

**FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING MARCH 31, 2010**

BOARD OF DIRECTORS' EXPLANATION TO THE CORPORATION'S STATE OF AFFAIRS
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A. REVIEW OF ACTIVITY

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 also 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. Frutarom produces, markets and sells over 20,000 products to more than 13,000 customers in over 120 countries and employs approximately 1,450 people worldwide.

Frutarom operates in two major segments: The Flavors Segment and the Specialty Fine Ingredients Segment.

- **The Flavors Segment** - Frutarom 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 is continuously developing new flavors and adjusting them to meet changing consumer preferences and future customer needs. In recent years Frutarom's Flavors Segment (the more profitable of its activities) has undergone a process of accelerated growth as a result of organic growth which is based on focusing on both developed and emerging markets, on global multinational customers, on mid-sized and local customers as well as a result of a successful implementation and execution of strategic acquisitions.

- **The Specialty Fine Ingredients Segment** - Frutarom 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 Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharma/nutraceutical and personal care industries. In recent years, the sales of Specialty Fine Ingredients have experienced growth as a result of Frutarom's organic growth arising mainly from the development of new, innovative added value products with higher than average margin and its focus on multinational customers, mid-sized and local customers worldwide. Most of the Specialty Fine Ingredients are natural products, which, on average, enjoy a higher demand than non-natural products. Frutarom acts to expand the natural product portfolio it

offers its customers, with particular emphasis on the functional food area. An additional contribution to the sales of the Specialty Fine Ingredients Segment was a result of a number of strategic acquisitions of companies and activities which were implemented and successfully merged with Frutarom's global operations in recent years.

B. MERGERS AND ACQUISITIONS

In recent years, Frutarom has implemented a strategy for achieving rapid and profitable growth, through a combination of organic and profitable growth in its core activities and strategic acquisitions in its field. These acquisitions strengthen Frutarom's position as a leading global manufacturer of flavors and fine ingredients and they contribute in strengthening Frutarom's human resources. Frutarom has extensive experience in successfully implementing acquisitions and mergers. Frutarom acts to integrate the acquired companies and activities into its existing operations while utilizing the synergy, both commercial and operational, in order to take best advantage of the cross-selling opportunities, the cost savings and the improvement in profit margins. In 2009 Frutarom implemented three acquisitions of companies and activities, which were merged with and integrated into its global activity. In accordance with the Company's expectations and plans, the merger processes of the acquired companies and activities were completed and they contribute to both the increase in sales and the improvement in profit and margin.

Frutarom estimates, that its strong capital and cash flow position combined with support from leading banks will allow it to continue and implement additional strategic acquisitions as part of the rapid and profitable growth strategy it has implemented in recent years, which incorporates profitable organic growth with strategic acquisitions - in order to strengthen Frutarom's position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

“To be the Preferred Partner for Tasty and Healthy Success.”

C. RESULTS OF OPERATIONS IN Q1 2010

In Q1 2010, Frutarom achieved profitable growth in sales. The improvement occurring in the global economic environment, the steps taken by Frutarom during 2009 to strengthen and improve its competitiveness and operational efficiency, and the accelerated growth trend in sales in all of Frutarom's core activities, contributed to a material improvement in margin and profit, which hit a record compared to Q1 in previous years.

Sales

Frutarom's sales in Q1 2010 increased by 15.3% and totaled US\$ 113.5 M compared to US\$ 98.4 M in the same quarter in 2009. In local currency terms, sales increased by approximately 10% compared to Q1 2009.

The following factors have mainly contributed to the increase in sales:

- a. Organic growth in the sales of both the Flavors and the Specialty Fine Ingredients Activities.
- b. The merger of Oxford's activities, which was acquired and consolidated as from February 1, 2009, the merger of the activities of FSI, which was acquired and consolidated as from March 4, 2009 and the merger of the Savory activities of CH in Germany which was acquired and consolidated as from June 18, 2009.
- c. The strengthening of the West European currencies and the NIS (in which most of Frutarom's sales were implemented) against the US\$, compared to Q1 2009.

