FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING JUNE 30, 2010

BOARD OF DIRECTORS' EXPLANATION TO THE CORPORATION'S STATE OF AFFAIRS

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 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 and 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 Segment has 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 from its focus on multinational customers and on 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. The strategic acquisitions of companies and activities in the Specialty Fine Ingredients Segment which were implemented and successfully merged with Frutarom's global operations in recent years contributed to the increase in the Segment's sales as well.

B. MERGERS AND ACQUISITIONS

In recent years, Frutarom has implemented a strategy for achieving rapid and profitable growth, through a combination of organic 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 successfully 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, its net debt level (total loans minus cash in a total sum of US$ 37 M only as at June 30, 2010) which decreased substantially with the contribution of its 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 been implementing in recent years, while continue strengthening Frutarom's position as one of the leading global companies in the field of flavors and fine ingredients, and realizing its vision:

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

C. RESULTS OF ACTIVITY IN THE SECOND QUARTER OF 2010

Frutarom achieved profitable growth also in the second quarter of 2010. The steps taken during 2009 to strengthen and improve its competitiveness and operational efficiency, the improvement occurring in the global economic environment, and the accelerated growth trend in sales in all of Frutarom's core activities, while improving the product mix, contributed to the material improvement in profit and margin, which hit record levels.

Sales

In Q2 2010, a double digit growth of approximately 10% was achieved in sales in local currency terms compared to the same quarter last year. Sales in US$ terms increased by 7.1% and totaled US$ 114.3 M compared to US$ 106.7 M in the same period in 2009.

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

a. Organic growth in sales in the Flavors Segment.

b. Accelerated growth in the sales of the Specialty Fine Ingredients Segment which is attributed to a successful penetration of new products, mainly natural and with higher than the average profit margins, which were developed by the Company in recent years. Those products contributed also to the continuous improvement in the product mix and the profitability of the Segment. Renewal of inventories by some of the customers also contributed to the increase in sales.

c. The merger of the Savory activities of CH in Germany which was acquired and consolidated as from June 18, 2009.

On the other hand, the weakening of the Euro and the Pound Sterling which was slightly setoff due to the strengthening of the NIS against the US$, compared to Q2 2009, caused a decrease of approximately 2.9% in sales.

In addition, 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 0.8% in sales.

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Flavors Segment	**Sales**	6.6	10.9	11.9	15.7	23.7	43.1	49.5	61.7	98.1	75.8	77.4
	%	32.2%	40.4%	41.7%	49.1%	53.1%	64.2%	68.4%	67.3%	74.0%	71.0%	67.7%
Fine Ingredients Segment	**Sales**	12.6	15.1	15.5	15.2	19.7	23.7	22.5	28.9	32.5	29.7	36.2
	%	61.8%	55.9%	54.4%	47.4%	44.2%	35.3%	31.1%	31.5%	24.5%	27.9%	31.7%
Trade & Marketing	**Sales**	1.6	1.4	1.6	1.7	1.9	1.5	1.5	2.1	2.9	2.0	1.1
	%	7.8%	5.2%	5.7%	5.5%	4.2%	2.2%	2.1%	2.3%	2.2%	1.9%	1%
Inter Segments	**Sales**	-0.3	-0.4	-0.5	-0.6	-0.8	-1.2	-1.1	-1.0	-0.9	-0.8	-0.4
	%	-1.8%	-1.5%	-1.7%	-1.9%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%	-0.8%	-0.4%
Total sales		20.4	27.0	28.6	32.0	44.6	67.1	72.3	91.7	132.6	106.7	114.3

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

	2010	2009	Change (%)
Sales	114.3	106.7	7.1%
Gross profit	46.9	39.4	18.9%
R&D, Selling, Administration, General and Other income	27.5	26.7	3.0%
Operating profit	19.4	12.8	52.1%
EBITDA	24.0	17.4	38.1%
Profit before tax	17.1	12.7	34.6%
Net profit	13.0	10.1	29.1%

Gross Profit

Gross profit in Q2 2010 increased by 18.9% and reached US$ 46.9 M compared to US$ 39.4 M in the same quarter in 2009. Gross margin improved significantly and reached 41.0% compared to 37.0% in the same period in 2009. The continuous improvement in the product mix combined with the operational efficiencies and the strengthening of Frutarom's competeiveness contributed to the material improvement in margin.

