined in IFRS 8, prior to the grouping of similar segments.

Measuring Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

The Standard prescribes that it is not always necessary to determine both an asset's fair value less costs of disposal and its value in use, where either of these amounts exceeds the asset's carrying amount.

If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

Methodology

Measuring Recoverable Amount (continued)

Fair value less costs of disposal

The best evidence of an asset's fair value less costs of disposal is a price in a binding sell agreement that is not affected by a special relationship between the parties, adjusted with additional costs which can be attributed directly to the disposal of the asset.

If there is no binding sell agreement but an asset is traded in an active market, fair value less costs of disposal is the asset's market price less costs of disposal.

If there is no binding sell agreement or active market for an asset, fair value less costs of disposal is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties.

In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. From the fair value of the asset, a deduction of additional costs is needed if these costs can be directly attributed to the asset's disposal.

Value in use

The following elements shall be reflected in the calculation of an asset's value in use:

- An estimate of the future cash flows the entity expects to derive from the asset;
- Expectations about possible variations in the amount or timing of those future cash flows;
- The time value of money, represented by the current market risk-free rate of interest;
- The price for bearing the uncertainty inherent in the asset; and
- Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimating the value in use of an asset involves the following steps:

- Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- Applying the appropriate discount rate to those future cash flows.

Methodology

Measuring Recoverable Amount (continued)

Value in use (continued)

In measuring value in use, an entity shall:

- Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset;
- Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified;
- Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale.

Estimates of future cash flows shall **not** include estimated future cash inflows or outflows that are expected to arise from:

- A future restructuring to which an entity is not yet committed; or
- Improving or enhancing the asset's performance.
- Cash inflows or outflows from financing activities; or
- Income tax receipts or payments.

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation

Methodology

Measuring Recoverable Amount (continued)

Discount rate

The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

- The time value of money; and
- The risks specific to the asset for which the future cash flow estimates have not been adjusted.

Revision of Goodwill's impairment

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

Recognizing and measuring an impairment loss

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) Then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) Its fair value less costs of disposal (if determinable);

(b) Its value in use (if determinable); and

(c) Zero.

The impairment sum that would have been allocated to the assets would be relatively allocated to the other assets in the CGU.

Section 4

Impairment Examination

Impairment Examination

Timing of Impairment Examination

In accordance to IAS 36, yearly impairment examination of a CGU, where goodwill was allocated, can be done at any given time during the yearly period, conditioned upon re-examining at the same time every year. Management determined the date of impairment examination to be as of December 31, every year.

At the request of Management, the examination of the CGU was in accordance to IAS 36 as of December 31, 2017.

Recognizing Cash Generating Unit

In accordance to IAS 36, in order to examine impairment of a goodwill acquired in business combination, the goodwill will be allocated to the cash generating unit which is expected to benefit from the synergy of the combination. The Standard defines cash generating unit as the smallest group of identified assets that generates positive cash flows, which are mainly independent from other generating positive cash flows assets. For more information please refer "**Methodology**" section.

Frutarom's Management has determined that FLV Operation is the smallest cash generating unit for which goodwill that was recognized from business combination can be allocated.

CGU's Recoverable Amount

In accordance to IAS 36, the recoverable amount of the cash generating unit is the higher of fair value less cost of disposal or the value in use, for more information please refer "**Methodology**" section.

In order to evaluate the value in use of the CGU we believe that income approach, the DCF (Discounted Cash Flows) method, is best suited for the purpose of this examination.

CGU's Carrying Amount

In accordance with IAS 36, the CGU's carrying amount will be determined consistently with the method used to determine the recoverable amount. The carrying amount will include the value of the assets and liabilities that can be directly attributed to the CGU and will generate positive cash flows in the future that are used to determine the value in use of the CGU. For more information please refer "**Methodology**" section.

In order to determine the CGU's carrying amount, we received the book values of the CGU as of December 31, 2017 from Management. Since the carrying amount determined include only operational assets and liabilities (doesn’t include financial liabilities or excess assets), the CGU's recoverable amount was examined accordingly.

From analyzing the CGU's balance sheet, it appears that the carrying amount of the Flavor America CGU, as of December 31, 2017, is approximately USD 301,031 thousand.

Goodwill Impairment Examination

In accordance to IAS 36, the goodwill impairment examination will be made by comparing the CGU's carrying amount including goodwill to the recoverable amount. If the recoverable amount exceeds the carrying amount, the CGU and allocated goodwill will be deemed as un-impaired. If the CGU's carrying amount exceeds the recoverable amount, the entity will acknowledge an impairment loss.

Impairment Examination

Revenues Forecast

The following table presents the CGU's estimated revenues for the forecast years and the actual revenue results for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
Revenue	220,313	234,633	248,711	262,390	274,198	283,795	292,309
Growth rate		*6.5%*	*6.0%*	*5.5%*	*4.5%*	*3.5%*	*3.0%*

Source: BDO analysis and Management's projections.

The CGU revenues derive mainly from customers in US, Canada and Mexico. In addition there are revenues from Peru, Chile, Brazil and more with smaller volumes.

In 2017 Pro-forma the CGU's revenues were approximately USD 220,313 thousands.

In order to examine to growth rate of the CGU in 2018, we examined the Company's forecast in a conservative way. The Company projects growth rate of 6.5% in accordance to the nature of the operations and the projected growth rate in the sector.

The Company intends to continue focusing on its sales and marketing efforts, in order to achieve the estimated growth rates. Projected growth rates are based on the inherent growth of the activity, particularly in light of mergers and acquisitions completed during 2017, which are expected to assist future growth trends with increased exposure to new markets and customers.

For the following forecast years, it was assumed that revenue's growth rate will gradually decrease to 3% in the terminal year, in accordance with the long term growth rate.

Cost of Sales

The following table presents the CGU's estimated cost of sales for the forecast years and the actual results, for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
Cost of sales	134,312	141,296	148,079	154,594	160,159	164,644	168,595
% of revenue	*61.0%*	*60.2%*	*59.5%*	*58.9%*	*58.4%*	*58.0%*	*57.7%*

Source: BDO analysis and Management's projections.

Cost of sales include: costs of raw materials, salaries, rent, depreciation and amortization, energy and other expenses. In 2017 Pro-forma, these expenses amounted to approximately USD 134,312 thousands, representing about 61% of the total revenues.

According to management budget for 2018 the total cost of sales as a percent of total revenues in 2018 will decrease to 60%. In light of the Company's constants efficiency process, both in production processes and with suppliers the percent will decrease and will reach a level of approximately 57.7% in the terminal year. In order to examine the reasonability of management's forecast, we have analyzed the fixed and variable elements of the cost of sales structure, including the change in cost as a result of change in expected revenue. It was assumed that in the long term, cost of sales will increase according to the CGU's long term growth rate.

Impairment Examination

Gross Profit

The following table presents the CGU's estimated gross profit for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
Gross profit	86,001	93,337	100,633	107,796	114,038	119,151	123,713
Gross margin	*39.0%*	*39.8%*	*40.5%*	*41.1%*	*41.6%*	*42.0%*	*42.3%*

Source: BDO analysis and Management's projections.

As a result of the assumptions described above, the gross margin in the forecast period will stand at approximately 40% in 2018 and increase to approximately 42.3% in the terminal year.

Sales and Marketing

The following table presents the CGU's estimated S&M expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
S&M	24,072	25,401	26,697	27,945	29,014	29,877	30,639
% of revenue	*10.9%*	*10.8%*	*10.7%*	*10.7%*	*10.6%*	*10.5%*	*10.5%*

Source: BDO analysis and Management's projections.

The CGU's S&M expenses consisting mainly of employee wages, commission's fees, office, transportation, vehicle expenses and other S&M expenses.

In 2017 Pro-forma, S&M expenses of the CGU totaled approximately USD 24,072 thousands, representing about 11% of total revenues.

In order to examine the reasonability of management's forecast for S&M expenses during the forecast years, we have analyzed the fixed and variable elements of the S&M cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018 the S&M expenses will be approximately USD 25,401 thousand and the S&M rate from CGU's revenues will be approximately 11%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 10.5% in the terminal year, since this expenses include a fixed component.

Impairment Examination

General and Administrative

The following table presents the CGU's estimated G&A expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
G&A	13,082	13,507	13,913	14,295	14,617	14,873	15,096
% of revenue	*5.9%*	*5.8%*	*5.6%*	*5.4%*	*5.3%*	*5.2%*	*5.2%*

Source: BDO analysis and Management's projections.

The CGU's G&A expenses consist: employee wages, office expenses, vehicles expenses, depreciation, computing and other expenses.

In 2017 Pro-forma, G&A expenses of the CGU totaled approximately USD 13,082 thousands, representing about 6% of total revenues.

In order to examine the reasonability of management's forecast for G&A expenses during the forecast years, we have analyzed the fixed and variable elements of the G&A cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that G&A expenses will be approximately USD 13,507 thousand and the S&M rate from CGU's revenues will be approximately 6%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 5.2% in the terminal year.

Research and Development

The following table presents the CGU's estimated R&D expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
R&D	11,495	12,018	12,522	13,004	13,414	13,743	14,031
% of revenue	*5.2%*	*5.1%*	*5.0%*	*5.0%*	*4.9%*	*4.8%*	*4.8%*

Source: BDO analysis and Management's projections.

The CGU's R&D expenses consist: salaries, lab and materials, depreciation and other expenses.

In 2017 Pro-forma, R&D expenses of the CGU totaled approximately USD 11,495 thousands, representing about 5.2% of total revenues.

In order to examine the reasonability of management's forecast for R&D expenses during the forecast years, we have analyzed the fixed and variable elements of the R&D cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that R&D expenses will be approximately USD 12,018 thousand and the R&D rate from CGU's revenues will be approximately 5.1%. In the rest of the forecast years, it was assumed that the R&D rate will decrease gradually to approximately 4.8% in the terminal year.

Impairment Examination

Operating Profit

The following table presents the CGU's estimated operating profit for the forecast years and the actual results for 2017 (thousand USD):

USD Thousand	proforma 2017	2018	2019	2020	2021	2022	Terminal
Operating profit-neulralization of intangible asset amorization	44,346	49,404	54,495	59,545	63,987	67,652	70,941
Operating margin	*20.1%*	*21.1%*	*21.9%*	*22.7%*	*23.3%*	*23.8%*	*24.3%*

Source: BDO analysis and Management's projections.

As a result of the analysis described above, the CGUs' operating profit for the forecast years will range from 21% in 2018, to 24% in the terminal year.

Capital Expenditure and Deprecation Forecast

The following table represents the forecast for the CGU's Depreciation and Capital Expenditure (thousand USD):

USD Thousand	2018	2019	2020	2021	2022	Terminal
Depreciation	4,373	4,373	4,373	4,373	4,373	4,373
% of revenue	*1.9%*	*1.8%*	*1.7%*	*1.6%*	*1.5%*	*1.5%*
Capital expenditure	(4,980)	(2,250)	(2,500)	(2,750)	(3,000)	(4,373)
% of revenue	*2.1%*	*0.9%*	*1.0%*	*1.0%*	*1.1%*	*1.5%*

According to Management forecast, in the budget year, the Company is planning to expand a plant and therefore, the total CapEx will amount to approximately USD 4,980 thousand. In 2019, the CapEx will amount to approximately USD 2,250 thousand and will gradually grow to USD 4,373 thousand in the terminal year that equals the representative depreciation expense. According to Management, the representing depreciation expenses are the actual depreciation expenses in 2017 of approximately USD 9,570 thousand. Furthermore, the

Working Capital

The annual investment in working capital was calculated based on the credit and inventory policy of the CGU, as it appears from credit terms based on the average of the actual CGU results for 2015-2017:

- Trade receivables days - 52 days;
- Inventory days - 123 days;
- Other receivables days – 20 days;
- Trade payables days - 43 days;
- Other payables days – 26 days.

Income Tax

The general requirements of IAS 36 require that impairment tests are carried out exclusive of tax effects. Consequently, the discount rate used to estimate the present value of the cash flows should be calculated as a pre-tax discount rate. In order to estimate the pre-tax discount rate, present value was first calculated based on weighted average cost of capital. Then the suitable pre-tax discount rate was calculated according to the present value (see following pages).

Impairment Examination

Discount rate (WACC)

Based on international accounting standard 36 (IAS 36), when measuring the recoverable amount of the CGU, there is no including of tax payments. As a result, the discount rate used to evaluate the discounted cash flows must be calculated as discount rate prior tax.

The general formula for calculating the WACC is:

WACC = Kd (D%) + Ke (E%)

Where:

WACC= Weighted average rate of return on invested capital;

Kd= After-tax rate of return on debt capital;

D%= Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");

Ke= Rate of return on common equity capital; and

E%= Common equity capital as a percentage of the total invested capital.

SCP = Size Premium

The equity return rate was determined in accordance with CAPM (Capital Asset Pricing Model). According to this model, the equity return rate is derived from risk free interest rate for the valuation date with an addition of market risk premium times the company's risk relative to the standard deviation of the market portfolio (β).

Where: Ke = Rf + β(Rm - Rf)+ SCP

Rf - Risk free rate of return; the interest taken is index-linked bond yield for the period of 15 years (source: Bloomberg), weighted by revenue geographic distribution (US, Canada and Mexico mainly);

β - Beta or systematic risk for this type of capital investment. The beta used in the study is based on the betas of Frutarom and other publicly traded comparable. The comparable taken to calculate the beta were: Frutarom, Symrise, Givaudan, IFF, Takasago, and Sensient Tech. In addition, we adjusted the leveraged beta of the comparable companies in order to arrive at an unleveraged beta that could be then applied to the CGU's specific leverage structure. In accordance with the above, the unlevered beta is 0.87, which is a five year weekly beta.

Rm-Rf - The market premium was established by taking the weighted average of the risk premiums of each country that the Company operates in (US, Canda and Mexico mainly), which is estimated to be 6.1% (Source: Damodaran).

SCP - Small cap premium. This premium reflects the extra risk investing in a small company. This premium stems from the fact that small companies have a higher risk than larger established publicly traded companies. Therefore, investors expect higher returns in the small companies. The premium taken in this case is 2.08% (Source: Duff & Phelps 2017)

Impairment Examination

Discount rate (WACC) (continued)

Kd – The Company's average price of external debt is 1.5% according to financial statements. A premium of 0.75% was added to that price for it is a CGU and not the Company as a whole.

T – The CGU's average tax rate, received from the Company.

D/(D+E) and E/(D+E) – The weight of debt and capital, taken into consideration when calculating the WACC, are the distinct average of the normative debt and capital weights in comparison companies.

WACC

We based on WACC model and based on the following parameters:

Parameter	Symbol	Value	Source
Unit's Debt	D/(D+E)	14.2%	Based on comparable companies capital structure
Unit's Equity	E/(D+E)	85.8%	Based on comparable companies capital structure
Cost Of Debt	Kd	2.25%	The Company's average cost of debt, according to Company's data
Tax Rate	T	27.8%	The average effective long-term tax rate in countries of operation
Beta	β	0.87	Levered Beta - According to comparable companies
Risk Free Rate	Rf	2.04%	Weighted average 15 year yield indexed government bond in countries of operation (Source: Bloomberg system)
Market Premium	Rm-Rf	6.1%	Weighted average Market Premium - Damodaran
SCP	SCP	2.08%	Duff and Phelps 2017
Cost Of Capital	Ke	9.44%	Rf +β*(Rm-Rf)+SCP+SRP
Weighted average cost of capital	**WACC**	**8.25%**	D*(1-T)*Kd+E*Ke

Source: BDO analysis.

Since the base of the discount rate as described above, is after tax, it must be adjusted to reflect a pre-tax discount rate. In order to do so the recoverable amount was calculated with a discount rate of 8.25%. Then, we calculated the pre-tax discount rate needed to reach said recoverable amount.

