FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING MARCH 31, 2009[1]

General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were listed on the London Stock Exchange Official List. Frutarom develops, produces and markets flavors and fine ingredients used to produce food, beverages, flavors, fragrances, pharma/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia, and produces, markets and sells over 20,000 products to more than 13,000 customers in over 120 countries and employs approximately 1,450 people. Frutarom operates two divisions: the Flavors Division and the Fine Ingredients Division.

In recent years, Frutarom has implemented a strategy for achieving rapid and profitable growth, through a combination of internal growth in its core activities and strategic acquisitions in its field. These acquisitions strengthen Frutarom's position in the market, support its further strengthening and positioning as a leading global producer of flavors and fine ingredients and add new quality employees. Frutarom has extensive experience in successfully implementing mergers and is working to integrate the acquired activities with its existing operation and to extract the greatest synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling, cost savings and margin improvement. In accordance with this strategy, Frutarom made seven acquisitions of companies and activities in 2007, which were successfully merged and integrated with its global activity. In the first quarter of 2009, two additional acquisitions were implemented, and Frutarom estimates that its solid capital structure and support from financial institutions will enable it to exploit opportunities created and which will be created as a result of the global crisis and to execute strategic acquisitions in addition to the two acquisitions already made in 2009.

In the last few months of 2008, the economic atmosphere in the world changed as the financial crisis spread to the global economy, significantly changing the growth trend characterizing most of the economies in the world in recent years. Frutarom entered this challenging economic period as a leading global company, stronger-than-ever, with an experienced global management, an excellent variety of multinational and regional customers throughout the world, excellent technologies and products and an excellent pipeline of products under development, in collaboration with its many customers worldwide. As a result of the crisis, a change has occurred in the growth trend characterizing the business environment in which Frutarom operates. Frutarom has taken the necessary measures should the crisis continue,

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1 Prepared in accordance with the consolidated financial reports of the Company for March 31, 2009, which were prepared in accordance with IFRS.

including by tightening its monitoring and control of its operational expenses, adjusting and reducing them, a reduction which will have its effect mainly in the next quarters.

In spite of the relative slowdown in the markets in which Frutarom operates, that results from the global economic crisis, Frutarom estimates that it maintained its market share with its customers. Frutarom estimates that with the stabilization of the global markets, the moderation of the fluctuations in currencies, the discontinuation of the inventory reduction trend and the gradual improvement in consumption, mainly in countries significantly affected by the devaluation in their currency rate, the Company will return to growth rates similar to those characterizing its activities in the past.

Following 2008 in which Frutarom focused on merging, consolidating and utilizing the significant synergy from the seven acquisitions made in 2007, Frutarom resumed the implementation of its acquisition strategy and has so far implemented two strategic acquisitions in 2009:

Acquisition of Oxford UK:

On January 5, 2009, Frutarom signed, through its wholly owned subsidiary, Frutarom (UK) Limited, an agreement to acquire the assets and business of the UK Company Oxford Chemicals Limited (hereinafter: **"Oxford"**) in consideration for approximately US$ 12 M (£ 8.25 M) which was paid on January 30, 2009 upon completion of the acquisition. In 2008, the sales turnover of Oxford's activity totaled approximately US$ 14.5[2] M (approximately £ 10.0 M) and the operating profit was approximately US$ 1.5 M (approximately £ 1.0 M). The net value of the acquired assets (fixed assets, inventory and receivables minus payables) based on Oxford's financials for December 31, 2007, was approximately US$ 6.5 M. The acquisition was financed through bank loans.

Established in 1973 and employing some 70 employees, Oxford develops, produces and markets specialty ingredients for the flavor and fragrance industry. Oxford's activity is highly synergetic with Frutarom's global Fine Ingredients Division, whose development laboratories and production facilities are located in the U.S., UK, Switzerland and Israel. The acquisition enhanced the product offering of Frutarom's Fine Ingredients Division and its customer base around the world. Frutarom operates to utilize the many cross-selling opportunities which arise from the acquisition by selling its products to Oxford's customers around the world as well as selling Oxford's products to Frutarom's existing customers, especially in markets where Oxford has not had any significant activities prior to the acquisition.

Frutarom and Oxford have production and development plants located in close proximity in Northern England. Since the acquisition, Frutarom has taken steps to achieve the greatest commercial and operational efficiency from the integration with Oxford's activities in England, while achieving operational savings and optimizing the synergy with other Frutarom plants around the world, including Israel. Frutarom is heading towards completing the plan to merge and integrate its research and development, operations, marketing, purchasing and sales infrastructure with that of Oxford.