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

In Q2 2010, selling, marketing, research and development, administration, general and other expenses totaled US$ 27.5 M (24.1% of sales) compared to US$ 26.7 M in the same period in 2009 (25.0% of sales).

Operating Profit and EBITDA

In Q2 2010, operating profit increased by 52.1% and totaled US$ 19.4 M compared to US$ 12.8 M in the same period last year. Operating margin for the period increased at a sharp rate and reached 17.0% compared to 12.0% in the same period in 2009.

The EBITDA achieved by Frutarom in Q2 2010 increased by 38.1% and hit a quarterly record by reaching US$ 24.0 M. EBITDA margin also hit a record and reached to 21.0% of sales compared to US$ 17.4 M (16.3% of sales) in the same quarter in 2009.

The profitable growth in sales combined with the improvement in the product mix and with maintaining the expense level achieved as a result of the steps taken by Frutarom to achieve efficiencies and to strengthen its competitiveness, led, as aforementioned, to the material improvement in profit and margin.

Finance Expenses / Income

In Q2 2010, finance expenses totaled US$ 2.3 M (2.0% of sales) compared to US$ 0.1 M (0.1% of sales) in Q2 2009. The interest expenses in Q2 2010 totaled US$ 0.5 M and the finance expenses as result of currency rate differences totaled US$ 1.8 M (due to the strengthening of the US$ exchange rate against the European currencies and the NIS as at June 30, 2010, compared to the US$ exchange rate against those currencies as at March 31, 2010). In Q2 2009, the interest expenses for loans in the amount of US$ 1.3 M were set off by finance income from currency rate differences in the amount of US$ 1.2 M.

The decrease in the interest expenses arises from the reduction of loans and from the decrease in interest rates.

Profit before Tax

In Q2 2010, profit before tax increased at a rate of 34.6% and totaled US$ 17.1 M (14.9% of sales) compared to US$ 12.7 M (11.9% of sales) in the same quarter last year.

Taxes on Income

In Q2 2010, taxes on income totaled US$ 4.1 M (23.8% of profit before tax) compared to US$ 2.6 M (20.5% of profit before tax) in the same quarter last year.

Net Profit

In Q2 2010, net profit increased by 29.1% and reached US$ 13.0 M compared to US$ 10.1 M in Q2 2009. Net margin also increased sharply and reached 11.4% compared to 9.5% in the same quarter last year.

Earnings per Share

In Q2 2010, earnings per share reached a quarterly record of US$ 0.23 compared to US$ 0.18 per share in the same period last year.

Cash Flow

In the second quarter of 2010 the cash flow from current activities increased by 28.9% and reached US$ 25.3 M compared to a cash flow of US$19.7 M achieved in the second quarter of 2009. The increase in cash flow from current activities was achieved in spite of the double digit growth in sales.

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	Q2 1010
Income	122.0	132.6	120.0	98.7	98.4	106.7	111.6	108.5	113.5	114.3
Gross profit	44.8	49.7	45.3	36.5	35.2	39.4	41.2	39.6	43.5	46.9
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	27.5
Operating profit	15.3	17.9	15.0	8.4	10.2	12.8	13.3	11.0	16.6	19.4
EBITDA	20.2	23.8	20.0	12.4	14.5	17.4	18.3	16.0	21.3	24.0
Finance expenses	2.8	2.2	2.5	3.0	3.3	0.1	0.0	0.9	1.3	2.3
Profit before tax	12.5	15.7	12.4	5.4	6.9	12.7	13.2	10.1	15.3	17.1
Net profit	9.7	12.0	9.4	6.0	5.6	10.1	10.0	7.5	11.1	13.0

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, alongside 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 demands.