The pre-tax discount rate amounted to approximately 10.4%.

Terminal growth rate

The terminal growth rate of 3% was determined based upon the real economy and population expected growth rate in the long term.

Impairment Examination

The CGU's Cash Flow

The following table shows the CGU's cash flow forecast for years 2018-2022 (thousands USD):

USD Thousand	2018	2019	2020	2021	2022	Terminal
Revenue	234,633	248,711	262,390	274,198	283,795	292,309
Growth rate	*6.5%*	*6.0%*	*5.5%*	*4.5%*	*3.5%*	*3.0%*
Total cost of sales	(141,296)	(148,079)	(154,594)	(160,159)	(164,644)	(168,595)
% of revenue	*60.2%*	*59.5%*	*58.9%*	*58.4%*	*58.0%*	*57.7%*
Gross profit	**93,337**	**100,633**	**107,796**	**114,038**	**119,151**	**123,713**
Gross margin	*39.8%*	*40.5%*	*41.1%*	*41.6%*	*42.0%*	*42.3%*
S&M	(25,401)	(26,697)	(27,945)	(29,014)	(29,877)	(30,639)
% of revenue	*10.8%*	*10.7%*	*10.7%*	*10.6%*	*10.5%*	*10.5%*
R&D	(12,018)	(12,522)	(13,004)	(13,414)	(13,743)	(14,031)
% of revenue	*5.1%*	*5.0%*	*5.0%*	*4.9%*	*4.8%*	*4.8%*
G&A	(13,507)	(13,913)	(14,295)	(14,617)	(14,873)	(15,096)
% of revenue	*5.8%*	*5.6%*	*5.4%*	*5.3%*	*5.2%*	*5.2%*
Excluding Intangibles amortization	6,994	6,994	6,994	6,994	6,994	6,994
Operating Profit (before tax)	**49,404**	**54,495**	**59,545**	**63,987**	**67,652**	**70,941**
% of revenue	*21.1%*	*21.9%*	*22.7%*	*23.3%*	*23.8%*	*24.3%*
Adjustments						
Depreciation	4,373	4,373	4,373	4,373	4,373	4,373
Capital expenditure	(4,980)	(2,250)	(2,500)	(2,750)	(3,000)	(4,373)
Change in working capital	(4,066)	(3,645)	(3,533)	(3,042)	(2,468)	(2,186)
Total Adjustments	**(4,673)**	**(1,522)**	**(1,660)**	**(1,419)**	**(1,095)**	**(2,186)**
Net Cash Flow	**44,732**	**52,972**	**57,886**	**62,568**	**66,557**	**68,755**
Period	**0.5**	**1.5**	**2.5**	**3.5**	**4.5**	**4.5**
DCF	**42,577**	**45,679**	**45,223**	**44,284**	**42,678**	**597,481**
Value in Use	**817,923**					

Source: BDO analysis and financial statements.

Impairment Examination

Value of CGU

In conclusion, the recoverable amount (according to value in use methodology) of the Company's CGU, according to the discounted cash flow model above, is approximately USD 817,923 thousand, as follow:

Value in Use Calculation	USD Thousand
Present value 2018-2022	220,441
Residual terminal value	597,481
Total value in use of the CGU	**817,923**

The following table shows the predicted results following a change in the discount rate and terminal growth rates (thousand USD):

		Discount rate (before tax)				
		11.4%	10.9%	10.4%	9.9%	9.4%
Long Term Growth Rate	2.0%	666,930	704,521	746,615	794,072	847,981
	2.5%	692,349	733,555	780,006	832,771	893,225
	3.0%	720,801	766,274	**817,923**	877,096	945,561
	3.5%	752,864	803,427	861,351	928,369	1,006,801
	4.0%	789,272	845,981	911,588	988,364	1,079,425

Source: BDO analysis.

Section 5

Recoverable Amount vs. Carrying Amount Comparison

Recoverable Amount vs Carrying Amount Comparison

Carrying Amount

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

For finding the carrying amount of the CGU, we examined the balance sheet and its allocated excess of fair value over book value's balances, of the CGU, as of December 31, 2017.

The following table presents the CGU's carrying amount (thousand USD):

USD Thousand	31.12.2017
Accounts receivable	35,669
Other receivable	7,870
Inventory	40,948
Net Fixed Assets	35,284
Other long term Debentures	204
Software	520
Total operational assets	**120,495**
Accounts payable	13,955
Other Long term Liabilities	1,057
Related Parties	-
Accrued expenses	10,576
Deferred tax	18,290
Total operational liabilities	**43,878**
Net assets	**76,617**
Customer relationships and knowledge, net	67,737
Goodwill	156,677
Sub total	**224,414**
Total carrying amount	**301,031**

Source: Management information

The following table summarizes the results of the impairment examination for the CGU:

Examining the Need of Impairment	USD Thousand
Recoverable amount	817,923
Carrying amount	301,031
Impairment Needed	**–**

Source: BDO analysis.

It can be noticed that the recoverable amount of the CGU is higher than its carrying amount, as of the Valuation Date. Therefore, Frutarom's Flavour EMEA goodwill is not deemed to be impaired.

Appendix

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970, for valuations attached to the financial statements

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970

NO.	Required disclosure	Disclosure
1	The identity of the corporation that commissioned the valuation and the identity of the organ in the said corporation, who decided on the engagement with the appraiser.	The agreement was signed with Frutarom Industries Ltd. through Mr. Guy Gil, Vice President of Finance at the Company.
2	The engagement date between the purchaser of the valuation and the appraiser	The agreement was signed on January 15, 2018.
3	Conditioning, if any, regarding the fees to which the appraiser is entitled; In addition, the extent of the effect of such conditioning on the results of the valuation;	No conditions were set regarding the payment of the fee in connection with the results of this opinion.
4	Consent, if any, to indemnify the appraiser for his work; If such consent was reached, the indemnification terms and the identity of the indemnifier shall be specified in the valuation.	If, in a final, un-appealable legal proceeding, we are found liable to pay any amount to a third party in connection with the services that are the subject of this Agreement, the Company undertakes to indemnify and reimburse us for all the expenses that we will issue or be required to pay for legal advice and representation, expert opinions, protection against legal proceedings, In respect of any claim, demand or other proceedings in respect of the services under the letter of agreement signed (hereinafter: "Defence Expenses"), in excess of an amount equal to three times BDO working fee, immediately, upon our first demand, unless it is determined that BDO Consulting acted maliciously and / Or negligence.
5	If the subject of the valuation is an asset traded on the stock exchange, shall indicate the highest, lowest and average rate of the value of the asset in the six months preceding the valuation date, taking into account any distribution, split or issue of rights in the said period;	N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970

No.	Required disclosure	Disclosure
6	If, to the best of the corporation's knowledge, previous transactions were performed, in the matter of the valuation, during the two years preceding the valuation date, the value of these transactions shall be specified;	N.R.
7	If an evaluation of additional experts was used for the valuation, all the details required in this appendix will also be provided in respect of the assessments of the other experts, with the necessary changes.	In our work, we did not rely on material evaluations maid by other experts.
8	Material changes in the valuation made following requests for disclosure or clarification by the ISA or an employee that it authorized for this purpose.	N.R.
9	If the value determined in the valuation is twenty-five percent or more, than the average value on the stock exchange in the six months preceding the effective date or the value derived from previous transactions, the difference between the values and the justification for that shall be explained;	N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

No.	Required disclosure	Disclosure
10	If the value determined in the valuation is **forty percent or more**, than the value determined in other valuations published in public according to reporting requirements under the Securities Law, during the two years preceding the valuation, the data from the other valuations shall be presented together with the underlying assumptions;	The difference between the CGU's value between this Study (approximately USD 818 million as at December 31, 2017) and the previous estimate (approximately USD 450 million as of December 31, 2016) is mainly for the following reasons: **1.** In years 2016-2017 the Company acquired other companies and activities which increased the value from operations in the amount of the acquired operations, created synergies and improved value by assimilating small activities in Frutarom's low risk. **2.** The capitalization rate (after tax) decreased by 0.75% (from 9% to 8.25%). 3. The CGU's effective tax rate decreased from approximately 33% to approximately 28% (mainly due to the tax reform in the US).
11	The valuation shall include details of previous valuations of the valuation subject made by that appraiser, including the following details: • If a previous valuation was given in the three years preceding the effective date of the valuation, the appraiser shall specify the valuation date of the previous valuations, the value determined in them and the reasons for which they were given;	The difference between the CGU's value between this Study (approximately USD 818 million as at December 31, 2017) and the previous estimate (approximately USD 450 million as of December 31, 2016) is mainly for the following reasons: **1.** In years 2016-2017 the Company acquired other companies and activities which increased the value from operations in the amount of the acquired operations, created synergies and improved value by assimilating small activities in Frutarom's low risk.

- the value determined in the previous valuations exceeds **by 20% or more,** the value determined in the valuation, if the profit or loss calculated in accordance with the previous valuations is 10% or more of the profit or loss calculated according to the valuation, or if the valuation method was different from the valuation method in the previous valuations, the appraiser will provide disclosure that explains the main changes in the significant assumptions and estimates and will indicate facts that led to these changes;

- If there are differences between the financial results that were based on the previous valuations and the actual financial results, these differences shall be noted and explained.

2. The capitalization rate (after tax) decreased by 0.75% (from 9% to 8.25%).

3. The CGU's effective tax rate decreased from approximately 33% to approximately 28% (mainly due to the tax reform in the US).

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

Details Regarding the Valuation Specialist

BDO Consulting and Management Ltd. were founded by the partners of BDO Certified Public Accountants .

BDO Consulting and Management is part of the international BDO network, provides a full range of business services required for national and international businesses in any sector. Our company has vast experience in the following fields: business valuations, financial and tax due diligence, goodwill and intangible assets valuations, financial analyses, business plans, project finance PFI/PPP advisory, M&A, investment banking and more.

Moti Dattelkramer, CPA, CPA/MBA, Partner, Head of Corporate Finance of BDO Consulting.

Current role - In his current position Moti manages a team which performs business plans, business valuations, economic consulting, PPA, impairment, employee stock option valuation and budget building for a wide range of public and private companies .

Career and employment – Moti is qualified as a Certified Public Accountant. Moti holds a bachelor degree in Economics and computer science from Bar Ilan University and an M.B.A in finance from Bar Ilan University.

Moti's recent projects include:

- **Elbit Systems**- PPA, valuation studies and Impairment studies;
- **Discount investments**- Cellcom's valuation for conducting an impairment study of an investment;
- **Partner**- Valuation study for the fixed line segment;
- **One1**- Variety of valuations, PPAs and impairment tests for the company and its subsidiaries;
- **Delek Group** – PPA and valuation studies;
- **Given Imaging** - Valuation studies, impairment studies and valuations of financial instruments;
- **Gazit-Globe** - PPA, valuation studies;
- **Arko Holdings/GPM Investments**- valuation studies and Impairment studies for GPM Investment.

Frutarom Industries Ltd.

Impairment Study - FID Segment

As Of December 31, 2017

Disclaimer: This document represents an English translation of the impairment study originally conducted in Hebrew. Any official references to the study should be taken from the Hebrew version.

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Dear Sirs,

We were requested by Frutarom Industries Ltd. (hereinafter: **"Frutarom"** and/or the **"Company**") to perform an Impairment Examination Study (hereinafter: the **"Study"** and/or "**Impairment Test**") of the Specialty Fine Ingredients (hereinafter: **"FID"**) goodwill created by the acquisition of the FID operation in EMEA (hereinafter: the "**FID Operation**" and/or the "**CGU**"), as of December, 31, 2017 (hereinafter: **"Valuation Date")**. The study is performed under the requirements of International Accounting Standards 36 (Hereinafter: **"IAS 36**").

Our Conclusions will be used by Frutarom, its management and auditors, for the purpose of financial reporting in accordance with generally accepted accounting principles and financial reporting principles in Israel, as required by law, including in accordance with IAS 36. This work is intended for the exclusive use of Frutarom, its management, and its independent auditors only.

We are aware that this study will be used and / or will be included in Frutarom's financial statements as stated in the regulations under the Securities Law, 1968. No other use may be made of this study except for the aforesaid, including quoting in whole or in part, Without our prior written permission.

In order to carry out the Study, we assumed and relied on the accuracy, completeness and timeliness of the information received from the Company and from various entities connected with the Company's operations. We have no reason to assume that the data on which this Study is based on, is inaccurate, complete or fair, and we have not conducted an independent examination of this information. The reliance on the information received as aforesaid does not constitute verification or confirmation of its correctness. No due diligence was performed as part of the opinion and does not purport to include the information, tests and tests or any other information included in the due diligence examination.

We did not independently examine the information, except for an examination of its reasonableness. We have taken a number of exams for the information as following

- Analyzing the business results of the activity in recent years and conducting a reasonableness examination of the income and expenditure forecasts used in this document;
- Examining the structure of expenses of the activity;
- Examination of the operational profitability of the activity.

An economic opinion is not an exact science, and it is supposed to reflect in a reasonable and fair manner a correct situation at a specific time, based on known data, assumptions and forecast estimated. Changes in the main variables and / or information may change the basis of the assumptions and the conclusions. The calculations in this work were carried out via excel spreadsheet, and therefore there may be rounding differences.

We hereby declare that we have no personal interest in the Company and that we are independent of the Company or of any of the Group companies as this term is defined in the Auditors Law -1955 and in the Regulations promulgated thereunder, including the Auditors' Regulations (Conflict of Interests and Damage to Independence as a Result of Other Occupation) 2008, the auditing standards and the professional conduct rules of the Institute of Certified Public Accountants in Israel.

In addition, our opinion complies with the conditions and criteria for an independent valuation in accordance with the Securities Regulations and the guidelines of the Israel Securities Authority, including the Securities Authority decision (regarding independence) under section 9B of the Securities Law -1968. It should also be noted that no conditioning have been prescribed for the payment of the fee in connection with the results of the opinion.

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- Our work was conducted in coordination with appropriate professional instructions. In other areas, procedures and practices relevant to accounting work may differ and the data presented may be different. Therefore, this document was not prepared in coordination with the procedures and practices of any professional institution from another field.
- Do not refer to this document or quote it or parts of it, in any other document exposed to a third party.

Sources of information

The principal sources of information used in performing our Annual Goodwill Impairment Test include:

- Financial reports for the year 2017;
- A multi-year forecast for the years 2018-2022;
- Financial and operational business data, received from Frutarom's management;
- Other information received from the Company management, in writing or by discussions.
- Public data.

Discussion With the Company Management

Conversations and correspondence with key people:

- Mr. Guy Gil, Vice President of Finance.

Executive summary

Based on our study, we have concluded that the CGU's Goodwill is not deemed to be impaired, as of December 31, 2017, as follow (thousands USD):

Examining the Need of Impairment	USD Thousand
Recoverable amount	1,129,891
Carrying amount	278,414
Impairment Needed	**–**

Respectfully submitted,

BDO Consulting & Management Ltd.

Moti Dattelkramer
CPA

Contents

Section 1

FID Operation Overview

FID Operation Overview

General [1]

Frutarom is a growing global company that develops, manufactures, markets and sells comprehensive flavor solutions as well as specialty fine ingredients used in the manufacturing of food, beverage, flavor and fragrance, pharma/nutraceuticals, cosmetics, personal care and other products. Frutarom operates in the framework of two main activities that constitute its core activities: its flavors activity and its Specialty Fine Ingredients Department (FID) activity.