On the other hand, the decrease in the trade and marketing activity in Israel (not one of Frutarom's core activities), which is partly the result of the focus on products with higher profit margins, caused a decrease of approximately 1.0% in sales.

Sales Breakdown by Fields of Activity in the first quarters of 2000-2010 (US\$ M and %)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Flavors Segment	Sales	6.8	9.0	10.8	12.7	20.3	40.3	44.7	49.9	84.4	67.4	75.4
	%	31.1%	37.3%	39.9%	45.0%	46.2%	62.3%	63.0%	62.0%	69.2%	68.5%	66.5%
Fine Ingredients Segment	Sales	13.8	13.9	14.9	14.2	22.5	23.4	25.5	29.1	35.3	29.6	37.6
	%	63.0%	57.7%	55.0%	50.4%	51.3%	36.2%	35.9%	36.2%	28.9%	30.1%	33.1%
Trade & Marketing	Sales	1.7	1.5	1.6	1.8	1.7	1.8	1.4	2.6	3.6	2.2	1.2
	%	7.8%	6.2%	5.9%	6.4%	3.9%	2.8%	2.0%	3.2%	3.0%	2.2%	1.1%
Inter Segments	Sales	-0.4	-0.3	-0.2	-0.5	-0.6	-0.8	-0.6	-1.1	-1.3	-0.7	-0.8
	%	-1.8%	-1.2%	-0.7%	-1.8%	-1.4%	-1.2%	-0.9%	-1.4%	-1.1%	-0.8%	-0.7%
Total sales		21.9	24.1	27.1	28.2	43.9	64.7	71.0	80.5	122.0	98.4	113.5

The following are condensed profit and loss reports of Q1 (US\$ M):

	2009	2010	Change (%)
Sales	98.4	113.5	15.3%
Gross profit	35.2	43.5	23.4%
R&D, Selling, Administration, General and Other income	25.0	26.9	7.7%
Operating profit	10.2	16.6	61.9%
EBITDA	14.5	21.3	47.3%
Profit before tax	6.9	15.3	121.1%
Net profit	5.6	11.1	98.4%

Gross Profit

Gross profit in Q1 2010 increased by 23.4% reaching US\$ 43.5 M compared to US\$ 35.2 M in the same quarter in 2009. Gross margin improved and reached 38.3% compared to 35.8% in the same period in 2009.

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

In Q1 2010, selling, marketing, research and development, administration, general and other expenses totaled US\$ 26.9 M (23.7% of sales) compared to US\$ 25.0 M in the same period in 2009 (25.4% of sales).

Operating Profit and EBITDA

In Q1 2010, operating profit increased by 61.9% and totaled US\$ 16.6 M compared to US\$ 10.2 M in the same period last year. Operating margin for the period increased and reached 14.6% compared to 10.4% in the same period in 2009.

The EBITDA achieved by Frutarom in Q1 2010 increased by 47.3% and totaled US\$ 21.3 M which represent 18.8% of sales compared to US\$ 14.5 M which were 14.7% of sales in the same quarter.

The profitable growth in sales combined with maintaining the expense level and the strengthening of Frutarom's competitiveness led to a material improvement in profit and margin.

Finance Expenses / Income

In Q1 2010, finance expenses totaled US\$ 1.3 M (1.1% of sales), out of which US\$ 0.7 M were a result of currency rate differences compared to finance expenses of US\$ 3.3 M (3.4% of sales), out of which US\$ 2.0 M resulted from currency rate differences in the same quarter.

The decrease in finance expenses arises from the reduction of loans during the year (in spite of the three acquisitions implemented in 2009) and from the decrease in interest rates.

Profit before Tax

In Q1 2010, profit before tax increased at a sharp rate of 121.1% and totaled US\$ 15.3 M (13.5% of sales) compared to US\$ 6.9 M (7.0% of sales) in the same quarter last year.

