FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING SEPTEMBER 30, 2009

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 1,440 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 nine months of 2009, three additional acquisitions were implemented. Frutarom estimates that its solid capital structure, strong cash flow 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 continue and execute strategic acquisitions in addition to the acquisitions already made.

Acquisition of the Savory Activities of the Christian Hansen Group in Germany:

On June 18, 2009, Frutarom acquired, through its subsidiaries in Germany, the assets and the Savory activities (the non-sweet flavors spectrum) of the Christian Hansen Group (hereinafter: **"CH"**) in Germany in consideration for a cash payment of approximately US$ 7.3 M (€ 5.275 M). The revenues of the acquired activities in 2008 (for the 12 months ended on August 31, 2008) totaled approximately US$ 7.7 M (approximately € 5.6 M)[1].

CH's Savory activity develops, manufactures and markets unique and innovative Savory flavors solutions which include flavors, seasonings and functional raw materials for the food

[1] With respect to the financial data, it is being emphasized that the data is based on CH's managerial reports which were not audited or reviewed and therefore the actual results may be different from the financial data mentioned above.

industry, with special emphasis on fields of processed meat and convenience food. The acquired activity has a large customer base, mainly among leading meat manufacturers in Germany and export activity to Scandinavia and UK. The activity is largely synergetic to the activity of the German companies Gewurzmuller and Nesse which Frutarom acquired in 2007 and in 2006.

The acquired activity has a manufacturing site in Holdorf, Germany, which is approximately 140 km far from Frutarom's manufacturing site in Northern Germany. During the third quarter, Frutarom completed, as planned, the transfer of the manufacturing activities from the Holdorf site to its site. Research and development, operation and purchasing, sales and customer service were also integrated while achieving maximum efficiency and significant operational savings. Upon the completion of the operational merger, Frutarom acts to achieve maximum utilization of the cross-selling opportunities which exist between the acquired activities and its existing activity in Germany.

Acquisition of Flavors Specialties Inc. in the US:

On March 4, 2009, Frutarom acquired the assets and business of the American Company Flavors Specialties Inc. (hereinafter: **"FSI"**) in consideration for a cash payment of US$ 17.2 M. FSI develops, manufactures and markets flavors and natural botanical extracts mainly for the food and beverage industry. Since the acquisition, Frutarom has completed the merger and the integration of the activities of FSI with its own existing activities in the US.

Acquisition of Oxford Chemicals Limited in UK:

On January 30, 2009, Frutarom completed the acquisition of the assets and business of Oxford Chemicals Limited (hereinafter: **"Oxford"**) in consideration for approximately US$ 12 M (approximately £ 8.25 M). Oxford develops, manufactures and markets unique raw materials for the flavor and fragrance industry. Since the acquisition, Frutarom has completed, as planned, the merger and the integration of its Departments of Research and Development, Operations, Purchasing, Marketing and Sales and of Oxford and will continue to act in order to achieve maximum utilization of the many cross-selling opportunities between Oxford's activities and its existing activities.

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, as well as the business environment in which Frutarom operates. 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.

Since the breakout of the global economic crisis, Frutarom has become more focused and acted, decisively, to strengthen its competitiveness and to improve its operational efficiency while tightly controlling its expense level. Concurrently, Frutarom has continued to strengthen the Research & Development and Sales infrastructure in order to ensure further future growth.

In spite of the relative slowdown in the markets in which Frutarom operates resulting from the global economic crisis, Frutarom estimates that it maintained its market share with its customers. Frutarom estimates that the stabilization of the global economy in recent months, the moderation in currencies fluctuations, the halt of the destocking trend and signs of gradual improvement in consumption, including in countries significantly affected by the devaluation in their currency, will contribute to the improvement in its sales level and to future return to a growth trend at rates similar to those characterizing its activities in the past.

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 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, China, India, and South America was expected to be significantly higher, reaching average annual rates of between 6% and 8% from 2006 to 2011. The global economic crisis caused a significant slowdown in growth rates for 2009. Nevertheless, in recent months the decline in consumption seems to come to an end, a stabilization process has commenced and some countries show first signs of return to growth.

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. 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 cooperates with universities, research institutes and start-ups in Israel and elsewhere in the world.