D. RESULTS OF ACTIVITY IN THE FIRST HALF OF 2010

In the first half of 2010, Frutarom also achieved profitable double digit growth in sales. The steps taken during 2009 to strengthen and improve its competitiveness and operational efficiency, the improvement occurring in the global economic environment and the accelerated growth trend in sales in Frutarom's core activities, while improving the product mix, contributed to the material improvement in margin and profit, which hit record levels.

Sales

In the first half of 2010, a double digit growth of approximately 10% was achieved in sales in local currency terms compared to the first half of 2009. Sales in US$ terms increased by 11.0% and totaled US$ 227.7 M compared to US$ 205.1 M in the same period in 2009.

The increase in sales during the first half year of 2009, results mainly from the factors aforementioned with respect to the sales of the second quarter of the year:

a. Organic growth in the sales of the Flavors Segment.

b. Accelerated growth as aforementioned in the sales of the Specialty Fine Ingredients Segment.

c. The merger of Oxford's activity, which was acquired and consolidated as from February 1, 2009; the merger of the activity of FSI in USA, which was acquired and consolidated as from March 4, 2009 and the merger of the Savory activity of CH in Germany which was acquired and consolidated as from June 18, 2009.

d. The strengthening of the Swiss Franc, the Pound Sterling and the NIS against the US$ which was slightly set off by the weakening of the Euro against the US$, contributed during the first half of 2009 approximately 1% to the increase in the Company's sales in US$ terms.

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 0.9% in sales.

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Flavors Segment	**Sales**	13.4	20.0	22.7	28.4	42.6	83.4	94.2	111.6	182.5	143.1	152.8
	%	31.7%	39.1%	40.9%	47.2%	48.1%	63.3%	65.7%	64.8%	71.7%	69.8%	67.1%
Fine Ingredients Segment	**Sales**	26.5	29.0	30.5	29.3	43.6	47.1	48.0	58.0	67.8	59.3	73.8
	%	62.6%	56.6%	54.8%	48.7%	49.3%	35.7%	33.5%	33.7%	26.6%	28.9%	32.4%
Trade & Marketing	**Sales**	3.1	2.9	3.3	3.5	3.6	3.3	2.9	4.7	6.6	4.2	2.3
	%	7.3%	5.7%	5.8%	5.8%	4.1%	2.5%	2.0%	2.7%	2.6%	2.1%	1.0%
Inter Segments	**Sales**	-0.7	-0.7	-0.8	-1.1	-1.3	-2.0	-1.8	-2.1	-2.3	-1.5	-1.2
	%	-1.7%	-1.4%	-1.5%	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%	-0.8%	-0.5%
Total sales		42.3	51.2	55.6	60.2	88.5	131.8	143.3	172.2	254.6	205.1	227.7

The following are condensed profit and loss reports of H1 (US$ M):

	2010	2009	Change (%)
Sales	227.7	205.1	11.0%
Gross profit	90.4	74.7	21.0%
R&D, Selling, Administration, General and Other income	54.4	51.7	5.3%
Operating profit	36.0	23.0	56.4%
EBITDA	45.3	31.9	42.2%
Profit before tax	32.4	19.6	65.1%
Net profit	24.1	15.7	53.8%

Gross Profit

Gross profit in the first half of 2010 increased by 21.0% reaching US$ 90.4 M compared to US$ 74.7 M in the same half in 2009. Gross margin hit record in the first half of 2010 and reached 39.7% compared to 36.4% in the same period in 2009.

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

In the first half of 2010, selling, marketing, research and development, administration, general and other expenses totaled US$ 54.4 M (23.9% of sales) compared to US$ 51.7 M in the same period in 2009 (25.2% of sales).

Operating Profit and EBITDA

In the first half of 2010, operating profit increased at a sharp rate of 56.4% and totaled US$ 36.0 M compared to US$ 23.0 M in the same period last year. Operating margin materially increased reaching 15.8% compared to 11.2% in the same period in 2009.

The EBITDA achieved by Frutarom in the first half of 2010 increased by 42.2% and reached a first half record of US$ 45.3 M compared to US$ 31.9 M in the first half of 2009. EBTIDA margin also hit a half year record and reached 19.9% of sales compared to 15.5% of sales in the first half of 2009.