Taxes on Income

In Q1 2010, taxes on income totaled US\$ 4.2 M (27.4% of profit before tax) compared to US\$ 1.3 M (19.0% of profit before tax).

Net Profit

In Q1 2010, net profit doubled and reached US\$ 11.1 M compared to US\$ 5.6 M in Q1 2009. Net margin also increased at a sharp rate and reached 9.8% compared to 5.7% in the same quarter last year.

The operating profit and net profit achieved by Frutarom in Q1 2010 are the highest Frutarom ever achieved in any first quarter.

Profit per Share

In Q1 2010, profit per share doubled and reached US\$ 0.19 compared to US\$ 0.10 per share in the same period last year.

Condensed interim profit and loss reports (US\$ M):

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Income	122.0	132.6	120.0	98.7	98.4	106.7	111.6	108.5	113.5
Gross profit	44.8	49.7	45.3	36.5	35.2	39.4	41.2	39.6	43.5
Selling, Marketing, R&D, Administration, General and Other Expenses	29.4	31.9	30.3	28.0	25.0	26.7	27.9	28.6	26.9
Operating profit	15.3	17.9	15.0	8.4	10.2	12.8	13.3	11.0	16.6
EBITDA	20.2	23.8	20.0	12.4	14.5	17.4	18.3	16.0	21.3
Finance expenses	2.8	2.2	2.5	3.0	3.3	0.1	0.0	0.9	1.3
Profit before tax	12.5	15.7	12.4	5.4	6.9	12.7	13.2	10.1	15.3
Net profit	9.7	12.0	9.4	6.0	5.6	10.1	10.0	7.5	11.1

Frutarom's business is characterized by seasonal fluctuations generally with higher sales in the first half of a given year and lower sales and margin during the second half of a given year and mainly in the fourth quarter. The seasonality arises from the fact that a substantial portion of the Company's products are used by its customers in the manufacture of beverages, ice cream and yogurt, the demand for which generally increases significantly during the summer months. As a result, sales of certain flavors and fine ingredients produced by Frutarom increase in the first half of the year as manufacturers of beverages, ice cream and yogurt restock their inventories and increase production expecting a rising demand during the summer months. The effect of seasonal fluctuations on Frutarom's results and business has become more moderate in recent years as Frutarom has increased its sales of products, such as savory flavors, due to the acquisition of the companies Nesse and Gewurzmuller and the savory activities of CH in Germany, along side an increase in sales of natural functional food ingredients and natural pharma/nutraceutical extracts, which are intended for the pharma/nutraceutical industries and are less affected by lower seasonality in demand.

D. FINANCIAL STATUS

As at March 31, 2010, total assets totaled US\$ 511.7 M compared to US\$ 512.4 M on March 31, 2009 and US\$ 526.1 M on December 31, 2009.

The Company's current assets totaled US\$ 206.8 M compared to US\$ 204.6 M in the same quarter last year and US\$ 203.6 M on December 31, 2009.

As at March 31, 2010, net fixed assets excluding accumulated depreciation and other assets totaled US\$ 300.9 M compared to US\$ 304.6 M at the end of Q1 last year and US\$ 318.7 M on December 31, 2009.

E. LIQUIDITY

During Q1 2010, cash flow from operating activities was US\$ 5.2 M compared to a cash flow of US\$ 10.7 M achieved in Q1 2009. In Q1 2010, cash flow was affected by the increase in accounts receivable as a result of the sharp increase in sales in Q1 2010 compared to Q4 2009, while the sales level in Q1 2009 was similar to that of Q4 2008.