In the framework of its FID activity, Frutarom develops, produces, markets and sells natural flavors extracts, natural functional food ingredients, natural Pharma/Nutraceutica extracts, natural algae based biotech products, natural colours for food, natural antioxidants that help in providing solutions in the fields of food protection, essential oils, specialty citrus products, aromatic chemicals, and natural gums and resins. The FID products are sold primarily to the food, beverage, flavors, fragrance, Pharma/Nutraceutica, cosmetics and personal care industries.

In the FID segment, Frutarom focuses on the development of natural products, while responding to the growing global trend in the consumption of natural products that are perceived as healthier. The increase in the demand for natural products, such as natural flavors, natural colors, natural preservatives and unique natural essential oils, which are used in the final products.

Natural raw materials tend to be unique and less replaceable. This leads to a growing increase in customer loyalty. Frutarom focuses on the development of natural products while responding to this global trend. In recent years Frutarom has placed an emphasis on expanding the natural product portfolio it offers its customers, with special emphasis on natural, functional and health food. The FID segment accounts for 19% of Frutarom's total sales.

As part of its ongoing operations, the Company develops new and unique raw materials, in order to continue to strengthen its positioning and improve its product mix and composition. For this purpose, the Company replaces products with low profit margins with new, innovative and unique products with higher profit margins.

Most of the fine ingredients produced by Frutarom are sold to third parties. However, some of the raw materials are also used in the Frutarom's Flavor activity, and some of them are used exclusively by Frutarom, for the developing and creating of unique flavor and health solutions, providing the Company with a competitive advantage.

In recent years the Company has purchased companies operating in the FID market, for the purpose for maintaining its leading position in the market and in order to maintain growth. The acquisitions continues the implementation of the Company's strategy, to expand its activities in the field of natural colors for food productions. The expansion of the Company's anti-oxidant activity, particularly in the areas of food preservation and protection, and the extending of products shelf life, based on natural ingredients, further strengthens Frutarom's product portfolio.

[1] *Frutarom's financial statements as of 31 of December, 2017*

FID Operation Overview

Balance Sheet

The following table presents the balance sheet of the CGU as of December 31, 2017 (Thousand USD):

USD Thousand	31.12.2017
Current Assets	
Cash & cash equivalents	16,241
Accounts receivable	45,911
Other receivable	2,390
Inventory	98,824
Total current assets	**163,366**
Long-term assets	
Net fixed assets	90,459
Other assets, net	90,709
Related parties	393,482
Total long-term assets	**574,651**
Total assets	**738,017**
Current liabilities	
Accounts payable	24,818
Short-term credit	169,077
Accrued expenses	21,499
Total current liabilities	**215,394**
Long term liabilities	
Long-term credit	83,667
Pension liability	8,586
Other payables	12,585
Deferred tax	7,900
Total long term liabilities	**112,738**
Total shareholder's equity	409,885
Total liabilities and equity	**738,017**

Source: audited financial statements for 31 December 2017.

Profit & Loss

The following table present the profit and loss statements (excluding one-time expenses), of the CGU, as of December 31, 2017 (Thousand USD):

USD Thousand	2017
Revenue	260,122
Cost of sales	177,108
% of revenue	*68.1%*
Gross profit	**83,014**
Gross margin	*31.9%*
S&M	20,627
% of revenue	*7.9%*
R&D	6,369
% of revenue	*2.4%*
G&A	21,073
% of revenue	*8.1%*
Operating profit	**34,945**
Operating margin	*13.4%*

Source: audited financial statements for 31 December 2017.

Section 2
Market Overview

Market Overview

Flavor and fragrance industry worldwide

The global market for Flavors, fragrances and raw materials in 2015, was estimated at approximately USD $24 billion. Frutarom is not active in the fragrances market, but is active in the market of natural functional food ingredients (excluding the above estimate), and therefore, it believes to sell in the markets where it operates, approximately $18.2 billion. According to Leffingwell & Associates, Frutarom is ranked as one of the ten largest companies in the field of taste and smell.

The research company IAL Consultants, estimated that sales in industrialized countries (central & north America and Western Europe) in the Flavors markets, will grow at an annual rate of 3%, between the years 2015-2020. According to these estimates, the growth rate in emerging markets, such as Asia, Central and South America, Eastern Europe and Africa, is expected to be significantly higher due to changes in consumer preferences in these markets, and the transition to processed food consumption, and might reach an average annual growth rate of 5.1% till 2020.

The manufacturers of the flavor, fragrance and fine ingredient markets can be divided into three main groups:

1. **Large multinational manufacturers** generally operate globally and have revenues in excess of $2.5 billion. In the global flavor and fragrance markets there are four such manufacturers: Givaudan, Firmenich, IFF, Symrise which markets their products mainly to large and international customers, which are food and beverage manufacturers. According to Leffingwell & Associates, represent approximately 57% of sales in the flavor, fragrance and fine ingredients markets.

Speciality Fine Ingredients Market Worldwide

2. **Medium Global Companies-** among these companies is Frutarom. These companies have revenues in the amount of USD 400 million-USD 1.2 billion. In the global flavors and fragrances segment there are 8 mid-size companies. Some of the companies operate in the global market and some concentrate in a specific geographic region (such as Japan). According to Leffingwell & Associates, these companies represent approximately 21% of the market.

3. **Local and small companies**, the majority of the local and small companies that have revenues that are less than USD 400 million are companies that their revenue is approximately few million dollars. These companies usually focus on local small costumers and they have limited ability in R&D, ingenuity and the specific service to the client. According to Leffingwell & Associates, these companies represent approximately 22% of the market.

Market Overview

Characteristics of the Fine Ingredients Market

- **Research and development** - Innovation is a key to success in the specialty fine ingredients market. R&D for new specialty fine ingredients products is a complex process requiring high levels of expertise, experience and investment. Developing a new ingredient often takes longer than developing a flavor product. Natural specialty fine ingredients are sometimes tailor-made to a customer's needs and require a long-term relationship with the customer and collaborative efforts in the product's development.

- **Production**- The production of specialty fine ingredients tends to be more sophisticated and complicated than the production of flavors, requiring extensive knowhow. In addition, the production of specialty fine ingredients requires a large capital investment for building manufacturing facilities as well as for expanding production capacity when necessary. Production of specialty fine ingredients must also comply with stricter environmental and regulatory standards.

- **Supply chain**- Customers constantly seek ways to optimize their levels of inventory so ingredient manufacturers must adhere to shorter lead times and maintain stocks locally in the main markets. Additionally, medium-sized and local customers purchase hundreds of ingredients in variably small quantities, whereas the large multinational makers of ingredients have strict policies concerning minimum order quantity and the use of standardized packaging while smaller manufacturers lack the sufficient operational flexibility and global supply chain needed to meet such needs. This creates a market opportunity for medium-sized fine ingredients producers.

- **High entry barriers-** An established reputation and brand recognition, which take many years to develop, are key success factors for manufacturers in the specialty fine ingredients market. Customers require a high degree of reliability and consistency. In addition, building competitive edge to the multi-national manufacturer requires compliance with strict regulations and high standards in, research and development, manufacturing and supply, including capital investments in building manufacturing facilities and increasing the production capabilities if needed.

- **Growing demand for natural products**- the increase in demand for natural products among consumers has leads to increase in demand for natural ingredients such as taste extracts and other essential oils that are used in the final product. The natural ingredients tend to be unique and are less replaceable. This fact leads to a growing increase in the costumers' loyalty. The majority of the natural ingredients are developed in accordance with the costumer's specific needs. Frutarom is focusing on developing natural ingredients while providing an answer to this trend.

Market Overview

Characteristics of the Fine Ingredients Market (continued)

- **Increase in demand for natural functional food ingredients -** Functional food is food that has been added to components that provide, or are perceived as providing, health benefits, such as juices and dairy products with health supplements. Changes in consumer preferences, which prefer foods with health benefits, lead to rapid growth in demand for functional foods. In dairy and beverage products, the **largest** growth in the use of natural functional food ingredients is evident. Many of the active raw materials used in the functional food industry are natural extracts from plants and herbs, which are produced in extraction processes similar to those used in extracting extracts. The manufacturers of functional food ingredients are often required by food and beverage manufacturers to provide a proven scientific basis, such as clinical studies, for the health benefits inherent in food ingredients.

- **Regulation, health, safety and certification -** Raw materials used by both the food and beverage industry and the pharma / nutra industry are increasingly subject to stringent health and safety regulations and standards. This development is in line with the general trend of increased regulation in the food, beverage and pharma / nutra industries. At the end of 2006, the REACH regulations were published in the European Union, which regulate the registration, assessment, licensing and restrictions imposed on all chemicals produced or introduced into the European market. In 2011 a new regulation was adopted that set definitions, labelling requirements and maximum amounts of biologically active principles (BAPs), Moreover, In 2011 the European Union adopted Regulation 1334/2008 on Flavors, which defines natural products and how to mark them.

- The customers of raw materials, and of specialty fine ingredients in particular, require manufacturers to provide approvals for compliance with the raw materials produced by them in regulations and standards. In addition, there is an increase in demand for products with proven properties, such as genetically modified organisms (GMO free) or non-pesticide-containing products. At the same time there is an increase in the demand for kosher and Halal products, and **the** demographic base of consumers of these products is expanding. As a result, raw materials manufacturers are required to document their production processes and comply with strict standards. In addition, raw materials manufacturers are required to be certified according to various production standards, such as ISO 22000, the British Retail Consortium (BRC Version 7), the British Retail Association (SQS), IFS and more, For Consumers, which sets rules for marking products and providing information on allergy issues, including non-packaged products, and the Global Harmonized System (GHS).

- **Sources -** Long-term relationships with suppliers, growers and / or manufacturers of raw materials are of great importance to the manufacturers of fine ingredients, in order to maintain high product quality and to ensure the availability of raw materials used for the production of specialty fine ingredients. These relationships are especially important in the case of natural specialty raw materials, which are seasonal because they are agricultural crops.

Market Overview

Characteristics of the Fine Ingredients Market (continued)

- **Production of high-volume raw materials with low margins -** In recent years there has been an increase in the production of many raw materials in certain countries, such as China and India, where the cost structure tends to be lower for manufacturers. Many of these raw materials manufacturers have less technical sophistication and limited research and development capabilities and are more focused on manufacturing large-volume products with low margins. In addition, these manufacturers generally do not have global marketing and sales infrastructures, a known brand and / or status as an approved supplier. This has led raw material manufacturers to differentiate themselves from those low-cost producers by developing close customer relations, providing higher value-added products and services, and investing in R & D to develop higher-margin specialty raw materials.

According to Markets and Markets, specialized ingredients for the food and beverages (including the sales of taste extracts and other ingredients) world-wide are expected to increase in a yearly average rate of 5.15% between 2015-2020.

Market Overview

Raw Materials Market - Competitors

In the field of natural flavor extracts, the Company's competitors are manufacturers specializing in the production of natural extracts, such as Naturex, pharma / nutra manufacturers and multinational and mid-sized flavor manufacturers, which produce specialty raw materials, mainly for their own use, such as Givaudan, IFF, Robertet, Sensient, Symrise , And Mane.

In the area of functional food ingredients and in the pharma / nutra market, Frutarom's competitors are mainly pharma / nutra companies specializing in this field, such as Indena S.P.A, Naturex, GmbH & Co. Martin Bauer and KG, as well as small start-ups specializing in innovative and unique products and technologies.

In the oils segment, Frutarom's competitors are companies such as Treatt plc, which focus on the manufacture of essential oils, including specialty essential oils, and large and medium-sized multinational flavor manufacturers, which produce specialty essential oils, mainly for their own use. There are also towers and processors of essential oils, especially in developing countries, represented by traders and distributors of unique essential oils, which also compete in the essential oils market.

In the area of natural solutions for protection and preservation of food, Frutarom's competitors are multinational companies that target the animal feed and protection markets and the nutritional supplements market, such as Naturex, which emphasizes low costs and prices Attractive to the customer, Kemin and Dupont who place emphasis on providing technology solutions to their customers.

In the area of natural colors, Frutarom's competitors are multinational companies such as Chr-Hansen (Denmark) and Sensient (USA), which address the global market, Naturex mainly in the European market, DD Williamson that addresses the US market and a number of smaller local companies. Frutarom's main competitors focus mostly on customer formulation while Frutarom places emphasis on the entire value chain, from extracting the plant from the color to its inclusion in the product formula as part of the entire basket of solutions that Frutarom provides to pharma / nutraceutical, food and beverage customers.

In the field of aromatic chemicals, the Company competes with large flavors and aroma manufacturers that produce aromatic chemicals for their own use and for sale on the market. Other competitors in this field are manufacturers with high expertise in the production of aroma chemicals operating in Europe and the USA Other manufacturers of aroma chemicals are characterized by an emphasis on low production costs and are mainly located in Asia These manufacturers have limited direct marketing and sales infrastructures and rely in many cases on agents for marketing In addition, there are chemical companies that manufacture large quantities of aromatic chemicals as part of their broad product offering, but in most cases these companies do not produce specialty aromatic chemicals, and Frutarom generally does not compete with them because it focuses on unique aromatic chemicals produced in small quantities, Profit margins are also relatively high in view of the uniqueness of the means of production in which they are produced.

Section 3
Methodology

Methodology

General and definitions

The objective of IAS 36 is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss.

This standard shall be applied in accounting for the impairment of all assets (other than exceptions as they appear in the standard content) including goodwill acquired from business combination. Goodwill acquired in business combination represents the value of the intangible assets which cannot be separately identified or separately recognized.

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

A **cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Fair value less the costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see IFRS 13 Fair Value Measurement), less the costs of disposal.

Costs of disposal - are incremental costs, which are directly attributed to the liquidation of an asset or cash-generating unit, excluding finance and income tax expenditures

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

Methodology

Identifying an asset that may be impaired

When to test asset for impairment

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an entity shall also:

- Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount;
- Test goodwill acquired in a business combination for impairment annually.

Indications that an asset may be impaired

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- The carrying amount of the net assets of the entity is more than its market capitalization.

Methodology

Indications that an asset may be impaired (continued)

Indications that an asset may be impaired (continued)

Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset;
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used;
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The list above is not exhaustive. An entity may identify other indications that an asset may be impaired.

Such Indications will require the entity to determine the asset's recoverable amount or in the case of goodwill, perform an impairment test.

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Goodwill

For purposes of an impairment examination of goodwill that was acquired in a business combination, the goodwill will be allocated to each of the acquirer cash generating units or groups of the cash generating units, that are predicted to benefit from the synergy of the combination, regardless the fact that any assets or liabilities of the purchased entity may be allocated to CGUs or groups of CGUs. Each CGU or group of CGUs to which goodwill had been allocated as aforesaid, will represent the lowest level of the entity in which goodwill is monitored for management purposes and will not be larger of an operating segment as defined in IFRS 8, prior to the grouping of similar segments.

Measuring Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

The Standard prescribes that it is not always necessary to determine both an asset's fair value less costs of disposal and its value in use, where either of these amounts exceeds the asset's carrying amount.

If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

Methodology

Measuring Recoverable Amount (continued)

Fair value less costs of disposal

The best evidence of an asset's fair value less costs of disposal is a price in a binding sell agreement that is not affected by a special relationship between the parties, adjusted with additional costs which can be attributed directly to the disposal of the asset.

If there is no binding sell agreement but an asset is traded in an active market, fair value less costs of disposal is the asset's market price less costs of disposal.

If there is no binding sell agreement or active market for an asset, fair value less costs of disposal is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties.

In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. From the fair value of the asset, a deduction of additional costs is needed if these costs can be directly attributed to the asset's disposal.

Value in use

The following elements shall be reflected in the calculation of an asset's value in use:

- An estimate of the future cash flows the entity expects to derive from the asset;
- Expectations about possible variations in the amount or timing of those future cash flows;
- The time value of money, represented by the current market risk-free rate of interest;
- The price for bearing the uncertainty inherent in the asset; and
- Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimating the value in use of an asset involves the following steps:

- Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- Applying the appropriate discount rate to those future cash flows.