[2] As at the date of completing the acquisition.

Acquisition of Flavor Specialties Inc. in the US:

On March 4, 2009, Frutarom acquired, through its wholly owned subsidiary, Frutarom USA, Inc., the assets and business of the US Company Flavors Specialties Inc. (hereinafter: **"FSI"**) in consideration for approximately US$ 17.2 M. The acquisition agreement determines a future earn-out mechanism, based on the average EBITDA to be reached by FSI's activities during the twenty-four-months period ending on December 31, 2010 (hereinafter: **"the Average EBITDA"**), multiplied by 5.5, so that the total consideration may increase up to $ 27 M or decrease to $ 13.3 M. The upwards earn-out payment will be paid for Average EBITDA in excess of $ 3.1 M and adjusted downwards in the case that the Average EBITDA will be below $ 2.7 M. The acquisition was financed through bank loans.

In 2008, FSI's sales totaled approximately $ 11.5 M and the adjusted[3] EBITDA totaled approximately $ 3.6 M[4].

FSI is a flavor and botanical extracts company that develops, produces and markets flavors and botanical extracts mainly for the food and beverage industry. FSI was established in 1979 by 3 experienced and reputable founders. FSI has a production site in Corona, California, on the West Coast of the US and it employs some 38 people. FSI's broad customer base includes leading food and beverage manufacturers in its countries of operation. The acquisition of FSI's activity significantly strengthens Frutarom's activity in the North American market with respect to the flavor field. Upon completing the acquisition, Frutarom commenced implementing its plan for merging and consolidating the acquired activity with its existing activities in the US.

Frutarom will continue to act determinedly to implement its rapid growth strategy, combining organic growth with strategic acquisitions. In addition, Frutarom considers the challenging and complex period which global economics undergoes as a business challenge, on one hand, and as opportunity for further strengthening, on the other.

Summary results:

In the first quarter of 2009, Frutarom's sales totaled US$ 98.4 M, a decrease of approximately 5.5% in local currency, compared to the first quarter of 2008 in which Frutarom achieved extremely good results. The decline in sales in the first quarter results mainly from the effect of the global economic crisis and from the effect of a material revaluation in the US dollar rate compared to the European currencies and the NIS in which most of the Company's sales are made. The effects of the crisis, which have materially affected the North American economy already in the fourth quarter last year, were noticed more intensely in Europe in the first quarter this year. In view of the situation, most of the customers intensively acted to reduce their inventory level. In addition, a significant devaluation in local currency in countries such as

3 After adjustment for nonrecurring expenses and various adjustments which arise from FSI being a private company.

4 FSI's financial data are based on FSI's managerial and tax reports for 2008, which were not audited or reviewed by an auditor and the actual results may, therefore, differ from the above financial data.

Russia, Ukraine, Turkey and Korea, where sales are important for Frutarom, led to a decline in the purchasing power of the consumers and the food producers in those countries (a trend which seems to be changing in the past few weeks). In the first quarter, the strengthening of the US$ compared to the European currencies and the NIS (in which most of Frutarom's sales are made) at sharp rates of from 7% to 28% reduced the sales in US$ terms by approximately 13.8%. In dollar terms, the sales in the first quarter decreased by 19.3% compared to the same quarter last year. Both acquisitions implemented during the first quarter this year contributed an amount of approximately US$ 3.5 M to the sales in the quarter. Gross profit for the quarter totaled US$ 35.2 M, a decline of 21.3% compared to the same quarter last year. Gross margin reached 35.8% compared to 36.7% in the same period last year. Operating profit totaled US$ 10.2 M compared to US$ 15.3 M in the same period last year, a decline of 33.3%. Operating margin reached 10.4% compared to 12.6% in the first quarter of 2008. The aforementioned margin rate was achieved in spite of the decline in sales due to the measures regularly taken by Frutarom, on an ongoing basis and mainly lately, for further reduction of expenses and for achieving continued improvement in efficiencies while continuing with the strengthening of its management, R&D and sales infrastructures. The EBITDA achieved by Frutarom in the first quarter of 2009 totaled US$ 14.5 M compared to an EBITDA of US$ 20.2 M in the first quarter of 2008. The EBITDA margin reached 14.7% compared to 16.6% in the same period last year. Profit before tax totaled US$ 6.9 M compared to US$ 12.5 M in the same period last year and net income in the first quarter of 2009 totaled US$ 5.6 M compared to US$ 9.7 M in the same period last year. Net margin reached 5.7% compared to 8.0%.