F. SOURCES OF FINANCE

Sources of the Company's Shareholders' Equity

As at March 31, 2010, the Company's shareholders' equity totaled US\$ 316.6 M (61.9% of the balance sheet) compared to US\$ 273.1 M (53.3% of the balance sheet) on March 31, 2009 and US\$ 318.5 M (60.5% of the balance sheet) on December 31, 2009. The shareholders' equity in the quarter was affected by the profit during the period and by the strengthening of the US\$ compared to other currencies which are the currency of the main activities of consolidated companies which their functional currency is different from the functional currency of the parent company, affecting the capital fund from translation differences and reducing the balance of the shareholders' equity. This item does not affect the profit and loss and the cash flow.

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

The long-term credit from banks provided to the Company in Q1 2010 totaled US\$ 103.3 M compared to US\$ 135.2 M in the same quarter in 2009.

Despite the financing of the three acquisitions implemented in 2009, the strong cash flow achieved in 2009 enabled reduction of the Company's long-term debt.

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

Short-term credit from banks provided to the Company in Q1 2010 totaled US\$ 2.5 M compared to US\$ 7.1 M in Q1 2009.

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 margin, the Company estimates that the cash flow it generates from current activities will enable the full repayment of its expected liabilities without the need for external sources of finance.

Credit from Suppliers and to Customers (Average)

In Q1 2010, the average amount of credit from suppliers and other creditors was US\$ 55.7 M (compared to US\$ 56.5 M during the same period last year). During Q1 2010, the Company granted its customers a credit of US\$ 70.9 M (compared to US\$ 68.4 M in the same period last year).

G. SUMMARY OF THE SENSITIVITY TESTS TABLES

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	4.084	3.899	3.713	3.527	3.342
US\$ 000					
Total Exposure net	258	129	(2,577)	(129)	(258)

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	0.728	0.695	0.662	0.629	0.596
US\$ 000					
Total Exposure net	2,099	1,050	(20,993)	(1,050)	(2,099)

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	0.818	0.781	0.744	0.707	0.670
US\$ 000					
Total exposure, net	5,074	2,537	(50,736)	(2,537)	(5,074)

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	1.171	1.118	1.065	1.012	0.958
US\$ 000					
Total exposure, net	(231)	(115)	2,309	115	231

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate					
US\$ 000					
Total exposure, net	(748)	(373)	7,479	373	748

The functional currency of most of the Group's companies is their local currency. Therefore currency translation of balance sheet's balances of these companies do not affect the Company's profit and loss report and are directly attributed to the Company's shareholders' equity (capital fund from translation differences).

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

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
	US\$ 000				
Total exposure, net	17	8	2,629	(8)	(17)

EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

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

A. RESPONSIBILITY FOR MARKET RISK MANAGEMENT

Mr. Alon Granot, Executive Vice President and CFO, is responsible for managing market risks. 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.

For details about Mr. Alon Granot, please see Regulation 26a in Chapter D to the Periodic Report.

B. DESCRIPTION OF MARKET RISKS

Raw material price risks

The Company depends on vendors which provide it with raw materials for the manufacture of its various products. 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 Company 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, among others, be adversely affected by unfavorable weather conditions. 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. The Company's Purchasing Department maintains an ongoing follow up on raw materials prices.

Currency Risks

The Company's sales worldwide are conducted mainly in Euro, US Dollars, Swiss Francs, Pound Sterling and NIS. The fact that raw materials purchases for Frutarom's production are also conducted in various currencies reduces currency exposure. Most non dollar monetary balances arise 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 affect the Company's finance expenses and are directly attributed to a currency translation capital fund. The currency exposure is reviewed as needed, on at least a quarterly basis. The Company did not take external hedging actions and it does not use other financial instruments for protection against currency fluctuations.

Interest Risks

The Company's sources of bank finance, short and long term, are linked to the Euro, US\$, GBP and NIS (according to the location of the borrowing company) and bear varying Libor interest. The Company's policy is to not take protective steps against possible increases in interest. Effective as of the balance sheet date, the Company does not hold any financial instruments, the Company's had long term loans in an overall amount of US\$ 56.6 M and the scope of its short term debt was approximately US\$ 43.8 M. As at March 31, 2010, the Company's cash flow balance is approximately US\$ 36.8 M.