Methodology

Measuring Recoverable Amount (continued)

Value in use (continued)

In measuring value in use, an entity shall:

- Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset;
- Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified;
- Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale.

Estimates of future cash flows shall **not** include estimated future cash inflows or outflows that are expected to arise from:

- A future restructuring to which an entity is not yet committed; or
- Improving or enhancing the asset's performance.
- Cash inflows or outflows from financing activities; or
- Income tax receipts or payments.

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation

Methodology

Measuring Recoverable Amount (continued)

Discount rate

The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

- The time value of money; and
- The risks specific to the asset for which the future cash flow estimates have not been adjusted.

Revision of Goodwill's impairment

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

Recognizing and measuring an impairment loss

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) Then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) Its fair value less costs of disposal (if determinable);

(b) Its value in use (if determinable); and

(c) Zero.

The impairment sum that would have been allocated to the assets would be relatively allocated to the other assets in the CGU.

Section 4
Impairment Examination

Impairment Examination

Timing of Impairment Examination

In accordance to IAS 36, yearly impairment examination of a CGU, where goodwill was allocated, can be done at any given time during the yearly period, conditioned upon re-examining at the same time every year. Management determined the date of impairment examination to be as of December 31, every year.

At the request of Management, the examination of the CGU was in accordance to IAS 36 as of December 31, 2017.

Recognizing Cash Generating Unit

In accordance to IAS 36, in order to examine impairment of a goodwill acquired in business combination, the goodwill will be allocated to the cash generating unit which is expected to benefit from the synergy of the combination. The Standard defines cash generating unit as the smallest group of identified assets that generates positive cash flows, which are mainly independent from other generating positive cash flows assets. For more information please refer "**Methodology**" section.

Frutarom's Management has determined that FID Operation is the smallest cash generating unit for which goodwill that was recognized from business combination can be allocated.

CGU's Recoverable Amount

In accordance to IAS 36, the recoverable amount of the cash generating unit is the higher of fair value less cost of disposal or the value in use, for more information please refer "**Methodology**" section.
In order to evaluate the value in use of the CGU we believe that income approach, the DCF (Discounted Cash Flows) method, is best suited for the purpose of this examination.

CGU's Carrying Amount

In accordance with IAS 36, the CGU's carrying amount will be determined consistently with the method used to determine the recoverable amount. The carrying amount will include the value of the assets and liabilities that can be directly attributed to the CGU and will generate positive cash flows in the future that are used to determine the value in use of the CGU. For more information please refer "**Methodology**" section.

In order to determine the CGU's carrying amount, we received the book values of the CGU as of December 31, 2017 from Management. Since the carrying amount determined include only operational assets and liabilities (doesn’t include financial liabilities or excess assets), the CGU's recoverable amount was examined accordingly.

From analyzing the CGU's balance sheet, it appears that the carrying amount of the FID CGU, as of December 31, 2017, is approximately USD 278,414 thousand.

Goodwill Impairment Examination

In accordance to IAS 36, the goodwill impairment examination will be made by comparing the CGU's carrying amount including goodwill to the recoverable amount. If the recoverable amount exceeds the carrying amount, the CGU and allocated goodwill will be deemed as un-impaired. If the CGU's carrying amount exceeds the recoverable amount, the entity will acknowledge an impairment loss.

Impairment Examination

Revenues Forecast

The following table presents the CGU's estimated revenues for the forecast years and the actual revenue results for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
Revenue	260,122	280,932	300,597	318,633	334,564	347,947	356,646
Growth rate		*8.0%*	*7.0%*	*6.0%*	*5.0%*	*4.0%*	*2.5%*

Source: BDO analysis and Management's projections.

The CGU revenues are mainly from customers in the US, western Europe and the far East.

In 2017 the CGU's revenues were approximately USD 260,122 thousands.

In order to examine to growth rate of the CGU in 2018, we examined the Company's forecast in a conservative way. The Company projects growth rate of 8% in accordance to the nature of the operations and the projected growth rate in the sector.

The Company intends to continue focusing on its sales and marketing efforts, in order to achieve the estimated growth rates. Projected growth rates are based on the inherent growth of the activity, particularly in light of mergers and acquisitions completed during 2013-2017, which are expected to assist future growth trends with increased exposure to new markets and customers.

For the following forecast years, it was assumed that revenue's growth rate will gradually decrease to 2.5% in the terminal year, in accordance with the long term growth rate.

Cost of Sales

The following table presents the CGU's estimated cost of sales for the forecast years and the actual results, for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
Cost of sales	(177,108)	(188,443)	(198,996)	(208,548)	(216,889)	(223,830)	(228,306)
% of revenue	*68.1%*	*67.1%*	*66.2%*	*65.5%*	*64.8%*	*64.3%*	*64.0%*

Source: BDO analysis and Management's projections.

Cost of sales (less one-time expenses) include: costs of raw materials, salaries, rent, depreciation and amortization, energy and other expenses. In 2017, these expenses amounted to approximately USD 177,108 thousands, representing about 68.1% of the total revenues.

According to management budget for 2018 the total cost of sales as a percent of total revenues in 2018 will decrease to approximately 67%. Management estimates that in light of the Company's constants efficiency process, both in production processes and with suppliers the percent will decrease and will reach a level of approximately 64% in the terminal year. In order to examine the reasonability of management's forecast, we have analyzed the fixed and variable elements of the cost of sales structure, including the change in cost as a result of change in expected revenue. It was assumed that in the long term, cost of sales will increase according to the CGU's long term growth rate.

Gross Profit

The following table presents the CGU's estimated gross profit for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
Gross profit	83,014	92,489	101,601	110,085	117,675	124,117	128,339
Gross margin	*31.9%*	*32.9%*	*33.8%*	*34.5%*	*35.2%*	*35.7%*	*36.0%*

Source: BDO analysis and Management's projections.

As a result of the assumptions described above, the gross margin in the forecast period will stand at approximately 33% in 2018 and increase to approximately 36% in the terminal year.

Sales and Marketing

The following table presents the CGU's estimated S&M expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
S&M	(20,627)	(22,030)	(23,340)	(24,531)	(25,573)	(26,443)	(27,005)
% of revenue	*7.9%*	*7.8%*	*7.8%*	*7.7%*	*7.6%*	*7.6%*	*7.6%*

Source: BDO analysis and Management's projections.

The CGU's S&M expenses consisting mainly of employee wages, delivery, office, vehicle expenses and other S&M expenses.

In 2017, S&M expenses of the CGU totaled approximately USD 20,627 thousands, representing about 7.9% of total revenues.

In order to examine the reasonability of management's forecast for S&M expenses during the forecast years, we have analyzed the fixed and variable elements of the S&M cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018 the S&M expenses will be approximately USD 22,030 thousand and the S&M rate from CGU's revenues will be approximately 7.8%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 7.6% in the terminal year, since this expenses include a fixed component.

Impairment Examination

General and Administrative

The following table presents the CGU's estimated G&A expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
G&A	(21,073)	(21,916)	(22,683)	(23,363)	(23,948)	(24,427)	(24,732)
% of revenue	*8.1%*	*7.8%*	*7.5%*	*7.3%*	*7.2%*	*7.0%*	*6.9%*

Source: BDO analysis and Management's projections.

The CGU's G&A expenses consist: employee wages, office expenses, computing expenses, vehicles expenses, depreciation and other expenses.

In 2017, G&A expenses of the CGU totaled approximately USD 21,073 thousands, representing about 8% of total revenues.

In order to examine the reasonability of management's forecast for G&A expenses during the forecast years, we have analyzed the fixed and variable elements of the G&A cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that G&A expenses will be approximately USD 21,916 thousand and the S&M rate from CGU's revenues will be approximately 7.8%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 6.9% in the terminal year.

Research and Development

The following table presents the CGU's estimated R&D expenses for the forecast years and the actual results for 2017 (thousands USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
R&D	(6,369)	(6,726)	(7,055)	(7,352)	(7,609)	(7,822)	(7,959)
% of revenue	*2.4%*	*2.4%*	*2.3%*	*2.3%*	*2.3%*	*2.2%*	*2.2%*

Source: BDO analysis and Management's projections.

The CGU's R&D expenses consist: salaries, lab and materials, depreciation and other expenses.

In 2017, R&D expenses of the CGU totaled approximately USD 6,369 thousands, representing about 2.4% of total revenues.

In order to examine the reasonability of management's forecast for R&D expenses during the forecast years, we have analyzed the fixed and variable elements of the R&D cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that R&D expenses will be approximately USD 6,726 thousand and the R&D rate from CGU's revenues will be approximately 2.4%. In the rest of the forecast years, it was assumed that the R&D rate will decrease gradually to approximately 2.2% in the terminal year.

Impairment Examination

Operating Profit

The following table presents the CGU's estimated operating profit for the forecast years and the actual results for 2017 (thousand USD):

USD Thousand	2017	2018	2019	2020	2021	2022	Terminal
Operating profit - neutralization of intangible asset amortization	38,278	45,151	51,856	58,173	63,878	68,759	71,977
Operating margin	*14.7%*	*16.1%*	*17.3%*	*18.3%*	*19.1%*	*19.8%*	*20.2%*

Source: BDO analysis and Management's projections.

As a result of the analysis described above, the CGUs' operating profit for the forecast years will range from 16% in 2018, to 20% in the terminal year.

Capital Expenditure and Deprecation Forecast

The following table represents the forecast for the CGU's Depreciation and Capital Expenditure (thousand USD):

USD Thousand	2018	2019	2020	2021	2022	Terminal
Depreciation	7,702	7,702	7,702	7,702	7,702	7,702
% of revenue	*2.7%*	*2.6%*	*2.4%*	*2.3%*	*2.2%*	*2.2%*
Capital expenditure	(5,000)	(5,500)	(6,000)	(6,500)	(7,000)	(7,702)
% of revenue	*1.8%*	*1.8%*	*1.9%*	*1.9%*	*2.0%*	*2.2%*

Source: CapEx forecast was received from Management.

According to Management's forecast, the capital expenditure will start at USD 5,000 thousand in 2018 and gradually grow to USD 7,702 thousand in the terminal year which equals the depreciation. According to Management, the representing depreciation expenses are the actual depreciation expenses in 2017 of approximately USD 7,702 thousand. Furthermore, the Company has amortization expenses of intangible assets that are not recognized for tax purposes and are therefore not included in depreciation forecasts.

Working Capital

The annual investment in working capital was calculated based on the credit and inventory policy of the CGU, as it appears from credit terms based on the actual CGU results for 2017:

- Trade receivables days - 64 days;
- Inventory days - 204 days;
- Other receivables days – 3 days;
- Trade payables days - 51 days;
- Other payables days – 27 days.

Income Tax

The general requirements of IAS 36 require that impairment tests are carried out exclusive of tax effects. Consequently, the discount rate used to estimate the present value of the cash flows should be calculated as a pre-tax discount rate. In order to estimate the pre-tax discount rate, present value was first calculated based on weighted average cost of capital. Then the suitable pre-tax discount rate was calculated according to the present value (see following pages).

Impairment Examination

Discount rate (WACC)

Based on international accounting standard 36 (IAS 36), when measuring the recoverable amount of the CGU, there is no including of tax payments. As a result, the discount rate used to evaluate the discounted cash flows must be calculated as discount rate prior tax.

The general formula for calculating the WACC is:

WACC= Kd (D%) + Ke (E%)

Where:

WACC= Weighted average rate of return on invested capital;

Kd= After-tax rate of return on debt capital;

D%= Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");

Ke= Rate of return on common equity capital; and

E%= Common equity capital as a percentage of the total invested capital.

SCP = Size Premium

The equity return rate was determined in accordance with CAPM (Capital Asset Pricing Model). According to this model, the equity return rate is derived from risk free interest rate for the valuation date with an addition of market risk premium times the company's risk relative to the standard deviation of the market portfolio (β).

Where: **Ke = Rf + ß(Rm - Rf)+ SCP**

Rf - Risk free rate of return; the interest taken is index-linked bond yield for the period of 15 years (source: Bloomberg), weighted by revenue geographic distribution;

β - Beta or systematic risk for this type of capital investment. The beta used in the study is based on the betas of Frutarom and other publicly traded comparable. The comparable taken to calculate the beta were: Frutarom, Symrise, Givaudan, IFF, Takasago, and Sensient Tech. In addition, we adjusted the leveraged beta of the comparable companies in order to arrive at an unleveraged beta that could be then applied to the CGU's specific leverage structure. In accordance with the above, the unlevered beta is 0.88, which is a five year weekly beta.

Rm-Rf - The market premium was established by taking the weighted average of the risk premiums of each country that the Company operates in (US, Germany, China and Japan mainly), which is estimated to be 5.41% (Source: Damodaran).

SCP - Small cap premium. This premium reflects the extra risk investing in a small company. This premium stems from the fact that small companies have a higher risk than larger established publicly traded companies. Therefore, investors expect higher returns in the small companies. The premium taken in this case is 2.08% (Source: Duff & Phelps 2017)

Impairment Examination

Discount rate (WACC) (continued)

Kd – The Company's average price of external debt is 1.5% according to financial statements. A premium of 0.75% was added to that price for it is a CGU and not the Company as a whole.

T – The CGU's average tax rate, received from the Company.

D/(D+E) and E/(D+E) – The weight of debt and capital, taken into consideration when calculating the WACC, are the distinct average of the normative debt and capital weights in comparison companies.

WACC

We based on WACC model and based on the following parameters:

Paramater	Symbol	Value	Source
Unit's Debt	D/(D+E)	14%	Based on comparable companies capital structure
Unit's Equity	E/(D+E)	86%	Based on comparable companies capital structure
EV	**V**	**100%**	**–**
Cost Of Debt	Kd	2.25%	The Company's average cost of debt, according to Company's data
Tax Rate	T	20.0%	The average effective long-term tax rate in countries of operation
Beta	β	0.88	Levered Beta - According to comparable companies
Risk Free Rate	Rf	0.65%	Weighted average 15 year yield indexed government bond in countries of operation (Source: Bloomberg system)
Market Premium	Rm-Rf	5.41%	Weighted average Market Premium - Damodaran
SCP	SCP	2.08%	Duff and Phelps 2017
Cost Of Capital	Ke	7.50%	Rf+β*(Rm-Rf)+SCP+SRP
Weighted average cost of capital	**WACC**	**6.75%**	D*(1-T)*Kd+E*Ke

Source: BDO analysis.

Since the base of the discount rate as described above, is after tax, it must be adjusted to reflect a pre-tax discount rate. In order to do so the recoverable amount was calculated with a discount rate of 6.75%. Then, we calculated the pre-tax discount rate needed to reach said recoverable amount.

The pre-tax discount rate amounted to approximately 7.9%.

Terminal growth rate

The terminal growth rate of 2.5% was determined based upon the real economy and population expected growth rate in the long term.