Frutarom estimates, that in spite of the temporary effects of the economic crisis, 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 Third Quarter of 2009

Sales

In the third quarter of 2009, Frutarom's sales totaled US$ 111.6 M, a decrease of approximately 1.6% in local currency compared to the third quarter of 2008. The strengthening of the US$ compared to most of the European currencies and the NIS caused a decrease of 5.4% in sales. In dollar terms, the sales in the third quarter decreased by 7.0% 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 destocking process of its customers, the moderation of the fluctuations in currencies and the return to improved consumption, including in countries significantly affected by the devaluation in their currency rate, the Company will return to growth rates similar to those characterizing its activity in the past.

The decrease in sales in the third quarter results mainly from the following factors:

a. The weakening of most of the West European currencies (Euro and GBP, in particular) and the NIS against the US$ contributed to a decrease of approximately 5.4% of Frutarom's sales in US$ terms. The aforementioned trend seems to come to an end towards the end of the quarter and has reversed as from October.

b. The effect of the crisis and the world's economic slowdown which changed the growth trend characterizing in recent years most of the world's economies and the business environment in which Frutarom operates.

c. As a result of the global crisis many of Frutarom's customers worldwide acted intensively to reduce their inventory levels. This trend becomes more and more moderate and Frutarom estimates that it came to an end during the third quarter this year.

d. A decrease in the trade and marketing activity in Israel (an activity which is not one of Frutarom's core activities) which partly results from focusing on products with higher margins, contributed approximately 2% to the decline in sales.

On the other hand, the merger of Oxford which was acquired and consolidated as from February 1, 2009, of FSI which was acquired and consolidated as from March 4, 2009, and of CH's Savory activities in Germany which was acquired and consolidated as from June 18, 2009, contributed approximately US$ 8.1 M to Frutarom's sales in the third quarter of the year.

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flavors Division	**Sales**	6.6	10.1	11.8	21.1	28.1	36.2	47.2	57.6	86.1	77.3
	%	33.6%	38.1%	42.8%	49.8%	54.7%	61.0%	66.3%	65.7%	71.7%	69.3%
Fine Ingredients Division	**Sales**	11.6	15.1	14.7	20.3	22.1	22.7	23.9	28.1	31.1	33.5
	%	59.0%	57.2%	53.4%	48.0%	43.0%	38.2%	33.6%	32.0%	25.9%	30.1%
Trade & Marketing	**Sales**	1.7	1.5	1.5	1.6	1.8	1.6	1.8	3.3	3.8	1.5
	%	8.8%	5.6%	5.4%	3.7%	3.5%	2.8%	2.5%	3.7%	3.2%	1.3%
Inter Division	**Sales**	-0.3	-0.2	-0.5	-0.6	-0.6	-1.1	-1.7	-1.3	-1.0	-0.7
	%	-1.4%	-0.8%	-1.6%	-1.5%	-1.2%	-2.0%	-2.4%	-1.4%	-0.9%	-0.7%
Total Sales		19.6	26.4	27.5	42.4	51.4	59.4	71.3	87.7	120.0	111.6

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

	2009	2008
Sales	111.6	120.0
Gross profit	41.2	45.3
R&D, Selling, Administration, General and Other income	27.9	30.3
Operating profit	13.3	15.0
EBITDA	18.3	20.0
Profit before tax	13.2	12.4
Net profit	10.0	9.4

Gross Profit

In the third quarter of 2009, gross profit reached US$ 41.2 M compared to US$ 45.3 M in the same quarter of 2008, a decline of 9.0%. The decline in gross profit mainly arises from the decrease in sales. The activities taken by Frutarom in order to improve its competitiveness and to reduce its expenses moderated the effect of the decline in sales on the Company's gross profit. Gross margin in this period reached 37.0% compared to 37.7% in the same period of 2008. The gross margin was achieved in spite of the decline in sales thanks to the activities taken by Frutarom to tightly control the expense level.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 27.9 M (25.0% of sales) in the third quarter of 2009 compared to US$ 30.3 M (25.3% of sales) in 2008. The level of expenses was affected by the decisive actions taken by Frutarom's management with respect to cost reduction and achieving efficiency and from the strengthening of the US$ against the European currencies and the NIS.

Operating Profit and EBITDA

Excluding non-recurring expenses in the amount of approximately US$ 0.2 M for the restructuring plan of the Company's activities in UK as a result of the acquisition of Oxford, the operating profit in the quarter totaled US$ 13.5 M compared to US$ 15.0 M in 2008, and the operating margin reached 12.1% compared to 12.5% during 2008. Including the aforementioned non-recurring effects the operating profit in the quarter totaled US$ 13.3 M and the operating margin reached 11.9%.