C. THE COMPANY'S POLICY REGARDING RISK MANAGEMENT

1. The Company attempts to reduce its currency exposure, whether economic or accounting, by balancing liabilities and assets in each of the various currencies of the Group's operation.
2. The Executive Vice President and CFO is responsible for the management of the currency exposure in the Company. 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 and discussed by the Company's management.
3. Ongoing follow up is conducted in the raw materials area. Unusual occurrences, such as acute devaluation trends in a target country or price change trends in major raw materials that may affect the Company's activity are discussed by the Board of Directors. The Company did not use financial instruments or other instruments in order to protect the market risks to which it is exposed.

In Q1 2010, there were no changes to the risk management policy.

D. 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 related to currency exposure and interest. The Vice President and CFO reports on the exposures to the Board of Directors.

Exposure to raw material prices is examined by the Purchasing Department and the Management of the Segments on a regular basis. In addition, the Board of Directors receives reports as necessary. In 2010, there were no deviations from the planned policy.

E. SENSITIVITY TESTS

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	4.084	3.899	3.713	3.527	3.342
	US\$ 000				
Cash and equivalents	(169)	(85)	1,690	85	169
Customers	(893)	(447)	8,931	447	893
Other debtors	(507)	(254)	5,072	254	507
	(1,569)	(785)	15,693	785	1,569
Bank loans	411	205	4,107	(205)	(411)
Suppliers and Service providers	565	283	5,653	(283)	(565)
Other creditors	851	426	8,510	(426)	(851)
	1,827	914	18,270	(914)	(1,827)
Total exposure, net	258	129	(2,577)	(129)	(258)

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

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	0.728	0.695	0.662	0.629	0.596
US\$ 000					
Cash and equivalents	(491)	(246)	4,914	246	491
Customers	(490)	(245)	4,899	245	490
Other debtors	(59)	(29)	589	29	59
	(1,040)	(520)	10,402	520	1,040
Bank loans	2,017	1,009	20,174	(1,009)	(2,017)
Suppliers and service providers	446	223	4,464	(223)	(446)
Other creditors	676	338	6,757	(338)	(676)
	3,140	1,570	31,395	(1,570)	(3,140)
Total exposure, net	2,099	1,050	(20,993)	(1,050)	(2,099)

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	0.818	0.781	0.744	0.707	0.670
US\$ 000					
Cash and equivalents	(985)	(492)	9,845	492	985
Customers	(2,901)	(1,451)	29,012	1,451	2,901
Other debtors	(198)	(99)	1,984	99	198
	(4,084)	(2,042)	40,841	2,042	4,084
Credit from banks	6,520	3,260	65,202	(3,260)	(6,520)
Suppliers and service providers	1,071	536	10,714	(536)	(1,071)
Other creditors	640	320	6,404	(320)	(640)
Employee retirement rights liabilities	926	463	9,257	(463)	(926)
	9,158	4,579	91,577	(4,579)	(9,158)
Total exposure, net	5,074	2,537	(50,736)	(2,537)	(5,074)

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
Exchange rate	1.171	1.118	1.065	1.012	0.958
US\$ 000					
Cash and equivalents	(374)	(187)	3,744	187	374
Customers	(804)	(402)	8,038	402	804
Other debtors	(56)	(28)	557	28	56
	(1,234)	(617)	12,339	617	1,234
Suppliers and service providers	301	150	3,008	(150)	(301)
Other creditors	575	287	5,746	(287)	(575)
Employee retirement rights liabilities	128	64	1,276	(64)	(128)
	1,003	502	10,030	(502)	(1,003)
Total exposure, net	(231)	(115)	2,309	115	231