In the first quarter, earnings per share totaled US$ 0.10 compared to US$ 0.17 per share in the same quarter last year.

During the first quarter of 2009, the Company generated a positive cash flow of US$ 10.7 M from current activities compared to a negative cash flow of approximately US$ 6.4 M achieved during the first quarter of 2008.

Summary of the Company's Activity

Frutarom operates in the global flavors and fine ingredients markets. In the flavors market, Frutarom is active mainly in the segments of flavor compounds and food systems. In the fine ingredients market, Frutarom operates mainly in the segments of natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, unique citrus products and aroma chemicals.

The research company Leffingwell & Associates estimates the global market for flavors, fragrances and fine ingredients to be approximately US$ 20.5 billion in 2008. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 16 billion. Based on Leffingwell & Associates' data, Frutarom is ranked globally as one of the top ten companies in the field of flavors and fragrances.

In 2007, SRI Consultants estimated that global sales in industrialized nations (the USA, Western Europe and Japan) in the flavors and fine ingredients markets in which the Company operates will grow at an annual rate of between 2% and 4% from 2006 to 2011. In accordance with these estimates, the growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America was expected to be significantly higher, reaching average annual rates of between 6% and 8% from 2006 to 2011, due to the expected increases in GNP and changes in consumer preferences in these markets. the Company predicts, in view of the global economic crisis, a significant slowdown (which is difficult to quantify) in growth rates for 2009. The consequences of the global economic situation may affect the levels of demand for Frutarom's products. Instability and weakness of emerging markets, sharp fluctuations in currency rates against the US dollar and the stability of major banks and governments, may also affect the Company's results. As of the date of this report, the Company does not have any future information with respect to these issues and cannot estimate their effect on its future activities. Nevertheless, an analysis of previous economic crises shows that, compared to other industries, in most cases the food industry and industries related thereto have usually shown lower sensitivity to the effects of instability and slowdown in the macro-economic environment.

The Company's activity is divided into two main divisions, each of which is a major field of activity:

- **The Flavors Division** develops, produces, markets and sells flavor compounds and food systems used mainly to manufacture food, beverages and other consumer products. Frutarom develops thousands of different flavors, most of which are tailor-made for specific customers, and continuously develops new flavors in order to meet changing consumer preferences and future customer needs. The Flavors Division (the more profitable of Frutarom's Divisions) has experienced accelerated growth in recent years as a result of organic growth which is mainly based on the Division's focus on both developed and emerging markets, on global multinationals as well as mid-sized, local customers and the result of the successful implementation of strategic acquisitions.

- **The Fine Ingredients Division** develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, essential oils, unique citrus products, aroma chemicals, and natural gums and stabilizers. The Division's products are sold principally to the food, beverage, flavor, fragrance, pharma/nutraceutical and personal care industries. The Fine Ingredients Division has experienced growth in recent years as a result of internal growth which is mainly the result of the development of new, innovative value-added products with higher than average margin and its focus on multinational, mid-sized and local customers worldwide. Most of the Division's products are natural products, which enjoy a higher demand than non-natural products. Frutarom works to expand the natural product portfolio it offers its customers, with particular emphasis on the functional food area. In addition, several strategic acquisitions implemented in recent years have also contributed to the growth in sales of the Fine Ingredients Division.

Frutarom focuses on large multinational customers as well as mid-size and local customers, offering each one the same superior service and tailor-made products. Frutarom concentrates on developed markets such as Western Europe and the United States, as well as fast growing emerging markets such as the CIS (former Soviet Union), Eastern Europe, Asia, and South and Central America. Frutarom offers its customers a wide product portfolio comprised mostly of natural and innovative, value-added products, such as natural functional food ingredients, and continues to invest substantial resources in the Company's research and development activities. As part of these research and development activities and to expand its offering of natural, innovative and unique products, Frutarom is cooperating with universities, research institutes and start-ups in Israel and elsewhere in the world.

Frutarom estimates, that in spite of the economical global crisis and the instabilities experienced by the global markets in recent months, the trends characterizing the markets of Frutarom's operation and the strategy it adopted will not change and will continue to contribute to a rapid and profitable growth in the medium-and long-term. Frutarom will continue to invest considerable efforts and resources in successfully implementing its rapid growth strategy in order to strengthen its positioning 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."