Excluding non-recurring effects, EBITDA achieved by Frutarom in the third quarter of 2009 reached US$ 18.5 M, which comprises 16.6% of sales, compared to EBITDA of US$ 20.0 M in the same period of 2008 (which also constituted 16.6% of sales). Including the non-recurring effects, the EBITDA achieved by Frutarom in the third quarter of the year reached US$ 18.3 M, which comprises 16.4% of sales.

Finance Expenses and Income

Interest payments in the amount of US$ 0.9 M recorded for loans taken to finance the acquisitions made by the Company during 2007 and in the beginning of 2009 were setoff by finance income as a result of currency differences resulting from the strengthening of the US$ mainly compared to European currencies, the Israeli Shekel and currencies in several emerging markets. Accordingly, in the third quarter of 2009, finance expenses net totaled US$ 0.1 M. The finance expenses in the third quarter of 2008 totaled US$ 2.5 M out of which an amount of US$ 2.3 M was for interest payments. The decline in finance expenses during the third quarter this year compared to the third quarter last year results from the decline in the level of loans, the decline in interest rates and the weakening of the European currencies, in which most of the loans were taken, compared to the US$.

Profit before Tax

Profit before tax in the third quarter of 2009 increased by 6.7% and totaled US$ 13.2 M (11.9% of sales) compared to US$ 12.4 M (10.3% of sales) in the same period last year.

Taxes on Income

In the third quarter of 2009, taxes on income totaled US$ 3.2 M (24.3% of profit before tax) compared to US$ 3.0 M in the same period last year (24.0% of profit before tax).

Net Profit

Net profit in the third quarter of 2009 increased at a rate of 6.3% and totaled US$ 10.0 M compared to US$ 9.4 M in the same period last year. Net margin improved also and reached 9.0% compared to 7.9% in the same period.

Earnings per Share

In the third quarter, earnings per share increased by 6% and totaled US$ 0.18 compared to US$ 0.17 per share in the same quarter last year.

Cash flow

During the third quarter of 2009 cash flow from current activities continued to improve reaching US$ 27.5 M compared to a cash flow of US$ 12.6 M during the third quarter of 2008. The strong cash flow from current activities enables the reduction in Frutarom's bank debt in spite of the three acquisitions made this year and will enable it, together with the support of financial institutions, to continue and implement additional strategic acquisitions.

Results of Activity in the First Nine Months of 2009

Sales

In the first nine months of 2009, Frutarom's sales totaled US$ 316.7 M, a decrease of approximately 4.3% in local currency terms compared to the first nine months of 2008 in which Frutarom achieved record results. 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 between 5% and 21% caused a decrease of approximately 11.2% in sales in the first nine months of 2009. In dollar terms, sales in the first nine months of the year decreased by 15.5% compared to the same period last year. In spite of the decrease in sales, Frutarom estimates that it maintained its market share with its customers.

The decline in sales during the first nine months of 2009, results mainly from the factors aforementioned with respect to the sales of the third quarter of the year. The merger of the three acquisitions implemented during 2009 Oxford, FSI and CH's Savory activities contributed approximately US$ 17.2 M to Frutarom's sales in the first nine months of the year.

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flavors Division	**Sales**	19.9	30.0	34.9	49.7	70.8	119.6	141.5	169.2	268.6	220.4
	%	32.2%	38.7%	41.6%	48.3%	50.6%	62.5%	65.9%	65.1%	71.7%	69.6%
Fine Ingredients	**Sales**	38.0	44.1	45.6	49.8	65.6	69.8	72.0	86.1	98.9	92.9
	%	61.3%	56.9%	54.3%	48.4%	46.9%	36.5%	33.5%	33.1%	26.4%	29.3%
Trade & Marketing	**Sales**	5.1	4.4	4.7	5.1	5.3	5.0	4.7	7.9	10.4	5.7
	%	8.2%	5.6%	5.6%	5.0%	3.8%	2.6%	2.2%	3.1%	2.8%	1.8%
Inter Division	**Sales**	-1.1	-1.0	-1.2	-1.7	-1.9	-3.2	-3.5	-3.4	-3.3	-2.3
	%	-1.7%	-1.3%	-1.5%	-1.7%	-1.4%	-1.6%	-1.6%	-1.3%	-0.9%	-0.7%
Total Sales		61.9	77.5	84.0	102.9	139.8	191.2	214.6	260.0	374.6	316.7