Impairment Examination

The CGU's Cash Flow

The following table shows the CGU's cash flow forecast for years 2018-2022 (thousands USD):

USD Thousand	2018	2019	2020	2021	2022	Terminal
Revenue	280,932	300,597	318,633	334,564	347,947	356,646
Growth rate	*8.0%*	*7.0%*	*6.0%*	*5.0%*	*4.0%*	*2.5%*
Total cost of sales	(188,443)	(198,996)	(208,548)	(216,889)	(223,830)	(228,306)
% of revenue	*-67.1%*	*-66.2%*	*-65.5%*	*-64.8%*	*-64.3%*	*-64.0%*
Gross profit	**92,489**	**101,601**	**110,085**	**117,675**	**124,117**	**128,339**
Gross margin	*32.9%*	*33.8%*	*34.5%*	*35.2%*	*35.7%*	*36.0%*
S&M	(22,030)	(23,340)	(24,531)	(25,573)	(26,443)	(27,005)
% of revenue	*-7.8%*	*-7.8%*	*-7.7%*	*-7.6%*	*-7.6%*	*-7.6%*
R&D	(6,726)	(7,055)	(7,352)	(7,609)	(7,822)	(7,959)
% of revenue	*-2.4%*	*-2.3%*	*-2.3%*	*-2.3%*	*-2.2%*	*-2.2%*
G&A	(21,916)	(22,683)	(23,363)	(23,948)	(24,427)	(24,732)
% of revenue	*-7.8%*	*-7.5%*	*-7.3%*	*-7.2%*	*-7.0%*	*-6.9%*
Excluding Intangibles amortization	3,333	3,333	3,333	3,333	3,333	3,333
Operating Profit (before tax)	**45,151**	**51,856**	**58,173**	**63,878**	**68,759**	**71,977**
% of revenue	*16.1%*	*17.3%*	*18.3%*	*19.1%*	*19.8%*	*20.2%*
Adjustments						
Depreciation	7,702	7,702	7,702	7,702	7,702	7,702
Capital expenditure	(5,000)	(5,500)	(6,000)	(6,500)	(7,000)	(7,702)
Change in working capital	(7,556)	(7,090)	(6,462)	(5,678)	(4,748)	(3,075)
Total Adjustments	**(4,854)**	**(4,888)**	**(4,760)**	**(4,476)**	**(4,046)**	**(3,075)**
Net Cash Flow	**40,297**	**46,968**	**53,413**	**59,403**	**64,713**	**68,902**
Period	**0.5**	**1.5**	**2.5**	**3.5**	**4.5**	**4.5**
DCF	**38,800**	**41,925**	**44,201**	**45,574**	**46,028**	**913,363**
Value in Use	**1,129,891**					

Source: BDO analysis and financial statements.

Impairment Examination

Value of CGU

In conclusion, the recoverable amount (according to value in use methodology) of the Company's CGU, according to the discounted cash flow model above, is approximately USD 1.1 billion, as follow:

Value in Use Calculation	USD Thousand
Current value 2018-2022	216,528
Current terminal value	913,363
Total value in use of the CGU	**1,129,891**

The following table shows the predicted results following a change in the discount rate and terminal growth rates (thousand USD):

		Discount rate (before tax)				
		8.9%	8.4%	7.9%	7.4%	6.9%
Growth rate	1.5%	849,735	913,069	986,406	1,072,305	1,174,279
	2.0%	896,220	967,982	1,052,033	1,151,808	1,272,156
	2.5%	950,007	1,032,258	**1,129,891**	1,247,651	1,392,454
	3.0%	1,012,964	1,108,512	1,223,751	1,365,448	1,543,872
	3.5%	1,087,655	1,200,439	1,339,111	1,513,718	1,740,280

Source: BDO analysis.

Section 5

Recoverable Amount vs. Carrying Amount Comparison

Recoverable Amount vs Carrying Amount Comparison

Carrying Amount

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

For finding the carrying amount of the CGU, we examined the balance sheet and its allocated excess of fair value over book value's balances, of the CGU, as of December 31, 2017.

The following table presents the CGU's carrying amount (thousand USD):

USD Thousand	31.12.2017
Accounts receivable	45,911
Other receivable	2,390
Inventory	98,824
Net Fixed Assets	90,459
Software	941
Total operational assets	**238,525**
Accounts payable	24,818
Accrued expenses	16,871
Other payables	291
Deferred tax	7,900
Total operational liabilities	**49,880**
Net assets	**188,645**
Customer relationships and knowledge, net	31,444
Goodwill	58,325
Sub total	**89,769**
Total carrying amount	**278,414**

Source: Frutarom's audited financial statements as of December 31, 2017.

The following table summarizes the results of the impairment examination for the CGU:

Examining the Need of Impairment	USD Thousand
Recoverable amount	1,129,891
Carrying amount	278,414
Impairment Needed	**–**

Source: BDO analysis.

It can be noticed that the recoverable amount of the CGU is higher than its carrying amount, as of the Valuation Date. Therefore, Frutarom's FID goodwill is not deemed to be impaired.

Appendix

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970, for valuations attached to the financial statements

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970

NO.	Required disclosure	Disclosure
1	- The identity of the corporation that commissioned the valuation and the identity of the organ in the said corporation, who decided on the engagement with the appraiser.	- The agreement was signed with Frutarom Industries Ltd. through Mr. Guy Gil, Vice President of Finance at the Company.
2	- The engagement date between the purchaser of the valuation and the appraiser	- The agreement was signed on January 15, 2018.
3	- Conditioning, if any, regarding the fees to which the appraiser is entitled; In addition, the extent of the effect of such conditioning on the results of the valuation;	- No conditions were set regarding the payment of the fee in connection with the results of this opinion.
4	- Consent, if any, to indemnify the appraiser for his work; If such consent was reached, the indemnification terms and the identity of the indemnifier shall be specified in the valuation.	- If, in a final, un-appealable legal proceeding, we are found liable to pay any amount to a third party in connection with the services that are the subject of this Agreement, the Company undertakes to indemnify and reimburse us for all the expenses that we will issue or be required to pay for legal advice and representation, expert opinions, protection against legal proceedings, In respect of any claim, demand or other proceedings in respect of the services under the letter of agreement signed (hereinafter: "Defence Expenses"), in excess of an amount equal to three times BDO working fee, immediately, upon our first demand, unless it is determined that Ziv Haft Consulting and Management acted maliciously and / Or negligence.
5	- If the subject of the valuation is an asset traded on the stock exchange, shall indicate the highest, lowest and average rate of the value of the asset in the six months preceding the valuation date, taking into account any distribution, split or issue of rights in the said period;	- N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

No.	-	Required disclosure	-	Disclosure
6	-	If, to the best of the corporation's knowledge, previous transactions were performed, in the matter of the valuation, during the two years preceding the valuation date, the value of these transactions shall be specified;	-	N.R.
7	-	If an evaluation of additional experts was used for the valuation, all the details required in this appendix will also be provided in respect of the assessments of the other experts, with the necessary changes.	-	In our work, we did not rely on material evaluations maid by other experts.
8	-	Material changes in the valuation made following requests for disclosure or clarification by the ISA or an employee that it authorized for this purpose.	-	N.R.
9	-	If the value determined in the valuation is twenty-five percent or more, than the average value on the stock exchange in the six months preceding the effective date or the value derived from previous transactions, the difference between the values and the justification for that shall be explained;	-	N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

No.	Required disclosure	Disclosure
10	If the value determined in the valuation is **forty percent or more**, than the value determined in other valuations published in public according to reporting requirements under the Securities Law, during the two years preceding the valuation, the data from the other valuations shall be presented together with the underlying assumptions;	The difference between the CGU's value between this Study (approximately USD 1.13 billion as at December 31, 2017) and the previous estimate (approximately USD 531 million as of December 31, 2016) is mainly for the following reasons: 1. During 2017 in light of the synergies made by past acquisitions and other efficiency actions made by the Group the results improved in both growth and profitability. 2. The capitalization rate (after tax) decreased by 1.75% (from 8.5% to 6.75%).
11	The valuation shall include details of previous valuations of the valuation subject made by that appraiser, including the following details: • If a previous valuation was given in the three years preceding the effective date of the valuation, the appraiser shall specify the valuation date of the previous valuations, the value determined in them and the reasons for which they were given; • the value determined in the previous valuations exceeds **by 20% or more,** the value determined in the valuation, if the profit or loss calculated in accordance with the previous valuations is 10% or more of the profit or loss calculated according to the valuation, or if the valuation method was different from the valuation method in the previous	The difference between the CGU's value between this Study (approximately USD 1.13 billion as at December 31, 2017) and the previous estimate (approximately USD 531 million as of December 31, 2016) is mainly for the following reasons: 1. During 2017 in light of the synergies made by past acquisitions and other efficiency actions made by the Group the results improved in both growth and profitability. 2. The capitalization rate (after tax) decreased by 1.75% (from 8.5% to 6.75%).

valuations, the appraiser will provide disclosure that explains the main changes in the significant assumptions and estimates and will indicate facts that led to these changes;

- If there are differences between the financial results that were based on the previous valuations and the actual financial results, these differences shall be noted and explained.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

Details Regarding the Valuation Specialist

BDO Consulting and Management Ltd. were founded by the partners of BDO Certified Public Accountants .

BDO Consulting and Management is part of the international BDO network, provides a full range of business services required for national and international businesses in any sector. Our company has vast experience in the following fields: business valuations, financial and tax due diligence, goodwill and intangible assets valuations, financial analyses, business plans, project finance PFI/PPP advisory, M&A, investment banking and more.

Moti Dattelkramer, CPA, CPA/MBA, Partner, Head of Corporate Finance of BDO Consulting.

Current role - In his current position Moti manages a team which performs business plans, business valuations, economic consulting, PPA, impairment, employee stock option valuation and budget building for a wide range of public and private companies .

Career and employment – Moti is qualified as a Certified Public Accountant. Moti holds a bachelor degree in Economics and computer science from Bar Ilan University and an M.B.A in finance from Bar Ilan University.

Moti's recent projects include:

- **Elbit Systems**- PPA, valuation studies and Impairment studies;
- **Discount investments**- Cellcom's valuation for conducting an impairment study of an investment;
- **Partner**- Valuation study for the fixed line segment;
- **One1**- Variety of valuations, PPAs and impairment tests for the company and its subsidiaries;
- **Delek Group** – PPA and valuation studies;
- **Given Imaging** - Valuation studies, impairment studies and valuations of financial instruments;
- **Gazit-Globe** - PPA, valuation studies;
- **Arko Holdings/GPM Investments**- valuation studies and Impairment studies for GPM Investment

Frutarom Industries Ltd.

Impairment Study - Flavors Segment EMEA

As Of December 31, 2017

Disclaimer: This document represents an English translation of the impairment study originally conducted in Hebrew. Any official references to the study should be taken from the Hebrew version.

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Dear Sirs

We were requested by Frutarom Industries Ltd. (hereinafter: **"Frutarom"** and/or the **"Company"**) to perform an Impairment Examination Study (hereinafter: the **"Study"** and/or the "**Impairment test**") of the Flavor goodwill created by the acquisition of the Flavors operation of EMEA (hereinafter: the "**FLV Operation**" and/or the "**CGU**"), as of December, 31, 2017 (hereinafter: **"Valuation Date")**. The study is performed under the requirements of International Accounting standards 36 (Hereinafter: **"IAS 36**").

Our Conclusions will be used by Frutarom, its management and auditors, for the purpose of financial reporting in accordance with generally accepted accounting principles and financial reporting principles in Israel, as required by law, including in accordance with IAS 36. This work is intended for the exclusive use of Frutarom, its management, and its independent auditors only.

We are aware that this study will be used and / or will be included in Frutarom's financial statements as stated in the regulations under the Securities Law, 1968. No other use may be made of this study except for the aforesaid, including quoting in whole or in part, Without our prior written permission.

In order to carry out the Study, we assumed and relied on the accuracy, completeness and timeliness of the information received from the Company and from various entities connected with the Company's operations. We have no reason to assume that the data on which this Study is based on, is inaccurate, complete or fair, and we have not conducted an independent examination of this information. The reliance on the information received as aforesaid does not constitute verification or confirmation of its correctness. No due diligence was performed as part of the opinion and does not purport to include the information, tests and tests or any other information included in the due diligence examination.

We did not independently examine the information, except for an examination of its reasonableness. We have taken a number of exams for the information as following

- Analyzing the business results of the activity in recent years and conducting a reasonableness examination of the income and expenditure forecasts used in this document;
- Examining the structure of expenses of the activity;
- Examination of the operational profitability of the activity.

An economic opinion is not an exact science, and it is supposed to reflect in a reasonable and fair manner a correct situation at a specific time, based on known data, assumptions and forecast estimated. Changes in the main variables and / or information may change the basis of the assumptions and the conclusions. The calculations in this work were carried out via excel spreadsheet, and therefore there may be rounding differences.

We hereby declare that we have no personal interest in the Company and that we are independent of the Company or of any of the Group companies as this term is defined in the Auditors Law -1955 and in the Regulations promulgated thereunder, including the Auditors' Regulations (Conflict of Interests and Damage to Independence as a Result of Other Occupation) 2008, the auditing standards and the professional conduct rules of the Institute of Certified Public Accountants in Israel.

In addition, our opinion complies with the conditions and criteria for an independent valuation in accordance with the Securities Regulations and the guidelines of the Israel Securities Authority, including the Securities Authority decision (regarding independence) under section 9B of the Securities Law -1968. It should also be noted that no conditioning have been prescribed for the payment of the fee in connection with the results of the opinion.

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- Our work was conducted in coordination with appropriate professional instructions. In other areas, procedures and practices relevant to accounting work may differ and the data presented may be different. Therefore, this document was not prepared in coordination with the procedures and practices of any professional institution from another field.
- Do not refer to this document or quote it or parts of it, in any other document exposed to a third party.

Sources of information

The principal sources of information used in performing our Annual Goodwill Impairment Test include:

- Financial report pro-forma as of for the year 2017;
- A multi-year forecast of the operation for the years 2018-2022;
- Financial and operational business data, received from Frutarom's management;
- Other information received from the company management, in writing or by discussions;
- Public data;

Discussion with the company management

Conversations and correspondence with key people:

- Mr. Guy Gil, Vice President of Finance.

Executive summary

Based on our study, we have concluded that the CGU's Goodwill is not deemed to be impaired, as of December 31, 2017, as follow (thousand Euro):

Examining the Need of Impairment	Euro Thousand
Recoverable amount	3,676,741
Carrying amount	685,161
Impairment amount	**–**

Source: BDO analysis.

Respectfully submitted,

BDO Consulting & Management Ltd.

Moti Datelkramer C.P.A

Contents

Section 1
CGU Overview

CGU Overview

General

Frutarom's flavor operations develops, produces, markets and sells sweet and savory flavor solutions, including Flavors 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 products. Frutarom develops thousands of different Flavors for its customers, most of which are tailor-made for specific customers, as well as new products to suit varying consumer preferences. In accordance with the Company's strategy, Frutarom's FLV operation grew quickly and profitably, in combination with internal growth and acquisitions. In 2017 Frutarom's FLV operation accounted for 81% of Frutarom's core business and 75% of Frutarom's total sales (compared to 33% of total sales in 2000).

Over the years, Frutarom made several acquisitions within the Flavors sector and of operating activities in the EMEA region. These acquisitions have significantly increased the market share of the Company and the solutions that the FLV operation offers to its customers. These moves will contribute to further growth in the FLV operation in developing countries and developed countries in which it operates. Furthermore, These acquisitions have established Frutarom’s position as one of the top ten flavor company's, while enhancing its presence and position as a worldwide leader in solutions tastes.

New Products

Frutarom's FLV operation develops a variety of new products as a part of its ongoing operation. Frutarom generally works directly with customers in order to develop a new customized product for the specific customer needs. Among Frutarom's new product launches, there is not a specific new product that is significant in terms of expected sales volume and/or in term of development costs.

Competition

In the flavor market, the Company's competitors are large multinational manufacturers, mid-sized companies and local and small companies. The competition is very much based on innovation capabilities, quality of the products, ability to develop and maintain long-lasting relationships with customers, reliability and the ability to customize products for the costumer's specific desires and needs.

Customers in the market for flavoring solutions tend to be less influenced by cost when choosing their supplier, as flavoring costs are not a major factor in the overall costs of their products. Therefore, Frutarom's typical customers focus on doing business with flavor manufacturers who are able to differentiate themselves through deep knowledge and the understanding of the target markets, strong capabilities for innovation and R&D, and mostly, by a strong reputation and consistent and reliable customer service.