Results of Activity in the First Quarter of 2009

Following is a summary of the profit and loss report for the first quarter of 2009 (US$ Ms):

	2009	2008	Change (%)
Sales	98.4	122.0	-19.3%
Gross profit	35.2	44.8	-21.3%
R&D, Selling, Administration, General and Other income	25.0	29.4	-15.1%
Operating profit	10.2	15.3	-33.3%
EBITDA	14.5	20.2	-28.4%
Profit before tax	6.9	12.5	-44.7%
Net profit	5.6	9.7	-42.3%

Sales

In the first quarter of 2009, Frutarom's sales totaled US$ 98.4 M, a decrease of approximately 5.5% in local currency compared to the first quarter of 2008 in which Frutarom achieved extremely good results. In the first quarter, the strengthening of the US$ compared to the European currencies and the NIS (in which most of Frutarom's sales are made) reduced the sales in US$ terms by approximately 13.8%. In dollar terms, the sales in the first quarter decreased by 19.3% compared to the same quarter last year. In spite of the decrease in sales, Frutarom estimates that it maintained its market share with its customers and that with the stabilization of the global markets, the completion of the inventory reduction process of its customers, the moderation of the fluctuations in currencies and the gradual improvement in consumption, mainly in countries significantly affected by the devaluation in their currency rate, the Company will return to growth rates similar to those characterizing its activities in the past.

The following factors mainly contributed to the decline in sales:

a. The global crisis and the world's economic slowdown materially changed the growth trend characterizing in recent years most of the world's economies and the business environment of Frutarom's operations. The aforementioned economic slowdown significantly affected the North American economy as from last year's fourth quarter and was noticed more intensely in Europe during the first quarter this year.

b. A significant inventory reduction trend among Frutarom's customers in the world.

c. A significant devaluation in local currency in countries whose sales are important for Frutarom, such as Russia, Ukraine, Turkey and Korea, led to a decline in the purchasing power of the consumers and food manufacturers in those countries, a trend which seems to be changing during the past few weeks.

d. The weakening of the West European currencies (Euro, CHF and GBP) and the NIS (in which most of Frutarom's sales are being made) against the US$ at sharp rates of 7% to 28% contributed to a decrease of approximately 13.8% of Frutarom's sales in US$ terms.

On the other hand, the merger of Oxford which was acquired and consolidated as from February 1, 2009 and of FSI which was acquired and consolidated as from March 4, 2009 contributed US$ 3.5 M to the quarter's sales.

Sales Breakdown by Fields of Activity in 2000-2009 (US$ M and %):

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flavors Division	**Sales**	6.8	9.0	10.8	12.7	20.3	40.3	44.7	49.9	84.4	67.4
	%	31.1%	37.3%	39.9%	45.0%	46.2%	62.3%	63.0%	62.0%	69.2%	68.5%
Fine Ingredients Division	**Sales**	13.8	13.9	14.9	14.2	22.5	23.4	25.5	29.1	35.3	29.6
	%	63.0%	57.7%	55.0%	50.4%	51.3%	36.2%	35.9%	36.2%	28.9%	30.1%
Trade & Marketing	**Sales**	1.7	1.5	1.6	1.8	1.7	1.8	1.4	2.6	3.6	2.2
	%	7.8%	6.2%	5.9%	6.4%	3.9%	2.8%	2.0%	3.2%	3.0%	2.2%
Inter Division	**Sales**	-0.4	-0.3	-0.2	-0.5	-0.6	-0.8	-0.6	-1.1	-1.3	-0.7
	%	-1.8%	-1.2%	-0.7%	-1.8%	-1.4%	-1.2%	-0.9%	-1.4%	-1.1%	-0.8%
Total Sales		21.9	24.1	27.1	28.2	43.9	64.7	71.0	80.5	122.0	98.4

Gross Profit

In the First Quarter of 2009, gross profit reached US$ 35.2 M compared to US$ 44.8 M in the same quarter of 2008. The decline in gross profit arises from the decrease in sales. Within the aforementioned period, gross margin reached 35.8% compared to 36.7% in the same period of 2008. The measures taken by Frutarom on an ongoing basis and mainly recently for increasing its efficiency, also by reducing its expense levels and tightening the monitoring and control over them, led to a relatively moderate decline in gross and operating margins. The reduction of expenses will have its effect mainly in the next quarters.

Selling and Marketing, Research and Development, Administration, General and Other Expenses

Selling, marketing, research and development, administration, general and other expenses totaled US$ 25.0 M (25.4% of sales) in the First Quarter of 2009 compared to US$ 29.4 M (24.1% of sales) in 2008.