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

	2008	2009
Sales	374.6	316.7
Gross profit	139.8	115.9
R&D, Selling, Administration, General and Other income	91.6	79.6
Operating profit	48.2	36.3
EBITDA	63.9	50.2
Profit before tax	40.7	32.9
Net profit	31.2	25.7

Gross Profit

Gross profit in the first nine months of 2009 reached US$ 115.9 M compared to US$ 139.8 M in the first nine months of 2008. The decline in gross margin results from the decline in sales. The activities taken by Frutarom in order to improve its competitiveness and to reduce its expenses which affected as of the first quarter and more significantly during the second and third quarters of 2009, moderated the effect of the decline in sales on the Company's gross profit. The gross margin in the first nine months of the year totaled 36.6% compared to 37.3% in the same period in 2008.

During the first nine months of 2009 the cost of sales included non-recurring expenses for the restructuring of the Company's activities in Germany mainly as a result of the acquisition of the Savory activities of CH and for the restructuring plan of the Company's activities in UK as a result of the acquisition of Oxford, in the amount of approximately US$ 0.3 M. Excluding the non-recurring affects the gross margin in the first nine months reached 36.7% compared to 37.3% in the same period of 2008.

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

The selling and marketing, research and development, administration, general and other expenses in the first nine months of 2009 totaled US$ 79.6 M (25.1% of sales) compared to US$ 91.6 M (24.5% of sales) for the same period of 2008. The level of expenses was affected by the decisive actions taken by Frutarom's management with respect to cost reduction and achieving efficiency and from the strengthening of the US$ against the European currencies and the NIS.

In the first nine months of 2009, the expenses included non-recurring costs for the restructuring plan of the Company's activities in Germany, mainly due to the acquisition of CH's Savory activities, and for the restructuring activities in the UK, due to the acquisition of

Oxford, in a total amount of approximately US$ 1.0 M. Those non-recurring costs are compared to a non-recurring net income of US$ 0.9 M recorded in the first nine months of 2008, resulting in a total effect of non recurring items on the Company's operating profit in the first nine months of 2009 compared with the same period in 2008 of US$ 2.2 M

Operating Profit and EBITDA

Excluding non-recurring effects, in the first nine months as mentioned above, operating profit reached US$ 37.7 M compared to US$ 47.3 M in the same period of 2008 and operating margin in the first nine months totaled 11.9% compared to 12.6% in the same period in 2008. Including non-recurring effects, operating profit totaled US$ 36.3 M in the first nine months of 2009 compared to US$ 48.2 M during the same period last year and operating margin reached 11.5% in the first nine months of the year compared to 12.9% in the same period in 2008

Excluding non-recurring effects, EBITDA achieved by Frutarom in the first nine months of 2009 reached US$ 51.5 M (16.3% of sales), compared to EBITDA of US$ 63.0 M in the same period of 2008 (16.8% of sales). Including the non-recurring effects, the EBITDA achieved by Frutarom in the first nine months of the year reached US$ 50.2 M compared to an EBITDA of US$ 63.9 M in the same period of 2008 - an EBITDA margin of 15.8% compared to 17.1% in the same period last year.

Finance Expenses and Income

In the first nine months of 2009, finance expenses totaled US$ 3.5 M (1.1% of sales) compared to US$ 7.5 M (2.0% of sales) in the same period last year. Finance expenses for loans decreased from US$ 6.1 M in the first nine months of 2008 to US$ 3.5 M in the first nine months of 2009 due to a decrease in total loans, a decline in the global interest rates and the weakening of the European currencies, in which most of the loans were taken, compared to the US$. In the first nine months of 2009 no expenses were recorded for currency differences compared to US$ 1.4 M in the same period last year.

Profit before Tax

Profit before tax in the first nine months of 2009, totaled US$ 32.9 M (10.4% of sales) compared to US$ 40.7 M (10.9% of sales) in the same period last year.

Taxes on Income

In the first nine months of 2009, taxes on income totaled US$ 7.1 M (21.7% of profit before tax) compared to US$ 9.5 M in the same period last year (23.3% of profit before tax).