CGU Overview

Customers

The flavors produced by Frutarom are sold to an extensive customer base comprised of thousands of large multinational, mid-sized, local and small customers. The customers are mainly food and beverage manufacturers, spread over 150 countries around the world. In 2017, there were no customers whose purchases accounted for more than 2% of Frutarom's sales turnover.

Products

Frutarom markets and sells over 80,000 flavors products to more than 40,000 customers in more than 150 countries. The success of many of the flavors developed by Frutarom depends on its familiarity with local tastes and the adaptation of products to these tastes. In the FLV operation, Frutarom has an extensive deployment of 89 research and development laboratories and 109 marketing and sales offices, located near its customers at strategic target markets.

Frutarom's global deployment enables it to meet the needs of its customers in those strategic target markets, and of customers in the food and beverage market, who are launching global brands in several markets simultaneously.

Frutarom's FLV operation provides efficient and high quality solutions for her rapid growth of private label products of its customer, while providing them with assistance and support in developing and marketing new products. Frutarom offers these customers her technological support, product development and marketing assistance and a wide range of products, while providing services tailored to their unique needs, with flexibility regarding minimum quantities and supply dates.

The acquisitions made by Frutarom in recent years have significantly expanded the range of products that Frutarom offers to her private label manufacturers, while enhancing its global deployment, enabling it to maintain close relationships with her private label customers.

CGU Overview

Products (Continued)

As part of the FLV operation, Frutarom offers a wide variety of flavor solutions, designed to create new flavors, enhance existing flavors and / or disguise certain flavors in processed food and beverage products.

Most of the flavor products contain a large number of raw materials (for example, extracts contain dozens of raw materials, including fruits, vegetables and spices), that are combined by unique formulas, developed by Frutarom's team of research scientists in state of the art laboratories.

The company carefully decides to develop new products through both individual initiatives and as the result of collaborating with their customers in order to meet specific demands. In addition, Frutarom is able to offer its customers solutions that include functional organic components that contribute nutritional value to food and beverage products, protect consumer health, and prolong product shelf-life. These raw materials form the basis for the branding of the final product and therefore strengthen the Company's long-term relationship with its customers.

Frutarom's products can be divided by application type (beverages, dairy products, snacks and sweets, processed meat and fish, etc.), source of raw material (natural, organic and artificial), taste (sweet, savory), texture (liquid, powder, emulsion, grains and paste), etc.

- **Application type** – The flavor products produced by the Company are mainly used as ingredients for a variety of consumer goods produced by food and beverage manufacturers.

  These consumer goods consist light beverages, juices, dairy products, ice cream, baked goods, sweets, chewing gum, processed meat and fish, meat substitutes, pharmaceuticals, and animal food. Flavor products are also used for a variety of savory products, such as, snacks, convenience food, ready-to-consume soups, salad dressings.

- **Source** – Frutarom offers natural, organic, nature-identical, and artificial flavor products. The natural flavors are made entirely from natural raw materials that include, among other things, natural extracts and essential oils. The nature-identical and artificial flavors are produced mainly by using synthetic raw materials. Some of the flavor products that are manufactured by the Company contain unique raw materials that are made exclusively by the Company's raw materials operation for the FLV operation.

- **Flavor** – Frutarom manufactures both sweet and savory flavors. The sweet flavors are mainly used in, beverages, dairy products, ice cream, baked products and sweets. The savory flavors are mainly used in snacks, savory baked goods, processed meat and fish and in convenience food. Furthermore, Frutarom manufactures unique mixed seasonings, unique functional raw materials for processed meat, poultry and fish producers, and a variety of flavor extracts for meat substitute in order to create the meat taste in products that doesn't contain meat

- **Texture** – Frutarom's flavor products are sold in the shape of liquid, powder, emulsion, and as grains or paste. Often, they are mixed with stabilizers and emulsifiers (raw materials that change the texture and qualities of the products they are added to).

CGU Overview

Balance Sheet

The following table presents the balance sheet of the CGU as of December 31, 2017 (Thousands Euro):

Euro Thousand	31.12.17
Current Assets	
Cash & cash equivalents	64,428
Customers	123,535
Accounts receivable	27,346
Inventory	132,908
Other receivable, Related Parties	9,396
Total current assets	**357,614**
Long-term assets	
Net fixed assets	137,314
Other assets, net	382,130
Deffered taxes	541
Total long-term assets	**519,985**
Total assets	**877,599**
Current liabilities	
Suppliers	44,942
Short-term credit	145,816
Accrued expenses	58,464
Total current liabilities	**249,222**
Long term liabilities	
Other long term Liabilities	35,203
Bank loans	127,947
Related Parties	98,176
Employee Pension liability	21,242
Deferred tax	20,448
Total long term liabilities	**303,016**
Total liabilities	**552,238**
Total shareholder's equity	325,361
Total liabilities and equity	**877,599**

Source: Frutarom's audited financial statements as of December 31, 2017.

Profit & Loss

The following table present the profit and loss statements, of the CGU's activity, in a full year performance(*), as of December 31, 2017 (Thousands Euro):

Euro Thousand	2017
Revenue	704,038
Cost of sales	395,779
Gross profit	**308,259**
Gross margin	*44%*
S&M	103,411
% of revenue	*15%*
R&D	29,522
% of revenue	*4%*
G&A	46,668
% of revenue	*7%*
Operating profit	**128,658**
Operating margin	*18%*

Source: Frutarom's audited financial statements as of December 31, 2017.

(*) Pro forma - During FY2017 the Company has made a number of acquisitions and has given us pro forma data regarding their effect on the Company's financial statements (henceforth: "Pro forma 2017").

Section 2

Market Overview

Market Overview

Flavor and fragrance industry worldwide

The global market for Flavors, fragrances and raw materials in 2015, was estimated at approximately USD $24 billion. Frutarom is not active in the fragrances market, but is active in the market of natural functional food ingredients (excluding the above estimate), and therefore, it believes to sell in the markets where it operates, approximately $18.2 billion. According to Leffingwell & Associates, Frutarom is ranked as one of the ten largest companies in the field of taste and smell.

The research company IAL Consultants, estimated that sales in industrialized countries (central & north America and Western Europe) in the Flavors markets, will grow at an annual rate of 3%, between the years 2015-2020. According to these estimates, the growth rate in emerging markets, such as Asia, Central and South America, Eastern Europe and Africa, is expected to be significantly higher due to changes in consumer preferences in these markets, and the transition to processed food consumption, and might reach an average annual growth rate of 5.1% till 2020.

The manufacturers of the flavor, fragrance and fine ingredient markets can be divided into three main groups:

1. **Large multinational manufacturers** generally operate globally and have revenues in excess of $2.5 billion. In the global flavor and fragrance markets there are four such manufacturers: Givaudan, Firmenich, IFF, Symrise which markets their products mainly to large and international customers, which are food and beverage manufacturers. According to Leffingwell & Associates, represent approximately 57% of sales in the flavor, fragrance and fine ingredients markets.

Flavor and fragrance industry worldwide

2. **Medium Global Companies-** among these companies is Frutarom. These companies have revenues in the amount of USD 400 million-USD 1.2 billion. In the global flavors and fragrances segment there are 8 mid-size companies. Some of the companies operate in the global market and some concentrate in a specific geographic region (such as Japan). According to Leffingwell & Associates, these companies represent approximately 21% of the market.

3. **Local and small companies**, the majority of the local and small companies that have revenues that are less than USD 400 million are companies that their revenue is approximately few million dollars. These companies usually focus on local small costumers and they have limited ability in R&D, ingenuity and the specific service to the client. According to Leffingwell & Associates, these companies

Market Overview

Flavors market

Flavors are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining the consumer acceptance of the end products in which they are used. According IAL consultants and Frutarom the global sales in the flavor segment amounted to USD 12 billion in 2015. Flavor products are sold primarily to producers of prepared food, beverage, dairy, bakery, meat and fish, confectionery and pharmaceutical products.

The following are examples of end user products using Flavors:

- **Beverages** - carbonated, noncarbonated, sport and functional, alcoholic and juices.
- **Dairy** - yogurt, drinking yogurt, ice cream, cheese and chilled desserts.
- **Bakery** - cakes and cookies, crackers and cereals.
- **Confectionery** - candy, chocolate, jam and chewing gum.
- **Savory and convenience food** - ready meals, instant soup, ready sauces and instant noodles.
- **Snacks** - potato chips and other savory snacks.
- **Meat** - sausages and frankfurters.
- **Processed Fish.**
- **Oral hygiene and pharmaceuticals** - toothpaste, mouthwash, vitamins and medicines.
- **Others** - animal feed, pet food and tobacco.

The global market for Flavors has expanded rapidly over the last 60 years, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer end products containing Flavors. The demand for consumer goods containing flavor products has increased as a result of rapid population growth and consumer preferences resulting from various factors such as increases in personal income, leisure time, health concerns and urbanization. These factors have led to an overall increase in food and beverage products containing Flavors and to rapid growth in demand for convenience food and foods with healthier and more natural content.

Market Overview

Flavours market

The following table presents the sales of Flavours by region in 2013 and the projected annual growth rate in these geographic regions:

Country	World consumption in 2013 ($ million)	Average growth is expected in 2013-2018	Market share
Western Europe	2,187	2.4%	18.8%
Eastern Europe	946	3.0%	8.2%
North America	2,583	2.9%	22.3%
South America	1,277	3.6%	11.0%
Asia	3,885	4.8%	33.5%
Middle East and Africa	727	4.7%	6.3%
Total	**11,605**	**3.7%**	**100.0%**

According to the research company IAL Consultants, in 2013 the biggest market in the Flavor segment is Asia that accounted for approximately 33.5% of global Flavor sales, with North America in second with 22.3% of the market share. The Asian markets is expected to grow the highest (compounded annual growth rate of 4.8%) and behind are the African and middle east markets with a compounded annual growth rate of 4.7%. Frutarom is enhancing its growth in these markets through a number of efforts including a focused strengthening of the research and development, production, marketing and sales infrastructure in the important target countries and exploring options for strategic acquisitions.

Market Overview

Flavors market - Characteristics

The following are the characteristics of the Flavor Market:

- **Reliable with high levels of service** - Food and beverage producers, which are the principal customers of flavor manufacturers, expect reliable, high-quality service to meet their needs in terms of support and lead time, while maintaining high quality, regulatory and safety standards. These requirements encourage the formation of long-term relationships between flavor producers and their customers. As a result, large multinational customers, and increasingly also mid-sized customers, have pruned the flavor suppliers that they will work with, placing those that remain on "core lists" creating a barrier to entry for small flavor manufacturers.
- **Research and development** - The development of flavor products in general and of new flavor extracts in particular is a complex, creative and technological process that calls for depth of knowledge and skill on the part of a flavor manufacturer's research and development personnel. Effective research and development is critical in ensuring a continuous stream of innovative products and in maintaining the profitability and growth of a flavor manufacturer. The initiative for the development of new flavor products can be spurred by the flavor manufacturer or by the customer who is in need of a specific flavor for use in a newly developed end product. As such, in order to anticipate market demands, a flavor manufacturer's research and development personnel are required to be familiar with the taste requirements of various end product types and target markets. In addition, as most Flavors are tailor made for a specific customer, a close collaborative relationship with the customer is essential

These flavor formulas are treated as commercial secrets and remain the proprietary asset of the flavor manufacturer. As most flavor products are tailor-made for a customer, customers are less likely to replace suppliers for such flavor products during the course of the end products' life cycle.

- **Low price sensitivity** - Since flavor products play a major role in determining the flavor of the end product to which they contribute, they are a vital element of its success. Flavor products cannot be precisely matched and their cost, compared to the total cost of the end products, is negligible. When selecting a flavor supplier, a customer will generally place a greater emphasis on the reputation, innovation, service, quality and consistency of the supplier than on the price of its Flavors. The demand for Flavors is therefore generally less sensitive to changes in price.
- **Production processes** - Flavor products in general and Flavors in particular typically contain a variety of ingredients (typically over 30 per flavor), which are blended using unique formulas created by a manufacturer's flavor expert. The production processes involved in the manufacture of flavor products are less complex and capital intensive compared to those of fine ingredients. However, the production process for flavor products requires skill and knowhow to achieve the required consistency and quality.
- **High and relatively stable profitability** - As the Flavors market tends to be characterized by long-term relationships and high customer loyalty, combined with relatively low price sensitivity and simple production processes, it generally benefits from high and stable margins. This is true also in comparison to the fine ingredient industry.

Market Overview

Food and Beverage Market - Characteristics

Flavors are sold primarily to food and beverage producers; therefore the flavor market is generally driven by trends characterized by the demands of food and beverage consumers.

According to Data Monitor, global sales in the food and beverage market amounted to US$ 4,595 billion in 2015. Frutarom estimates that medium-sized, local and small food and beverage producers comprise of more than 60% of global sales. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom believes that mid- and small sized food and beverage producers and local food and beverage producers will continue to comprise a considerable share in this market and play a significant role.

The large multinational flavor manufacturers often focus on large multinational food and beverage producers, offering their customers a high level of service and tailor-made product development. Frutarom believes that these Flavors producers focus to a lesser extent on small and mid- sized local customers.

However, the Company believes that mid-sized and local food and beverage producers require the same level of service and tailor-made products as their larger counterparts, and also require short lead times and manufacturing flexibility. Small, localized flavor producers generally do not have the product variety and service capabilities to support the needs of these customers. A specific example of this type of customer is the private label customer. This situation creates a business opportunity for mid-sized flavor producers to service this segment.

Food and Beverage Market - Tendencies

The following are the main trends in the consumer market for food and beverages which in turn drive the flavor market:

- **Local and global tastes -** Taste preferences vary by geographic location and among different cultures. Flavor manufacturers must have thorough knowledge of local tastes in each of the countries in which they are active. It is also important for a global flavor manufacturer to have a physical presence in its key target markets in order to facilitate direct contact with customers, to better understand local tastes and to be able to respond quickly and efficiently to changes in consumer preferences. Additionally, the trend toward globalization now characterizes the flavor industry as multinational food and beverage customers are now launching global brands in many different markets simultaneously, often by changing the taste profile to meet the preferences of the respective populations worldwide.

- **Preference of natural products** - There has been a general increase in consumer demand for food and beverage products containing natural ingredients and having dietary values (reducing fat, salt, cholesterol, etc.). Natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. Similarly, there is growing demand for organic products and ‘clean label’ products. As a result, natural food and beverage products are viewed as specialty, premium products that can command higher prices.

Market Overview

Food and Beverage Market – Tendencies (cont.)

- This trend has created new opportunities for Flavors manufacturers to develop new and innovative natural flavor products that combine solutions for food conservation and the extent of the shelf-life. Frutarom focuses in the development and manufacture of organic products and as of today over 70% of its products are organic. In the developed markets most of the increase is due to consumer transitions to products that perceived as healthier and more natural and the consumer readiness to keep purchasing those products even at times of economic slowdown. In the developing markets there is a significant trend of awareness to this matter and willingness to improve the quality of the consumed food.

- **Private label** - private label goods manufacturers, which tend to be mid-sized, local or small food manufacturers, are a growing customer segment in the flavor industry. Over the last decade consumers of food products have become increasingly price conscious, increasing sales of private label products in comparison to the branded food and beverage industry. This trend was accelerated in 2009 as a result of the economic crisis, consumers that have experienced the private label products tend to keep using those products due to positive experience. In addition, the growing power of supermarkets and their determination to raise profits led them to strengthen the private label by among other things, extending the products space allocation and the variety of the products.