Operating Profit

In the first quarter of 2009, operating profit decreased by 33.3% and reached US$ 10.2 M compared to an operating profit of US$ 15.3 M in the same period last year. Operating margin reached 10.4% compared to 12.6% in the same period of 2008. The decline in the operating profit arises from the decrease in sales. In spite of the decline in sales, Frutarom succeeded to maintain a moderate decrease in the operating margin due to the measures it takes to achieve maximum efficiencies while improving its competitiveness.

Finance Expenses and Income

In the first quarter of 2009, finance expenses totaled US$ 3.3 M (3.4% of sales) of which US$ 2.0 M for currency translation differences (compared to US$ 1.1 M in the first quarter of 2008) which arise from the strengthening of the US$, mainly in emerging markets and in Israel, and from interest payments for loans taken to finance the acquisitions made by the Company during 2007 and the beginning of 2009.

Profit before Tax

Profit before tax in the first quarter of 2009 totaled US$ 6.9 M (7.0% of sales) compared to US$ 12.5 M (10.3% of sales) in the same period last year.

Taxes on Income

In the first quarter of 2009, taxes on income totaled US$ 1.3 M (19.0% of profit before tax) compared to US$ 2.8 M in the same period last year (22.5% of profit before tax).

Net Profit

In the first quarter of 2009, net profit reached US$ 5.6 M compared to US$ 9.7 M in the first quarter of 2008. Net margin reached 5.7% compared to 8.0% in the same period last year.

Financial Status

Total assets on March 31, 2009 amounted to US$ 512.4 M compared to US$ 587.4 M on March 31, 2008 and US$ 510.8 M on December 31, 2008.

The Company's current assets totaled US$ 204.6 M compared to US$ 236.5 M on March 31, 2008 and US$ 214.5 M on December 31, 2008.

As at March 31, 2009, fixed assets minus accumulated depreciation and net other assets totaled US$ 303.1 M compared to US$ 345.3 M at the end of the first quarter last year and US$ 291.8 M on December 31, 2008.

The decrease in the level of assets arises mainly from the weakening of the European currencies compared to the US dollar.

Liquidity

During the first quarter of 2009, the Company generated a positive cash flow of US$ 10.7 M from current activities compared to a negative cash flow of US$ 6.4 M achieved during the first quarter of 2008.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity as at March 31, 2009 totaled US$ 273.1 M (53.3% of the balance sheet) compared to US$ 271.5 M (46.2% of the balance sheet) as at March 31, 2008. The increase in shareholders' equity resulted from the periodic profit which was offset by the changes of the US dollar exchange rate against other currencies used as the main operational currencies of Frutarom's autonomic subsidiaries. This change has affected the equity fund from translation differences and decreased the shareholders' equity balance. Shareholders' equity does not have any influence on profit and loss or on cash flow.

Long Term Loans Including Current Maturities of Long Term Loans (Average)

The long-term credit from banks provided to the Company totaled US$ 135.2 M (US$ 106.9 M in the same period last year). The long-term credit was used to finance the acquisitions made by the Company in 2007 and in the beginning of 2009.

Short Term Loans Excluding Current Maturities of Long Term Loans (Average)

Short-term credit from banks provided to the Company totaled US$ 7.1 M (US$ 22.4 M in the first quarter of 2008).

As detailed in this report with respect to the Company's financial status, its liquidity, the positive cash flow it generates from its current activities and its sources of finance, and subject to the fact that there will not be a material adverse change in sales and/or in its profitability, the Company estimates that the cash flow from current activities generated thereby will enable the full repayment of its expected and existing liabilities without the need for external sources of finance.

Credit from Suppliers and to Customers (Average)

During the first quarter of 2009, the averaged credit from suppliers and other creditors was US$ 56.5 M (compared with US$ 129.8 M in the same period last year, in which it included liabilities to other creditors for the Success Fee Payment to Nesse's shareholders in accordance with the 2006 purchase agreement and the consideration payment for exercising the option to purchase the remaining 30% of Nesse, at a total amount of € 18.9 M (US$ 30.1 M) and the earn-out payment to the former shareholders of the Gewurzmuller Group in accordance with a mechanism determined in the 2007 purchase agreement at an amount of € 13.9 M (US$ 21.7 M)). During the first quarter of 2009, the Company granted its customers with an averaged credit of US$ 68.4 M (compared with US$ 87.1 M in the same period last year).