Net Profit

Excluding the aforementioned non-recurring effects, net profit in the first nine months of 2009 totaled US$ 26.7 M compared to US$ 30.4 M in the same period last year and net margin reached 8.4% compared to US$ 8.1 M in the same period of 2008 in spite of the decrease in sales. Including the non-recurring effects, net margin in the first nine months of 2009 totaled US$ 25.7 M compared to

US$ 31.2 M in the same period last year and net margin reached 8.1%, similar to the net margin of 8.3% in the first nine month period of 2008.

Earnings per Share

In the first nine months of 2009, earnings per share totaled US$ 0.45 compared to US$ 0.55 per share in the first nine months of 2008. Excluding the aforementioned non-recurring effects, earnings per share in the first nine months of 2009 reached US$ 0.47 compared to US$ 0.53 in the same period last year.

Cash flow

In the first nine months of 2009 the Company generated a positive record cash flow from operating activities which reached US$ 57.9 M compared to US$ 21.2 M in the same period last year.

Financial Status

Total assets on September 30, 2009 totaled US$ 541.0 M compared to US$ 548.4 M on September 30, 2008 and US$ 510.8 M on December 31, 2008.

The Company's current assets totaled US$ 209.8 M compared to US$ 236.5 M on September 30, 2008 and US$ 214.5 M on December 31, 2008.

As at September 30, 2009, fixed assets minus accumulated depreciation and other net assets totaled US$ 326.3 M compared to US$ 307.2 M at the end of the third quarter last year and US$ 291.8 M on December 31, 2008.

The change in the level of assets arises mainly from the weakening of the European currencies compared to the US dollar, which was offset by the addition of the assets from the three acquisitions made this year.

Liquidity

During the third quarter of 2009, the Company's cash flow from current activities continued to improve reaching US$ 27.5 M compared to a cash flow of US$ 12.6 M achieved during the third quarter of 2008. In the first nine months of 2009 the Company generated a positive record cash flow from current activities of US$ 57.9 M compared to US$ 21.2 M in the same period last year. The strong cash flow enables the reduction of the level of Frutarom's bank debt, in spite of the three acquisitions it made this year, and will enable it together with support from financial institutions to continue and implement additional strategic acquisitions.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity as at September 30, 2009 totaled US$ 311.9 M (57.7% of the balance sheet) compared to US$ 278.9 M (50.8% of the balance sheet) as at September 30, 2008. The increase mostly results from the profit in the last twelve months (US$ 29.3 M excluding the dividend distributed) and from the increase in capital fund from translation differences due to the strengthening of the US$ against the European currencies (US$ 2.9 M).

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

In the third quarter of 2009, the long-term credit from banks provided to the Company totaled US$ 129.1 M (US$ 169.1 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)

In the third quarter of 2009, short-term credit from banks provided to the Company totaled US$ 14.1 M (US$ 0.8 M in the third 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 when due without the need for external sources of finance.

Credit from Suppliers and to Customers (Average)

During the third quarter of 2009, the Company used credit from suppliers and other creditors in the amount of US$ 56.6 M (compared to US$ 76.6 M in the same period last year).

During the third quarter of 2009, the Company provided to its customers credit which totaled US$ 75.3 M (US$ 89.3 M in the same period).

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 Executive VP, 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. Following an increase trend in most of the raw materials prices over the last few years, this year stabilization was noticed. 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$ 79.5 M and the scope of its short term debt was US$ 55.8 M. The Company has cash flow reserves of approximately US$ 34.1 M as at September 30, 2009.

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.134**	**3.946**	**3.758**	**3.570**	**3.382**
			US$ 000		
Cash and Equivalents	**(36)**	**(18)**	**360**	**18**	**36**
Customers	**(1,068)**	**(534)**	**10,684**	**534**	**1,068**
Other Debtors	**(633)**	**(316)**	**6,325**	**316**	**633**
	(1,737)	**(868)**	**17,369**	**868**	**1,737**
Bank Loans	**372**	**186**	**3,722**	**(186)**	**(372)**
Suppliers and Service providers	**530**	**265**	**5,303**	**(265)**	**(530)**
Other creditors	**482**	**241**	**4,818**	**(241)**	**(482)**
Total exposure, net	**1,384**	**692**	**13,843**	**(692)**	**(1,384)**
Cash and Equivalents	**(353)**	**(176)**	**3,526**	**176**	**353**