- **Continuously growing consumption of convenience food** - There is an increase in demand for processed foods with greater convenience (consumed both inside and outside of the home). This increase in demand for convenience foods has been spurred by new packaging and cooking technologies as well as changing social habits and consumer preferences. Examples of convenience foods include "ready to eat" meals, fresh pasta; ready-to-cook, fresh seasoned or marinated meat or poultry; salads; and sauces in liquid form. This has created new opportunities for flavor manufacturers in the savory Flavors and functional fine ingredients fields which are responsible for the creation of food texture and its extended shelf life, to develop and market Flavors and unique fine ingredients products for this segment.

- **Emerging markets** - In recent years, certain developing markets, such as Asia, Central and South America, Eastern Europe and Africa have experienced above-market-average growth in demand for Flavors products. Further, these markets have been characterized by a trend towards increased consumption of processed foods, which in turn has driven the emergence of mid-sized, local and small food companies, creating new market opportunities for flavor manufacturers. It can be assumed that the transition to processed food and the changes in consumption habits in these markets will result in rapid growth and in a higher growth rates than the developed markets.

Market Overview

Food and beverage market - Critical Success Factors

The critical success factors in the flavor segment are:

- **Long-term relationships** - Long-term relationships with customers and collaboration in the development of new products.
- **Global and local presence in target markets** - Knowledge of the various flavor preferences in the different markets and the ability to provide global and local support to customers.
- **Superior and reliable service** - The ability to provide a high level of service and the reliability of a Flavors manufacturer in giving service are critical for mid-sized, local customers and multinational customers.
- **Presence in emerging markets** - Emerging markets grow at considerably higher rates in comparison to developed markets. Presence in these key areas, along with knowledge and understanding of their unique needs and the ability to provide support to local manufacturers is a critical success factor.
- **Innovation in research and development** - The ability to develop innovative products both at the initiative of the flavor manufacturer and in collaboration with customers is of extreme importance.

Compliance with strict quality, regulatory and safety standards - Since the Flavors are intended principally for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards

- **The purchase of raw materials** - there is a great growing importance to turning resources in order to preform focused purchasing in countries that are considered to be an important source for raw materials such as China, India and Brazil. This, while expanding the supplier circle and maximizing the potential to reduce costs with a global array of purchasing and strengthening the relations with manufactures and processors of raw materials in order to ensure steady and reliable supply of raw materials.

Section 3
Methodology

Methodology

IAS 36 - General

The objective of IAS 36 is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss.

This standard shall be applied in accounting for the impairment of all assets (other than exceptions as they appear in the standard content) including goodwill acquired from business combination. Goodwill acquired in business combination represents the value of the intangible assets which cannot be separately identified or separately recognized.

Definitions

The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

A **cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Fair value less the costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see IFRS 13 Fair Value Measurement), less the costs of disposal.

Costs of disposal - are incremental costs, which are directly attributed to the liquidation of an asset or cash-generating unit, excluding finance and income tax expenditures

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

Methodology

Identifying an asset that may be impaired

When to test asset for impairment

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an entity shall also:

- Test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount;

Test goodwill acquired in a business combination for impairment

Indications that an asset may be impaired

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- The carrying amount of the net assets of the entity is more than its market capitalization.

Methodology

Indications that an asset may be impaired (continued)

<u>Indications that an asset may be impaired (continued)</u>

<u>Internal sources of information</u>

- Evidence is available of obsolescence or physical damage of an asset;
- Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used;
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The list above is not exhaustive. An entity may identify other indications that an asset may be impaired.

Such Indications will require the entity to determine the asset's recoverable amount or in the case of goodwill, perform an impairment test.

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

Goodwill

For purposes of an impairment examination of goodwill that was acquired in a business combination, the goodwill will be allocated to each of the acquirer cash generating units or groups of the cash generating units, that are predicted to benefit from the synergy of the combination, regardless the fact that any assets or liabilities of the purchased entity may be allocated to CGUs or groups of CGUs. Each CGU or group of CGUs to which goodwill had been allocated as aforesaid, will represent the lowest level of the entity in which goodwill is monitored for management purposes and will not be larger of an operating segment as defined in IFRS 8, prior to the grouping of similar segments.

Measuring Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

The Standard prescribes that it is not always necessary to determine both an asset's fair value less costs of disposal and its value in use, where either of these amounts exceeds the asset's carrying amount.

If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

Methodology

Measuring Recoverable Amount (continued)

Fair value less costs of disposal

The best evidence of an asset's fair value less costs of disposal is a price in a binding sell agreement that is not affected by a special relationship between the parties, adjusted with additional costs which can be attributed directly to the disposal of the asset.

If there is no binding sell agreement but an asset is traded in an active market, fair value less costs of disposal is the asset's market price less costs of disposal.

If there is no binding sell agreement or active market for an asset, fair value less costs of disposal is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties.

In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. From the fair value of the asset, a deduction of additional costs is needed if these costs can be directly attributed to the asset's disposal.

Value in use

The following elements shall be reflected in the calculation of an asset's value in use:

- An estimate of the future cash flows the entity expects to derive from the asset;
- Expectations about possible variations in the amount or timing of those future cash flows;
- The time value of money, represented by the current market risk-free rate of interest;
- The price for bearing the uncertainty inherent in the asset; and
- Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimating the value in use of an asset involves the following steps:

- Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- Applying the appropriate discount rate to those future cash flows.

Methodology

Measuring Recoverable Amount (continued

Value in use (continued)

In measuring value in use, an entity shall:

- Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset;
- Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified;
- Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale.

Estimates of future cash flows shall **not** include estimated future cash inflows or outflows that are expected to arise from:

- A future restructuring to which an entity is not yet committed; or
- Improving or enhancing the asset's performance.
- Cash inflows or outflows from financing activities; or
- Income tax receipts or payments.

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation

Methodology

Measuring Recoverable Amount (continued)

Discount rate

The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

- The time value of money; and
- The risks specific to the asset for which the future cash flow estimates have not been adjusted.

Revision of Goodwill's impairment

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

(b) Then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

(a) Its fair value less costs of disposal (if determinable);

(b) Its value in use (if determinable); and

(c) Zero.

The impairment sum that would have been allocated to the assets would be relatively allocated to the other assets in the CGU.

Section 4
Impairment Examination

Impairment Examination

Timing of Impairment Examination

In accordance to IAS 36, yearly impairment examination of a CGU, where goodwill was allocated, can be done at any given time during the yearly period, conditioned upon re-examining at the same time every year. Management determined the date of impairment examination to be as of December 31, every year.

At the request of Management, the examination of the CGU was in accordance to IAS 36 as of December 31, 2017.

Recognizing Cash Generating Unit

In accordance to IAS 36, in order to examine impairment of a goodwill acquired in business combination, the goodwill will be allocated to the cash generating unit which is expected to benefit from the synergy of the combination. The Standard defines cash generating unit as the smallest group of identified assets that generates positive cash flows, which are mainly independent from other generating positive cash flows assets. For more information please refer "**Methodology**" section.

Frutarom's Management has determined that FLV Operation is the smallest cash generating unit for which goodwill that was recognized from business combination can be allocated.

CGU's Recoverable Amount

In accordance to IAS 36, the recoverable amount of the cash generating unit is the higher of fair value less cost of disposal or the value in use, for more information please refer "**Methodology**" section.

In order to evaluate the value in use of the CGU we believe that income approach, the DCF (Discounted Cash Flows) method, is best suited for the purpose of this examination.

CGU's Carrying Amount

In accordance with IAS 36, the CGU's carrying amount will be determined consistently with the method used to determine the recoverable amount. The carrying amount will include the value of the assets and liabilities that can be directly attributed to the CGU and will generate positive cash flows in the future that are used to determine the value in use of the CGU. For more information please refer "**Methodology**" section.

In order to determine the CGU's carrying amount, we received the book values of the CGU as of December 31, 2017 from Management. Since the carrying amount determined include only operational assets and liabilities (doesn't include financial liabilities or excess assets), the CGU's recoverable amount was examined accordingly.

From analyzing the CGU's balance sheet, it appears that the carrying amount of the Flavor EMEA CGU, as of December 31, 2017, is approximately Euro 685,161 thousand.

Goodwill Impairment Examination

In accordance to IAS 36, the goodwill impairment examination will be made by comparing the CGU's carrying amount including goodwill to the recoverable amount. If the recoverable amount exceeds the carrying amount, the CGU and allocated goodwill will be deemed as un-impaired. If the CGU's carrying amount exceeds the recoverable amount, the entity will acknowledge an impairment loss.

Impairment Examination

Revenues Forecast

The following table presents the CGU's estimated revenues for the forecast years and the actual revenue results for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
Revenue	704,038	746,280	787,325	826,692	863,893	898,448	920,910
Growth rate		*6.0%*	*5.5%*	*5.0%*	*4.5%*	*4.0%*	*2.5%*

Source: BDO analysis and Management's projections.

The CGU has an extensive customer base mainly in Europe.

In 2017 Pro-forma the CGU's revenues were approximately Euro 704,038 thousands.

In order to examine to growth rate of the CGU in 2018, we examined the Company's forecast in a conservative way. The Company projects growth rate of 6% in accordance to the nature of the operations and the projected growth rate in the sector.

The Company intends to continue focusing on its sales and marketing efforts, in order to achieve the estimated growth rates. Projected growth rates are based on the inherent growth of the activity, particularly in light of mergers and acquisitions completed during 2017, which are expected to assist future growth trends with increased exposure to new markets and customers.

For the following forecast years, it was assumed that revenue's growth rate will gradually decrease to 2.5% in the terminal year, in accordance with the long term growth rate.

Cost of Sales

The following table presents the CGU's estimated cost of sales for the forecast years and the actual results, for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
Cost of sales	395,779	414,776	433,026	450,347	466,560	481,489	491,119
% of revenue	*56.2%*	*55.6%*	*55.0%*	*54.5%*	*54.0%*	*53.6%*	*53.3%*

Source: BDO analysis and Management's projections.

Cost of sales include: costs of raw materials, salaries, depreciation and amortization, energy and other expenses. In 2017 Pro-forma, these expenses amounted to approximately Euro 395,779 thousands, representing about 56% of the total revenues.

According to management budget for 2018 the total cost of sales as a percent of total revenues in 2018 will decrease to 55.6%. In light of the Company's constants efficiency process, both in production processes and with suppliers the percent will decrease and will reach a level of approximately 53% in the terminal year. In order to examine the reasonability of management's forecast, we have analyzed the fixed and variable elements of the cost of sales structure, including the change in cost as a result of change in expected revenue. It was assumed that in the long term, cost of sales will increase according to the CGU's long term growth rate.

Impairment Examination

Gross Profit

The following table presents the CGU's estimated gross profit for the forecast years and the actual results for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
Gross profit	308,259	331,504	354,299	376,345	397,333	416,959	429,790
Gross margin	*43.8%*	*44.4%*	*45.0%*	*45.5%*	*46.0%*	*46.4%*	*46.7%*

Source: BDO analysis and Management's projections.

As a result of the assumptions described above, the gross margin in the forecast period will stand at approximately 44% in 2018 and increase to approximately 46.7% in the terminal year.

Sales and Marketing

The following table presents the CGU's estimated S&M expenses for the forecast years and the actual results for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
S&M	103,411	108,685	113,766	118,601	123,138	127,324	130,030
% of revenue	*14.7%*	*14.6%*	*14.4%*	*14.3%*	*14.3%*	*14.2%*	*14.1%*

Source: BDO analysis and Management's projections.

The CGU's S&M expenses consisting mainly of employee wages, rent expenses, advertising, commission's fee, transportation, vehicle expenses and other S&M expenses.

In 2017 Pro-forma, S&M expenses of the CGU totaled approximately Euro 103,411 thousands, representing about 14.7% of total revenues.

In order to examine the reasonability of management's forecast for S&M expenses during the forecast years, we have analyzed the fixed and variable elements of the S&M cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018 the S&M expenses will be approximately Euro 108,685 thousand and the S&M rate from CGU's revenues will be approximately 14.6%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 14% in the terminal year, since this expenses include a fixed component.

Impairment Examination

General and Administrative

The following table presents the CGU's estimated G&A expenses for the forecast years and the actual results for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
G&A	46,668	48,068	49,390	50,625	51,764	52,799	53,459
% of revenue	*6.6%*	*6.4%*	*6.3%*	*6.1%*	*6.0%*	*5.9%*	*5.8%*

Source: BDO analysis and Management's projections.

The CGU's G&A expenses consist: employee wages, office expenses, legal expenses, audit expenses, vehicles expenses and other expenses.

In 2017 Pro-forma, G&A expenses of the CGU totaled approximately Euro 46,668 thousands, representing about 6.6% of total revenues.

In order to examine the reasonability of management's forecast for G&A expenses during the forecast years, we have analyzed the fixed and variable elements of the G&A cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that G&A expenses will be approximately Euro 48,068 thousand and the S&M rate from CGU's revenues will be approximately 6.4%. In the rest of the forecast years, it was assumed that the S&M rate will decrease gradually to approximately 6% in the terminal year.

Research and Development

The following table presents the CGU's estimated R&D expenses for the forecast years and the actual results for 2017 (thousands Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
R&D	29,522	30,762	31,946	33,065	34,106	35,061	35,675
% of revenue	*4.2%*	*4.1%*	*4.1%*	*4.0%*	*3.9%*	*3.9%*	*3.9%*

Source: BDO analysis and Management's projections.

The CGU's R&D expenses consist: salaries, lab and materials and other expenses.

In 2017 Pro-forma, R&D expenses of the CGU totaled approximately Euro 29,522 thousands, representing about 4.2% of total revenues.

In order to examine the reasonability of management's forecast for R&D expenses during the forecast years, we have analyzed the fixed and variable elements of the R&D cost structure, including the change in cost as a result of change in expected revenue. According to management budget for 2018, it was assumed that R&D expenses will be approximately Euro 30,762 thousand and the R&D rate from CGU's revenues will be approximately 4.1%. In the rest of the forecast years, it was assumed that the R&D rate will decrease gradually to approximately 3.9% in the terminal year.

Impairment Examination

Operating Profit

The following table presents the CGU's estimated operating profit for the forecast years and the actual results for 2017 (thousand Euro):

Euro Thousand	Proforma 2017	2018	2019	2020	2021	2022	Terminal
Operating profit-neutralizing intangible asset amorization	142,565	157,896	173,104	187,962	202,233	215,682	224,534
Operating margin	*20.2%*	*21.2%*	*22.0%*	*22.7%*	*23.4%*	*24.0%*	*24.4%*

Source: BDO analysis and Management's projections.

As a result of the analysis described above, the CGUs' operating profit for the forecast years will range from 21.2% in 2018, to 24.4% in the terminal year.

Capital Expenditure and Deprecation Forecast

The following table represents the forecast for the CGU's Depreciation and Capital Expenditure (thousand Euro):

Euro Thousand	2018	2019	2020	2021	2022	Terminal
Depreciation	9,570	9,570	9,570	9,570	9,570	9,570
% of revenue	*1.3%*	*1.2%*	*1.2%*	*1.1%*	*1.1%*	*1.0%*
Capital expenditure	(9,570)	(9,570)	(9,570)	(9,570)	(9,570)	(9,570)
% of revenue	*1.3%*	*1.2%*	*1.2%*	*1.1%*	*1.1%*	*1.0%*

The CapEx forecast was received from the Company, and remain at a fixed level of approximately Euro 9,570 thousand throughout the forecast years and the terminal year. According to Management, the representing depreciation expenses are the actual depreciation expenses in 2017 of approximately Euro 9,570 thousand. Furthermore, the Company has amortization expenses of intangible assets that are not recognized for tax purposes and are therefore not included in depreciation forecasts.