Disclosures about Market Risk

General

The Company's activity is characterized by significant dispersal. Through its two Divisions, the Company produces thousands of products intended for thousands of customers throughout the world, using thousands of raw materials purchased from a wide range of suppliers worldwide. The Company is not significantly dependent on any one of its customers, products or suppliers.

Responsibility for the Company's Market Risk Management

The person responsible in the Company for the management of market risks in the field of exchange rates and interest is Alon Granot, the Company's Chief Financial Officer. The people responsible for the management of market risks in the field of changes in the prices of raw materials are the activity managers. The Company’s management and Board of Directors are updated on material changes in the Company’s exposure to various risks, and conduct discussions as needed.

Description of Market Risk

A. Raw Material Price Risks

The Company is dependent on the supply of raw materials from third parties. Although the Company purchases raw materials from a very wide range of suppliers, with no single supplier representing more than 5% of its total raw material purchases, and although most raw materials purchased by the Company have more than one supplier and are for the most part 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 natural products field are subject to fluctuations as a result of international supply and demand. Certain natural raw materials used by the Company are crop related, and their price, quality and availability could be adversely affected by unfavorable weather conditions, among others. The Company does not normally make forward transactions and is exposed to price fluctuations in the raw materials it uses in accordance with global price trends. In the last few years increases occurred in the prices of many raw materials, mainly natural, that are used by the Company in its production. In the last six months, a stabilization in the aforementioned trend has taken shape and a beginning of a decline in prices of raw materials used by Frutarom in its production is evident. The Company's Purchasing Department maintains an ongoing follow-up on raw materials prices.

B. Currency Risks

The Company's sales worldwide are conducted mainly in Euro, US dollars, Swiss francs, Pounds sterling, and Israeli Shekels. The fact that raw material purchases for Frutarom's production are also conducted in various currencies reduces currency exposure. Most of the non dollar monetary balances derive from the local activity of the subsidiaries in Europe and in Israel. The functional currency of these companies is the local currency, and therefore the currency translations of these balances do not influence the Company's finance expenses and are directly attributed to a currency translation capital fund. Currency exposure is reviewed as needed, on at least a quarterly basis. The Company does not generally take external hedging actions or use other financial instruments for protection against currency fluctuations.

C. Interest Risks

To the extent they are required, the Company's sources of bank finance, short and long term, are linked to the Euro, US dollar, the Swiss franc, the Pound Sterling, the Israeli Shekel (according to the activity in which the subsidiary is active) and bear variable Libor interest. The Company's policy is to not take protective steps against possible interest rises. As of the date of the balance sheet the Company did not hold any financial instruments, the Company had long term loans in an overall amount of US$ 92.6 M and the scope of its short term debt was US$ 53.7 M. The Company has cash flow reserves of approximately US$ 27.6 M as at March 31, 2009.

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change Exchange rate	+10% 4.607	+5% 4.397	- 4.188	-5% 3.979	-10% 3.769
			US$ 000		
Cash and Equivalents	(101)	(51)	1,010	51	101
Customers	(1,097)	(549)	10,973	549	1,097
Other Debtors	(410)	(205)	4,101	205	410
	(1,608)	**(804)**	**16,084**	**804**	**1,608**
Bank Loans	6	3	56	(3)	(6)
Suppliers and Service providers	483	241	4,825	(241)	(483)
Other creditors	870	435	8,704	(435)	(870)
Total exposure, net	1,359	679	13,585	(679)	(1,359)
Cash and Equivalents	**(250)**	**(125)**	**2,499**	**125**	**250**

Sensitivity to Changes in the US Dollar-Pound Sterling Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change Exchange rate	+10% 0.769	+5% 0.734	- 0.699	-5% 0.664	-10% 0.629
			US$ 000		
Cash and Equivalents	(362)	(181)	3,623	181	362
Customers	(549)	(274)	5,485	274	549
Other Debtors	(29)	(14)	286	14	29
	(939)	**(470)**	**9,394**	**470**	**939**
Bank Loans	2,435	1,217	24,347	(1,217)	(2,435)
Suppliers and Service providers	363	182	3,631	(182)	(363)
Other creditors	549	275	5,492	(275)	(549)
Total exposure, net	**3,347**	**1,673**	**33,470**	**(1,673)**	**(3,347)**
סך חשיפה, נטו	**2,408**	**1,204**	**(24,076)**	**(1,204)**	**(2,408)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change Exchange rate	+10% 0.827	+5% 0.789	- 0.751	-5% 0.714	-10% 0.676
			US$ 000		
Cash and Equivalents	(816)	(408)	8,164	408	816
Short term investments	(4)	(2)	44	2	4
Customers	(2,395)	(1,197)	23,948	1,197	2,395
Other Debtors	(262)	(131)	2,616	131	262
	(3,477)	**(1,739)**	**34,772**	**1,739**	**3,477**
Credit from banks	9,208	4,604	92,084	(4,604)	(9,208)
Suppliers and Service providers	1,010	505	10,097	(505)	(1,010)
Other creditors	729	364	7,288	(364)	(729)
Employee retirement rights liabilities	919	460	9,191	(460)	(919)
	11,866	**5,933**	**118,659**	**(5,933)**	**(11,866)**
Total exposure, net	**8,389**	**4,194**	**(83,887)**	**(4,194)**	**(8,389)**