The profitable growth in sales combined with the improvement in the product mix and with maintaining the expense level achieved as a result of the steps taken by Frutarom to achieve efficiencies and to strengthen its competitiveness, led to the aforementioned material improvement in profit and margin.

Finance Expenses / Income

In the first half of 2010, finance expenses totaled US$ 3.6 M (1.6% of sales) compared to US$ 3.4 M (1.6% of sales) in the first half of 2009. Interest expenses in first half of 2010 totaled US$ 1.1 M and the finance expenses as a result of currency rate differences totaled US$ 2.5 M (due to the strengthening of the US$ exchange rate against the European currencies as at June 30, 2010 compared to the US$ exchange rate against those currencies as at December 31, 2009). The interest expenses for loans in first half of 2009 totaled US$ 2.6 M and the finance expenses arising from currency rate differences totaled US$ 0.8 M.

The decrease in the interest expenses arises from the reduction of loans and from the decrease in interest rates.

Profit before Tax

Profit before tax in the first half of increased at a rate of 65.1% and totaled US$ 32.4 M (14.2% of sales) compared to US$ 19.6 M (9.6% of sales) in the same half last year.

Taxes on Income

In the first half of 2010, taxes on income totaled US$ 8.2 M (25.5% of profit before tax) compared to US$ 3.9 M (20.0% of profit before tax) in the same half last year.

Net Profit

Net profit in the first half of 2010 increased at a sharp rate of 53.8% and reached US$ 24.1 M compared to US$ 15.7 M in the first half of 2009. Net margin also increased sharply and reached 10.6% compared to 7.6% in the same half last year.

Earnings per Share

In the first half of 2010 earnings per share increased by 53.3% and reached US$ 0.42 compared to US$ 0.28 per share in the same half last year.

Cash Flow

In the first half of 2010 Frutarom achieved cash flow from current activities of US$ 30.6 M compared to a cash flow of 30.4 M achieved in the first half of 2009. The cash flow from current activities was achieved in spite of the double digit growth in sales.

E. FINANCIAL STATUS

Total assets on June 30, 2010 totaled US$ 492.8 M compared to US$ 531.5 M on June 30, 2009 and US$ 526.1 M on December 31, 2009.

The Company's current assets totaled US$ 205.8 M compared to US$ 204.2 M in the same quarter last year and US$ 203.6 M on December 31, 2009.

As at June 30, 2010, net fixed assets excluding accumulated depreciation and other assets totaled US$ 284.9 M compared to US$ 324.0 M at the end of Q2 last year and US$ 318.7 M on December 31, 2009.

The decrease in the level of assets arises mainly from translation differences in the value of assets to US$ in subsidiaries reporting in European currencies, due to the strengthening of the US$ rate as at June 30, 2010 compared to December 31, 2009 and June 30, 2009.

F. LIQUIDITY

During Q2 2010, cash flow from current activities increased by 28.9% and reached US$ 25.3 M compared to a cash flow of US$ 19.7 M achieved in Q2 2009. During the first half of 2010, the Company generated a positive cash flow from current activities in the amount of US$ 30.6 M compared to US$ 30.4 M in the same period last year.

The strong cash flow from current activities was achieved in spite of the increase in Frutarom's activity compared to the same period last year.

G. SOURCES OF FINANCE

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity as at June 30, 2010, totaled US$ 319.8 M (64.9% of the balance sheet) compared to US$ 295.3 M (55.6% of the balance sheet) on June 30, 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 (US$), 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 from current activities.

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

The long-term credit from banks provided to the Company in Q2 2010 totaled US$ 87.6 M compared to US$ 133.9 M in the same quarter in 2009.

The strong cash flow from current activities during 2009 and in the first half of 2010 contributed to the substantial decrease in 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 Q2 2010 also decreased and totaled only US$ 0.3 M compared to US$ 17.2 M in the same quarter of 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, 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 Q2 2010, the average amount of credit from suppliers and other creditors was US$ 58.8 M (compared to US$ 55.5 M during the same period last year). During Q2 2010, the Company granted its customers a credit of US$ 73.1 M (compared to US$ 73.0 M in the same period last year).