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	**0.684**	**0.652**	**0.621**	**0.590**	**0.559**
			US$ 000		
Cash and Equivalents	**(296)**	**(148)**	**2,964**	**148**	**296**
Customers	**(565)**	**(282)**	**5,649**	**282**	**565**
Other Debtors	**(58)**	**(29)**	**579**	**29**	**58**
	(919)	**(460)**	**9,192**	**460**	**919**
Bank Loans	**2,433**	**1,217**	**24,333**	**(1,217)**	**(2,433)**
Suppliers and Service providers	**313**	**156**	**3,127**	**(156)**	**(313)**
Other creditors	**579**	**289**	**5,785**	**(289)**	**(579)**
	3,325	**1,662**	**33,246**	**(1,662)**	**(3,325)**
Total exposure, net	**2,405**	**1,203**	**(24,054)**	**(1,203)**	**(2,405)**

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	**0.750**	**0.716**	**0.682**	**0.648**	**0.614**
			US$ 000		
Cash and Equivalents	**(1,008)**	**(504)**	**10,083**	**504**	**1,008**
Short term investments	**(4)**	**(2)**	**44**	**2**	**4**
Customers	**(2,980)**	**(1,490)**	**29,802**	**1,490**	**2,980**
Other Debtors	**(199)**	**(100)**	**1,992**	**100**	**199**
	(4,192)	**(2,096)**	**41,921**	**2,096**	**4,192**
Credit from banks	**8,573**	**4,286**	**85,728**	**(4,286)**	**(8,573)**
Suppliers and Service providers	**1,133**	**567**	**11,335**	**(567)**	**(1,133)**
Other creditors	**922**	**461**	**9,216**	**(461)**	**(922)**
Employee retirement rights liabilities	**1,018**	**509**	**10,178**	**(509)**	**(1,018)**
	11,646	**5,823**	**116,456**	**(5,823)**	**(11,646)**
Total exposure, net	**7,453**	**3,727**	**(74,534)**	**(3,727)**	**(7,453)**

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	**1.132**	**1.080**	**1.029**	**0.978**	**0.926**
			US$ 000		
Cash and Equivalents	**(812)**	**(406)**	**8,122**	**406**	**812**
Customers	**(681)**	**(341)**	**6,812**	**341**	**681**
Other Debtors	**(185)**	**(92)**	**1,849**	**92**	**185**
	(1,678)	**(839)**	**16,783**	**839**	**1,678**
Credit from Banks	**301**	**151**	**3,013**	**(151)**	**(301)**
Suppliers and Service providers	**355**	**177**	**3,545**	**(177)**	**(355)**
Other creditors	**657**	**328**	**6,567**	**(328)**	**(657)**
Employee retirement rights liabilities	**121**	**60**	**1,208**	**(60)**	**(121)**
	1,433	**717**	**14,333**	**(717)**	**(1,433)**
Total exposure, net	**(245)**	**(122)**	**2,499**	**122**	**245**

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				
Cash and Equivalents	(294)	(147)	2,938	147	294
Customers	(619)	(310)	6,190	310	619
Other Debtors	(60)	(30)	596	30	60
	(972)	(486)	9,724	486	972
Credit from Banks	3	2	30	(2)	(3)
Suppliers and Service providers	69	34	689	(34)	(69)
Other creditors	97	49	971	(49)	(97)
Employee retirement rights liabilities	8	4	78	(4)	(8)
	177	88	1,768	(88)	(177)
Total exposure, net	(796)	(398)	7,957	398	796

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				
Long Term Loans (Euro)	26	13	3,759	(14)	(27)
Long Term Loans (CHF)	3	2	3,013	(2)	(3)
Total exposure, net	29	15	6,772	(16)	(30)

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. Executive VP Finance 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 examined on a regular basis by the Company's Financial 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 sharp 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 third 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

The Company's management discuss every quarter the implementation of the risk management policy as relates to currency exposure and interest. The Chief Financial Officer reports of the exposure to the Board of Directors each year. Exposure to raw material prices is examined by the Purchasing Department and Management of the Activities on a regular basis, and the Board of Directors is being reported as necessary. In the third quarter of 2009 there were no deviations from the planned policy. The Company does not use financial instruments for its protection.

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 discount rate. 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 discount rate is determined by the Company at the end of each year. This discount rate 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 of 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. Six of the seven members of the Board of Directors were present at the Board meeting held on November 23, 2009, when the reports were approved. All voted in favor of approving the reports.

The Board of Directors of the Company held three meetings during the first nine months of the year.

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 Chairman of the Board	Ori Yehudai President & CEO

November 23, 2009