Working Capital

The annual investment in working capital was calculated based on the credit and inventory policy of the CGU, as it appears from credit terms based on the average of the actual CGU results for 2016-2017:

- Trade receivables days - 66 days;
- Inventory days - 125 days;
- Other receivables days – 16 days;
- Trade payables days - 41 days;
- Other payables days – 33 days.

Income Tax

The general requirements of IAS 36 require that impairment tests are carried out exclusive of tax effects. Consequently, the discount rate used to estimate the present value of the cash flows should be calculated as a pre-tax discount rate. In order to estimate the pre-tax discount rate, present value was first calculated based on weighted average cost of capital. Then the suitable pre-tax discount rate was calculated according to the present value (see following pages).

Impairment Examination

Discount rate (WACC)

Based on international accounting standard 36 (IAS 36), when measuring the recoverable amount of the CGU, there is no including of tax payments. As a result, the discount rate used to evaluate the discounted cash flows must be calculated as discount rate prior tax.

The general formula for calculating the WACC is:

$$WACC = Kd\ (D\%) + Ke\ (E\%)$$

Where:

WACC= Weighted average rate of return on invested capital;

Kd= After-tax rate of return on debt capital;

D%= Debt capital as a percentage of the sum of the debt, preferred and common equity capital ("Total Invested Capital");

Ke= Rate of return on common equity capital; and

E%= Common equity capital as a percentage of the total invested capital.

SCP = Size Premium

The equity return rate was determined in accordance with CAPM (Capital Asset Pricing Model). According to this model, the equity return rate is derived from risk free interest rate for the valuation date with an addition of market risk premium times the company's risk relative to the standard deviation of the market portfolio (β).

Where: $Ke = Rf + \beta(Rm - Rf) + SCP$

Rf - Risk free rate of return; the interest taken is index-linked bond yield for the period of 15 years (source: Bloomberg), weighted by revenue geographic distribution (Israel, UK, Russia and Germany mainly);

β - Beta or systematic risk for this type of capital investment. The beta used in the study is based on the betas of Frutarom and other publicly traded comparable. The comparable taken to calculate the beta were: Frutarom, Symrise, Givaudan, IFF, Takasago, and Sensient Tech. In addition, we adjusted the leveraged beta of the comparable companies in order to arrive at an unleveraged beta that could be then applied to the CGU's specific leverage structure. In accordance with the above, the unlevered beta is 0.88, which is a five year weekly beta.

Rm-Rf - The market premium was established by taking the weighted average of the risk premiums of each country that the Company operates in (Israel, UK, Russia and Germany mainly), which is estimated to be 5.95% (Source: Damodaran).

SCP - Small cap premium. This premium reflects the extra risk investing in a small company. This premium stems from the fact that small companies have a higher risk than larger established publicly traded companies. Therefore, investors expect higher returns in the small companies. The premium taken in this case is 1.51% (Source: Duff & Phelps 2017)

Impairment Examination

Discount rate (WACC) (continued)

Kd – The Company's average price of external debt is 1.5% according to financial statements. A premium of 0.75% was added to that price for it is a CGU and not the Company as a whole.

T – The CGU's average tax rate, received from the Company.

D/(D+E) and E/(D+E) – The weight of debt and capital, taken into consideration when calculating the WACC, are the distinct average of the normative debt and capital weights in comparison companies.

WACC

We based on WACC model and based on the following parameters:

Parameter	Symbole	Value	Source
Unit's Debt	D/(D+E)	14%	Based on comparable companies capital structure
Unit's Equity	E/(D+E)	86%	Based on comparable companies capital structure
EV	**V**	**100%**	**–**
Cost Of Debt	Kd	2.25%	The Company's average cost of debt, according to Company's data
Tax Rate	T	18.8%	The average effective long-term tax rate in countries of operation
Beta	β	*0.88*	Levered beta - according to comparable companies
Risk Free Rate	Rf	0.91%	Weighted average 15 year yield indexed government bond in countries of operation (Source: Bloomberg system)
Market Premium	Rm-Rf	5.95%	Weighted average Market Premium - Damodaran
SCP	SCP	1.51%	Duff and Phelps 2017
Cost Of Capital	Ke	7.67%	Rf +β*(Rm-Rf)+SCP+SRP
Weighted average cost of capital	**WACC**	**6.75%**	D*(1-T)*Kd+E*Ke

Source: BDO analysis.

Since the base of the discount rate as described above, is after tax, it must be adjusted to reflect a pre-tax discount rate. In order to do so the recoverable amount was calculated with a discount rate of 6.75%. Then, we calculated the pre-tax discount rate needed to reach said recoverable amount.

The pre-tax discount rate amounted to approximately 7.8%.

Terminal growth rate

The terminal growth rate of 2.5% was determined based upon the real economy and population expected growth rate in the long term.

Impairment Examination

The CGU's Cash Flow

The following table shows the CGU's cash flow forecast for years 2018-2022 (thousands Euro):

Euro Thousand	2018	2019	2020	2021	2022	Terminal
Revenue	746,280	787,325	826,692	863,893	898,448	920,910
Growth rate	*6.0%*	*5.5%*	*5.0%*	*4.5%*	*4.0%*	*2.5%*
Total cost of sales	(414,776)	(433,026)	(450,347)	(466,560)	(481,489)	(491,119)
% of revenue	*55.6%*	*55.0%*	*54.5%*	*54.0%*	*53.6%*	*53.3%*
Gross profit	**331,504**	**354,299**	**376,345**	**397,333**	**416,959**	**429,790**
Gross margin	*44.4%*	*45.0%*	*45.5%*	*46.0%*	*46.4%*	*46.7%*
S&M	(108,685)	(113,766)	(118,601)	(123,138)	(127,324)	(130,030)
% of revenue	*14.6%*	*14.4%*	*14.3%*	*14.3%*	*14.2%*	*14.1%*
R&D	(30,762)	(31,946)	(33,065)	(34,106)	(35,061)	(35,675)
% of revenue	*4.1%*	*4.1%*	*4.0%*	*3.9%*	*3.9%*	*3.9%*
G&A	(48,068)	(49,390)	(50,625)	(51,764)	(52,799)	(53,459)
% of revenue	*6.4%*	*6.3%*	*6.1%*	*6.0%*	*5.9%*	*5.8%*
Excluding Intangibles amortization	13,907	13,907	13,907	13,907	13,907	13,907
Operating Profit (before tax)	**157,896**	**173,104**	**187,962**	**202,233**	**215,682**	**224,534**
% of revenue	*21.2%*	*22.0%*	*22.7%*	*23.4%*	*24.0%*	*24.4%*
Adjustments						
Depreciation	9,570	9,570	9,570	9,570	9,570	9,570
Capital expenditure	(9,570)	(9,570)	(9,570)	(9,570)	(9,570)	(9,570)
Change in working capital	(21,602)	(11,115)	(10,642)	(10,042)	(9,315)	(6,047)
Total Adjustments	**(21,602)**	**(11,115)**	**(10,642)**	**(10,042)**	**(9,315)**	**(6,047)**
Net Cash Flow	**136,294**	**161,989**	**177,319**	**192,192**	**206,367**	**218,487**
Period	**0.5**	**1.5**	**2.5**	**3.5**	**4.5**	**4.5**
Discounted Cash Flow	**131,287**	**144,784**	**147,055**	**147,893**	**147,347**	**2,958,375**
Value in Use	**3,676,741**					

Source: BDO analysis and financial statements.

Impairment Examination

Value of CGU

In conclusion, the recoverable amount (according to value in use methodology) of the Company's CGU, according to the discounted cash flow model above, is approximately Euro 3,676,741 thousand, as follow:

Value in Use Calculation	Euro Thousand
Present value 2018-2022	718,366
Residual terminal value	2,958,375
Total value in use of the CGU	**3,676,741**

The following table shows the predicted results following a change in the discount rate and terminal growth rates (thousand Euro):

		Discount rate (before tax)				
		8.8%	8.3%	7.8%	7.3%	6.8%
Long Term Growth rate	1.5%	2,759,267	2,965,688	3,205,152	3,486,246	3,820,820
	2.0%	2,911,157	3,145,479	3,420,525	3,747,881	4,143,990
	2.5%	3,087,259	3,356,413	**3,676,741**	4,064,328	4,542,788
	3.0%	3,293,864	3,607,348	3,986,636	4,454,830	5,047,279
	3.5%	3,539,650	3,910,854	4,369,050	4,948,824	5,705,897

Source: BDO analysis.

Section 5

Recoverable Amount vs. Carrying Amount Comparison

Recoverable Amount vs Carrying Amount Comparison

Carrying Amount

After determining the recoverable amount of the CGU, which is the value in use (as described above), a comparison was made with the CGU's carrying amount. If and only if, it is found that the recoverable amount of the asset is less than the book value, then the entity will be required to estimate impairment of the asset being measured and reduce it accordingly.

For finding the carrying amount of the CGU, we examined the balance sheet and its allocated excess of fair value over book value's balances, of the CGU, as of December 31, 2017.

The following table presents the CGU's carrying amount (thousand Euro):

Euro Thousand	31.12.17
Inventory	132,908
Customers	123,535
Accounts receivable	27,346
Net fixed assets	137,314
Deffered taxes	541
Software	2,118
Total operational assets	**423,763**
Suppliers	44,942
Accrued expenses	50,952
Other long term Liabilities	2,272
Deferred tax	20,448
Total operational liabilities	**118,614**
Net assets	**305,149**
Customer relationships and knowledge, net	102,946
Goodwill	277,066
Sub total	**380,012**
Total carrying amount	**685,161**

Source: Management information

The following table summarizes the results of the impairment examination for the CGU:

Examining the Need of Impairment	Euro Thousand
Recoverable amount	3,676,741
Carrying amount	685,161
Impairment amount	**–**

Source: BDO analysis.

It can be noticed that the recoverable amount of the CGU is higher than its carrying amount, as of the Valuation Date. Therefore, Frutarom's Flavour EMEA goodwill is not deemed to be impaired.

Appendix

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970, for valuations attached to the financial statements

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970

NO.	-	Required disclosure	-	Disclosure
1	-	The identity of the corporation that commissioned the valuation and the identity of the organ in the said corporation, who decided on the engagement with the appraiser.	-	The agreement was signed with Frutarom Industries Ltd. through Mr. Guy Gil, Vice President of Finance at the Company.
2	-	The engagement date between the purchaser of the valuation and the appraiser	-	The agreement was signed on January 15, 2018.
3	-	Conditioning, if any, regarding the fees to which the appraiser is entitled; In addition, the extent of the effect of such conditioning on the results of the valuation;	-	No conditions were set regarding the payment of the fee in connection with the results of this opinion.
4	-	Consent, if any, to indemnify the appraiser for his work; If such consent was reached, the indemnification terms and the identity of the indemnifier shall be specified in the valuation.	-	If, in a final, un-appealable legal proceeding, we are found liable to pay any amount to a third party in connection with the services that are the subject of this Agreement, the Company undertakes to indemnify and reimburse us for all the expenses that we will issue or be required to pay for legal advice and representation, expert opinions, protection against legal proceedings, In respect of any claim, demand or other proceedings in respect of the services under the letter of agreement signed (hereinafter: "Defence Expenses"), in excess of an amount equal to three times BDO working fee, immediately, upon our first demand, unless it is determined that BDO Consulting acted maliciously and / Or negligence.
5	-	If the subject of the valuation is an asset traded on the stock exchange, shall indicate the highest, lowest and average rate of the value of the asset in the six months preceding the valuation date, taking into account any distribution, split or issue of rights in the said period;	-	N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970

No.	-	Required disclosure	-	Disclosure
6	-	If, to the best of the corporation's knowledge, previous transactions were performed, in the matter of the valuation, during the two years preceding the valuation date, the value of these transactions shall be specified;	-	N.R.
7	-	If an evaluation of additional experts was used for the valuation, all the details required in this appendix will also be provided in respect of the assessments of the other experts, with the necessary changes.	-	In our work, we did not rely on material evaluations maid by other experts.
8	-	Material changes in the valuation made following requests for disclosure or clarification by the ISA or an employee that it authorized for this purpose.	-	N.R.
9	-	If the value determined in the valuation is twenty-five percent or more, than the average value on the stock exchange in the six months preceding the effective date or the value derived from previous transactions, the difference between the values and the justification for that shall be explained;	-	N.R.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

No.	Required disclosure	Disclosure
10	If the value determined in the valuation is **forty percent or more**, than the value determined in other valuations published in public according to reporting requirements under the Securities Law, during the two years preceding the valuation, the data from the other valuations shall be presented together with the underlying assumptions;	The difference between the CGU's value between this Study (approximately EUR 3.7 billion as at December 31, 2017) and the previous estimate (approximately EUR 2.7 billion as of December 31, 2016) is mainly for the following reasons: **1.** In years 2016-2017 the Company acquired other companies and activities which increased the value from operations in the amount of the acquired operations, created synergies and improved value by assimilating small activities in Frutarom's low risk. **2.** The capitalization rate (after tax) decreased by 0.5% (from 7.25% to 6.75%).
11	The valuation shall include details of previous valuations of the valuation subject made by that appraiser, including the following details: • If a previous valuation was given in the three years preceding the effective date of the valuation, the appraiser shall specify the valuation date of the previous valuations, the value determined in them and the reasons for which they were given; • the value determined in the previous valuations exceeds **by 20% or more,** the value determined in the valuation, if the profit or loss calculated in accordance with the previous valuations is 10% or more	The difference between the CGU's value between this Study (approximately EUR 3.7 billion as at December 31, 2017) and the previous estimate (approximately EUR 2.7 billion as of December 31, 2016) is mainly for the following reasons: **1.** In years 2016-2017 the Company acquired other companies and activities which increased the value from operations in the amount of the acquired operations, created synergies and improved value by assimilating small activities in Frutarom's low risk. **2.** The capitalization rate (after tax) decreased by 0.5% (from 7.25% to 6.75%).

of the profit or loss calculated according to the valuation, or if the valuation method was different from the valuation method in the previous valuations, the appraiser will provide disclosure that explains the main changes in the significant assumptions and estimates and will indicate facts that led to these changes;

- If there are differences between the financial results that were based on the previous valuations and the actual financial results, these differences shall be noted and explained.

Disclosures required according to Regulation 8B of the Securities Regulations (Periodic and Immediate Reports) 1970 (continued)

Details Regarding the Valuation Specialist

BDO Consulting and Management Ltd. were founded by the partners of BDO Certified Public Accountants .

BDO Consulting and Management is part of the international BDO network, provides a full range of business services required for national and international businesses in any sector. Our company has vast experience in the following fields: business valuations, financial and tax due diligence, goodwill and intangible assets valuations, financial analyses, business plans, project finance PFI/PPP advisory, M&A, investment banking and more.

Moti Dattelkramer, CPA, CPA/MBA, Partner, Head of Corporate Finance of BDO Consulting.

Current role - In his current position Moti manages a team which performs business plans, business valuations, economic consulting, PPA, impairment, employee stock option valuation and budget building for a wide range of public and private companies .

Career and employment – Moti is qualified as a Certified Public Accountant. Moti holds a bachelor degree in Economics and computer science from Bar Ilan University and an M.B.A in finance from Bar Ilan University.

Moti's recent projects include:

- **Elbit Systems**- PPA, valuation studies and Impairment studies;
- **Discount investments**- Cellcom's valuation for conducting an impairment study of an investment;
- **Partner**- Valuation study for the fixed line segment;
- **One1**- Variety of valuations, PPAs and impairment tests for the company and its subsidiaries;
- **Delek Group** – PPA and valuation studies;
- **Given Imaging** - Valuation studies, impairment studies and valuations of financial instruments;
- **Gazit-Globe** - PPA, valuation studies;
- **Arko Holdings/GPM Investments**- valuation studies and Impairment studies for GPM Investment.

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