H. SUMMARY OF THE SENSITIVITY TESTS TABLES

The functional currency of most of the companies in the Group is the local currency and therefore translation differences of balance sheet balances of those companies do not affect the statement of income and they are directly carried to the Company's shareholders' equity (capital fund from translations differences).

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	4.263	4.069	3.875	3.681	3.488
			US$ 000		
Total Exposure net	(123)	(61)	1,244	61	123

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	0.732	0.699	0.665	0.632	0.599
			US$ 000		
Total Exposure net	1,869	935	(18,697)	(935)	(1,869)

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	**0.896**	**0.855**	**0.815**	**0.774**	**0.733**
			US$ 000		
Total exposure, net	**3,950**	**1,977**	**(39,509)**	**(1,977)**	**(3,950)**

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	1.189	1.135	1.081	1.027	0.973
			US$ 000		
Total exposure, net	(131)	(65)	1,307	65	131

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
			US$ 000		
Total exposure, net	(736)	(368)	7,365	368	736

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Total exposure, net	13	6	2,090	(6)	(12)

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. An ongoing follow up on raw materials prices is maintained by the Company’s VP Operations and Supply Chain

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 balances in local currency of any company do not affect the Company’s finance expenses and are directly attributed to a currency translation capital fund. Financial balances in other currencies are carried to finance expenses. The currency exposure is reviewed as needed, at least on 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$, GBP and NIS (according to the location of the borrowing company) and bear varying Libor interest. The Company's policy is to not take protective steps against possible increases in interest. Effective as of the balance sheet date, the Company does not hold any financial instruments, the Company's had long term loans excluding current maturities in an overall amount of US$ 45.2 M and the scope of its short term debt including current maturities of long term loans was approximately US$ 33.0 M. The Company's cash flow balance is approximately US$ 41.2 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 and, from time to time, by the Company's Board of Directors.

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 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 exposures are reported by the Vice President and CFO to the Board of Directors at least once a year and in periods where acute changes are taking place in the global economic condition and in interest rates. Exposure to raw material prices is examined by the VP Operations and Supply Chain, 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	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.263**	**4.069**	**3.875**	**3.681**	**3.488**
			US$ 000		
Cash and equivalents	(72)	(36)	722	36	72
Customers	(904)	(452)	9,038	452	904
Other debtors	(258)	(129)	2,579	129	258
	(1,234)	**(617)**	**12,339**	**617**	**1,234**
Bank loans	258	129	2,581	(129)	(258)
Suppliers and Service providers	508	254	5,084	(254)	(508)
Other creditors	345	173	3,450	(173)	(345)
	1,111	**556**	**11,115**	**(556)**	**(1,111)**
Total exposure, net	**(123)**	**(61)**	**1,224**	**61**	**123**

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	**0.732**	**0.699**	**0.665**	**0.632**	**0.599**
			US$ 000		
Cash and equivalents	(533)	(267)	5,331	267	533
Customers	(517)	(258)	5,167	258	517
Other debtors	(93)	(46)	928	46	93
	(1,143)	**(571)**	**11,426**	**571**	**1,143**
Bank loans	1,802	901	18,022	(901)	(1,802)
Suppliers and service providers	520	260	5,201	(260)	(520)
Other creditors	690	345	6,900	(345)	(690)
	3,012	**1,506**	**30,123**	**(1,506)**	**(3,012)**
Total exposure, net	**1,869**	**935**	**(18,697)**	**(935)**	**(1,869)**

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	**0.896**	**0.855**	**0.815**	**0.774**	**0.733**
			US$ 000		
Cash and equivalents	(1,462)	(731)	14,624	731	1,462
Customers	(2,585)	(1,292)	25,847	1,292	2,585
Other debtors	(83)	(41)	828	41	83
	(4,130)	**(2,064)**	**41,299**	**2,064**	**4,130**
Credit from banks	5,185	2,593	51,850	(2,593)	(5,185)
Suppliers and service providers	1,170	585	11,702	(585)	(1,170)
Other creditors	882	441	8,823	(441)	(882)
Employee retirement rights liabilities	843	422	8,433	(422)	(843)
	8,080	**4,041**	**80,808**	**(4,041)**	**(8,080)**
Total exposure, net	**3,950**	**1,977**	**(39,509)**	**(1,977)**	**(3,950)**