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

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
US\$ 000					
Cash and equivalents	(234)	(117)	2,344	117	234
Customers	(648)	(324)	6,480	324	648
Other debtors	(50)	(25)	495	25	50
	(932)	(466)	9,319	466	932
Credit from banks	4	2	35	(2)	(4)
Suppliers and service providers	61	31	611	(31)	(61)
Other creditors	108	54	1,084	(54)	(108)
Employee retirement rights liabilities	11	6	110	(6)	(11)
	184	93	1,840	(93)	(184)
Total exposure, net	(748)	(373)	7,479	373	748

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

% of change	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
	+10%	+5%		-5%	-10%
US\$ 000					
Long term loans (Euro)	17	8	2,629	(8)	(17)
Total exposure, net	17	8	2,629	(8)	(17)

CORPORATE GOVERNANCE ASPECTS

A. DIRECTORS WITH ACCOUNTING AND FINANCIAL EXPERTISE AND INDEPENDENT DIRECTORS

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the nature of the Company's activities as well as its complexity and size. The Board of Directors believes that this minimum number will enable it to meet its obligations according to the law and the Company's Articles of Association, and to relate to its responsibility of examining the Company's financial status and preparing and approving the financial reports, in particular.

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

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 is term is defined in the Companies Law – 1999).

B. DISCLOSURE REGARDING THE APPROVAL PROCESS OF THE FINANCIAL REPORTS

The Company's financial reports are submitted for approval to the Board of Directors, the organ in charge of the Company's ultimate supervision. The Company's Board of Directors has six members and five thereof have accounting and financial expertise. Several days before the meeting of the Board of Directors, the members receive the drafts of the financial reports, the Board of Directors Report and the managerial report prepared by the Company's management. The Company's auditors and members of the Company's senior management, including the President and CEO and the Executive Vice President 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 and CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that have occurred during the period. During the presentation of the Company's financial results, the Company's Senior Management answers questions and relates to the Directors' comments. Following the presentation of the Company's financial results the Company's auditors answer any questions the directors may have, if any. Finally, the Board of Directors votes with respect to the approval of the financial reports and the Directors Report and submitting them to the Securities Authorities and the Stock Exchanges. All of the members of the Board of Directors were present at the

Board meeting held on May 16, 2010, when the reports were approved. All of the directors present voted in favor of approving the reports.

DISCLOSURE RELATING TO THE CORPORATE'S FINANCIAL REPORTING

A. EVENTS FOLLOWING THE BALANCE SHEET DATE

On March 16, 2010, the Company's Board of Directors decided on the distribution of a cash dividend in the amount of NIS 0.18 per share. The dividend declared totals approximately US\$ 2,777 K. On May 6, 2010, the dividend was paid to the shareholders.

B. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial reports in accordance with IFRS requires the use of critical accounting estimates, which oblige the Company's management to use its discretion in the process of implementing the Company's general accounting policies and to prepare estimates and make assumptions that affect the amounts presented in the financial reports.

Below are the critical accounting estimates used in preparing the Company's financial reports; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its discretion to determine these estimates, the Company's management based itself on past experience, on 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 the preparation of the Company's financial reports, refer also to note 4 in the 2009 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 discretion in order to determine the overall provision in respect of taxes on income. The Company records provisions in its books based on its estimates of whether additional taxes will be due. When 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 said 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 for 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 adversely affect its operating results.

Severance Pay

The present value of the Company's liabilities in respect of severance pay depends 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 affect the carrying amount of the assets and liabilities with respect to 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 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 Group uses interest rates applicable to governmental bonds denominated in the currency in which the benefits will be paid and that have terms to maturity similar to the terms of the related liability.

Other key assumptions relating to pension liabilities, such as future payroll increases, 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 discretion of the Company's management with respect to the likelihood that the cash flow 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 examines 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.

The Board of Directors of the Company held two meetings during Q1 2010.

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

Dr. John J. Farber
Chairman of the Board

Ori Yehudai
President & CEO

May 16, 2010