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	**1.253**	**1.196**	**1.139**	**1.082**	**1.025**
			US$ 000		
Cash and Equivalents	(491)	(245)	4,905	245	491
Customers	(743)	(372)	7,431	372	743
Other Debtors	(191)	(96)	1,912	96	191
	(1,425)	**(712)**	**14,249**	**712**	**1,425**
Credit from Banks	272	136	2,720	(136)	(272)
Suppliers and Service providers	364	182	3,639	(182)	(364)
Other creditors	547	274	5,471	(274)	(547)
Employee retirement rights liabilities	109	55	1,091	(55)	(109)
	1,292	**646**	**12,921**	**(646)**	**(1,292)**
Total exposure, net	**(133)**	**(66)**	**1,327**	**66**	**133**

<u>Sensitivity to Changes in the US Dollar-Other Currencies Exchange Rate</u>

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
			US$ 000		
Cash and Equivalents	(297)	(148)	2,969	148	297
Customers	(529)	(264)	5,286	264	529
Other Debtors	(36)	(18)	365	18	36
	(862)	**(431)**	**8,619**	**431**	**862**
Credit from Banks	1	0	9	(0)	(1)
Suppliers and Service providers	59	29	586	(29)	(59)
Other creditors	68	34	684	(34)	(68)
Employee retirement rights liabilities	8	4	78	(4)	(8)
	136	**68**	**1,357**	**(68)**	**(136)**
Total exposure, net	**(726)**	**(363)**	**7,263**	**363**	**726**

<u>Sensitivity to Changes in Interest Rate on Fixed Rate Loans – Fair Value Risk</u>

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
			US$ 000		
Long Term Loans (Euro)	**33**	**17**	**4,204**	**(17)**	**(34)**
Long Term Loans (CHF)	**9**	**5**	**2,719**	**(5)**	**(9)**
Total exposure, net	**42**	**21**	**6,923**	**(21)**	**(43)**

The Company's Policy Regarding Risk Management

A. The Company attempts to reduce currency exposure, whether economic or accounting, by balancing liabilities and assets in each of the various currencies in which the Group operates.

B. The Chief Financial Officer is responsible for managing the Company's currency exposure. The Company's policy does not determine any limit in terms of quantity for the exposure described above. The exposure level is checked on a regular basis by the Company's Accounting Department. The managers of the activities are responsible for managing market risk as it relates to raw material prices. Ongoing follow up is conducted in this area and there is no limit in terms of quantity. Unusual occurrences, such as extreme devaluation trends in a target country or price change trends in important raw materials that may influence the Company's activity, are discussed by the Board of Directors.

During the First Quarter of 2009 there were no material changes to the risk management policy and their way of management.

Supervision of Risk Management Policy and its Implementation

Discussions are conducted by the Company's management once a quarter on implementing the risk management policy as relates to currency exposure and interest. The Chief Financial Officer reports to the Board of Directors each year. Exposure to raw material prices is checked by the Purchasing Department and management of the activities on a regular basis, and the Board of Directors receives reports as the situation warrants. In the first quarter of 2009 there were no deviations from the planned policy. The Company does not use financial instruments for its protection.

Distribution of Dividend in 2009

On March 18, 2009, the Board of Directors of the Company declared the distribution of a cash dividend of NIS 0.18 per share, totaling NIS 10.4 M. April 21, 2009 was set as the record date and the dividend was distributed on May 6, 2009.

Critical Accounting Estimations

Preparation of the financial reports of the Company in accordance with IFRS demands the use of critical accounting estimates, which obliges the management of the Company to use its judgment in the process of implementing the general accounting policies of the Company, to prepare estimates and make assumptions that influence the amounts presented in the attached financial reports.