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	**1.189**	**1.135**	**1.081**	**1.027**	**0.973**
			US$ 000		
Cash and equivalents	(432)	(216)	4,323	216	432
Customers	(714)	(357)	7,142	357	714
Other debtors	(67)	(33)	665	33	67
	(1,213)	**(606)**	**12,130**	**606**	**1,213**
Suppliers and service providers	338	169	3,383	(169)	(338)
Other creditors	618	309	6,183	(309)	(618)
Employee retirement rights liabilities	126	63	1,257	(63)	(126)
	1,082	**541**	**10,823**	**(541)**	**(1,082)**
Total exposure, net	**(131)**	**(65)**	**1,307**	**65**	**131**

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	(248)	(124)	2,483	124	248
Customers	(659)	(330)	6,591	330	659
Other debtors	(30)	(15)	298	15	30
	(937)	**(469)**	**9,372**	**469**	**937**
Credit from banks	5	2	45	(2)	(5)
Suppliers and service providers	75	38	751	(38)	(75)
Other creditors	110	55	1,101	(55)	(110)
Employee retirement rights liabilities	11	6	110	(6)	(11)
	201	**101**	**2,007**	**(101)**	**(201)**
Total exposure, net	**(736)**	**(368)**	**7,365**	**368**	**736**

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)	13	6	2,090	(6)	(12)
Total exposure, net	13	6	2,090	(6)	(12)

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 minimal 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 minimal 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 the CFO and VP Finance 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 an 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 August 16, 2010, when the reports were approved. All of the directors present voted in favor of approving the reports.

C. EFFECTIVITY OF INTERNAL CONTROL

Further to the Company's reporting under the annual report with respect to its organization for the purpose of implementing the Securities Regulations (Periodic and Immediate Reports) (Amendment) 2009, the Company completed the implementation of the estimation of risks of the internal control, the documentation of the business processes and the controls which exist in the financial report and the disclosure as well as the analysis of the gaps existing in the planning of the internal control.

DISCLOSURE RELATING TO THE CORPORATE'S FINANCIAL REPORTING

A. DISTRIBUTION OF DIVIDEND IN 2010

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. EVENTS FOLLOWING THE BALANCE SHEET DATE

On July 15, 2010, the Board of Directors ("The Board of Directors") approved a plan for the allocation of 1,000,000 options unregistered for trade which are exercisable into 1,000,000 ordinary shares of NIS 1 par value each. The aforementioned shares will be allocated from the Company's registered and unissued capital, of which 745,000 options are for 11 managers in the Company and in the Group's companies and 255,000 options – for future allocations.

For further information refer to Note 7 to the quarterly reports.

C. 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.

D. EXCLUSION OF THE COMPANY'S SEPARATE FINANCIAL REPORT UNDER REGULATION 9(C) TO THE REGULATIONS ("THE SOLO REPORT")

The Company excluded from the Annual Report, a separate financial report as set forth in Regulation 9C to the Regulations (**"The Solo Report"**) due to the negligibility of the additional information of such report and the fact that the Solo Report will not add any material information (which is not included in the Company's consolidated reports) to the reasonable investor.

The Company decided that the information is negligible as the Company does not have any commercial activities of any kind whatsoever and therefore the Company's results of operations hardly have any effect on the Groups' profit and loss. The Company does not employ people; it does not have any sales or expenses to third parties excluding part of the expenses of the Board of Directors which are paid by a wholly owned subsidiary (hereinafter: **"Frutarom Ltd."**) and are attributed thereto.

The management of the Company has also examined the warning signs included in Regulation 10(14) to the Regulations and decided that they do not exist.

(For further details, please see Directors' Report as at December 31, 2009).

The Board of Directors of the Company held four meetings during the report's period.

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

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

August 16, 2010