Below are the critical accounting estimations used in preparing the financial reports of the Company; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its judgment to determine these estimates, the management of the Company based itself upon past experience, various facts and on reasonable assumptions in accordance with the suitable circumstances for each estimate. The actual results may be different from management's estimates. Regarding the material accounting estimates used in preparing the financial reports of the Company, refer also to note 4 to 2008 annual financial reports.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise judgment in order to determine the overall provision in respect of taxes on income. The Company makes many transactions for which the final tax determination is uncertain. The Company records provisions in its books based on its estimates of whether additional taxes will be due on these transactions. Where the final tax outcome of these matters as determined by the tax authorities is different from the amounts that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account tax purposes. The Company 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 Company 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 Company 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.

Severance Pay

The present value of the Company's 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 the long term yield rate on the related severance pay funds and the rate of discount. Changes in those assumptions will influence the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long term historical yields.

The assumption regarding the required rate of discount is determined by the Company 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 market of high quality corporate bonds is not sufficiently liquid to serve as the basis for determining the discount rate. Therefore, in determining this rate the Company uses interest rates applicable to governmental bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability.

Other key assumptions relating to pension liabilities, such as future payroll raises, are based on existing rates of payroll inflation.

Provision for Contingent Liabilities

Contingent provisions for legal liabilities are recorded in the books in accordance with the judgment of the Company's management regarding the likelihood that the cash flows will be used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment in Respect of Goodwill and Intangibles

Once a year, the Company reviews the need to provide for impairment of goodwill and intangibles. The need to make such a provision is assessed in relation to the recoverable value of the cash generating units of the Company. The recoverable amount of a cash generating unit is determined in accordance with the assumptions and calculations made by management.

Independent Directors

Effective on the date of this report, the Company did not adopt in its Articles of Association the Instruction with respect to the Ratio of Independent Directors (as such term is defined in the Companies Law – 1999).

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 character of the Company's activity, its complexity and size. The Board believes that this minimum number will enable it to meet its obligations according to law and the Company's Articles of Association, and especially relating to its responsibility to check the Company's financial status and to prepare and approve the financial reports.

The directors with accounting and financial expertise are: Dr. John Farber, Mr. John Oram, Mr. Hans Abderhalden, Mr. Yacov Elinav, Mr. Isaac Angel, and Mr. Yair Seroussi

Peer Review of the Auditors' Work

In accordance with the instructions of the Israeli Securities Authority of July 28, 2005, regarding the disclosure of consent to perform a peer review whose goal, according to the stated instructions, is to put in place a process of control on the audit work performed by the auditor, which will contribute to the existence of an advanced capital market, the Company agreed to the transfer of the information required to perform a sampling related to the peer review. The Company's consent was given subject to obtaining the auditor's commitment according to which before beginning a review of the material relating to the Company, the Company's auditor will certify that the accountants performing the review commit to maintaining all material transferred to them as part of the peer review procedure in confidence and to avoid any situation of conflict of interests.

Disclosure Regarding the Approval Process for the Financial Reports

The Company's financial reports are submitted for approval by the Board of Directors, the organ in charge of the Company's ultimate supervision. The Board of the Company has seven members, of whom six have accounting and financial expertise. The members of the Board receive the draft financial reports, the directors' report and the managerial report of the Company's management several days before the date of the Board meeting at which the reports are brought for their approval. The Company's auditors and members of the Company's senior management, including the president and CEO and executive vice presidents and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president – CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the financial results of the Company, the Company's management answers questions and relates to the directors' comments. In addition, the Company's management comprehensively reviews the Company's state of business and the developments occurring therein during the relevant period. Following presentation of the Company's financial results and the management's review, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors report and submit them to the securities authorities and stock exchanges. All of the members of the Board of Directors were present at the Board meeting held on May 27, 2009, when the reports were approved. All voted in favor of approving the reports.

Events Following the Balance Sheet Date

On May 5, 2009, the Company allocated 40,000 ordinary shares of NIS 1 par value each, as a result of exercising options granted to a senior officeholder in the Company in 2005. The exercise price totaled NIS 434,800 (US$ 0.105 M). Subsequent to the exercise, the Company's issued and paid up share capital was NIS 57,826,357.

The Board of Directors of the Company held one meeting during the period.

The Board of Directors thanks Frutarom's employees and management for the contribution, the determination and the achievements implemented during this challenging period.

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

May 26, 2009