FRUTAROM INDUSTRIES LTD.

DIRECTORS' REPORT TO THE SHAREHOLDERS

FOR THE PERIOD ENDING SEPTEMBER 30, 2010

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

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. ("**the Company**") is a global company that was founded in Israel 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. The Company, by itself and via its subsidiaries ("**Frutarom**" or "**the Group**") develops, produces and markets flavors and specialty 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 1,500 people.

Frutarom's activity is divided into two main segments, each of which is a major field of activity the Flavors Segment and the Specialty Fine Ingredients Segment.

- **The Flavors Segment 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 accelerated growth as a result of organic growth which is mainly based on the Segment's focus on both developed and emerging markets, on global multinational customers as well as on mid-sized and local

customers and as a result of successful implementation of strategic acquisitions which were successfully integrated into Frutarom's global activity.

- **The Specialty Fine Ingredients Segment** 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 the Specialty Fine Ingredients Segment have grown as a result of internal growth stemming mainly from the development of new, innovative added value products with higher than average margin and from focusing on multinational customers and on mid-sized and local customers worldwide. Most of the Segment's products are natural, 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, have also contributed to the growth in the Segment's sales.

Frutarom continues to act vigorously to implement its rapid growth strategy, which combines profitable internal growth and strategic acquisition. The Company intends to keep growing in the main areas in which it operates and accelerate the growth in emerging markets, including Asia, Central and South America and Africa, which enjoy higher growth rates, and in North America. Frutarom acts for the acceleration of internal growth in these markets, inter alia, by a focused effort on strengthening the R&D, production, marketing and sales infrastructures in important target countries and by identifying opportunities for strategic acquisitions.

Frutarom has extensive experience in successfully implementing acquisitions and mergers and it acts to integrate the acquired companies and activities into its existing operations while utilizing the commercial and operational synergies in order to take best advantage of the cross-selling opportunities, the cost savings and the improvement in margin. The companies and activities acquired by Frutarom in recent years were successfully merged with and integrated into its global activity and contributed to both the increase in sales and the improvement in profit and margin.

Frutarom estimates that its capital structure (US$ 351.5 M in equity as at September 30, 2010), its net debt level (total loans minus cash in a total sum of US$ 29.8 M only as at September 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 it has been implementing in recent years, while continuing to strengthen its 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"

B. RESULTS OF ACTIVITY IN THE THIRD QUARTER OF 2010

Frutarom achieved profitable growth also in the third quarter of 2010, while hitting record level in net profit and in gross, operational and EBITDA margin and in earnings per share compared to the third quarter of previous years. The continuation of the growth trend in sales and the record levels of profit and margin arise, inter alia, from the growth trend in the sales of Frutarom's core activities, the improvement in the Group's product mix, the competitive expense level achieved and maintained by the Company as a result of the steps taken in 2009 and the improvement which occurred in the global economic environment.

<u>Sales</u>

In Q3 2010, a growth of approximately 4.8% was achieved in sales in local currency terms compared to the same quarter last year. Sales in US$ terms decreased by approximately 0.6% and totaled US$ 111.0 M compared to US$ 111.6 M in the same period in 2009.

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

a. 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 activity.

On the other hand, the weakening of the Euro and the Pound Sterling against the US$ (which was slightly setoff due to the strengthening of the Swiss Franc and the NIS against the US$) compared to Q3 2009, caused a decrease of approximately 5.4% in sales in US$ terms.

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

		Q3 2000	**Q3 2001**	**Q3 2002**	**Q3 2003**	**Q3 2004**	**Q3 2005**	**Q3 2006**	**Q3 2007**	**Q3 2008**	**Q3 2009**	**Q3 2010**
Flavors Segment	**Sales**	6.6	10.1	11.8	21.1	28.1	36.2	47.2	57.6	86.1	77.3	75.4
	%	33.6%	38.1%	42.8%	49.8%	54.7%	61.0%	66.3%	65.7%	71.7%	69.3%	67.9%
Fine Ingredients Segment	**Sales**	11.6	15.1	14.7	20.3	22.1	22.7	23.9	28.1	31.1	33.5	34.6
	%	59.0%	57.2%	53.4%	48.0%	43.0%	38.2%	33.6%	% 32.0	25.9%	30.1%	31.1%
Trade & Marketing	**Sales**	1.7	1.5	1.5	1.6	1.8	1.6	1.8	3.3	3.8	1.5	1.5
	%	8.8%	5.6%	5.4%	3.7%	3.5%	2.8%	2.5%	3.7%	3.2%	1.3%	1.4%
Inter Segments	**Sales**	-0.3	-0.2	-0.5	-0.6	-0.6	-1.1	-1.7	-1.3	-1.0	-0.7	-0.5
	%	-1.4%	-0.8%	-1.6%	-1.5%	-1.2%	-2.0%	-2.4%	-1.4%	-0.9%	-0.7%	-0.5%
Total sales		19.6	26.4	27.5	42.4	51.4	59.4	71.3	87.7	120.0	111.6	111.0

The following are condensed profit and loss reports of Q3 (US$ M):

	Q3 2010	Q3 2009	Change (%)
Sales	111.0	111.6	-0.6%
Gross profit	43.2	41.2	4.7%
R&D, Selling, Administration, General and Other income	28.2	27.9	1.1%
Operating profit	15.0	13.3	12.2%
EBITDA	19.8	18.3	8.3%
Profit before tax	15.2	13.2	14.5%
Net profit	11.1	10.0	11.1%

Gross Profit

Gross profit in the quarter increased by 4.7% and reached US$ 43.2 M compared to US$ 41.2 M in the same quarter in 2009. Gross margin improved and reached 38.9% compared to 37.0% in the same period in 2009. The improvement in the profitability stems mainly from the continuous improvement in the product mix and the operational efficiencies achieved while strengthening Frutarom's competiveness.

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

The selling, marketing, research and development, administration, general and other expenses totaled US$ 28.2 M in Q3 (25.4% of sales) compared to US$ 27.9 M in the same period in 2009 (25.0% of sales).

Operating Profit and EBITDA

The operating profit in Q3 2010 increased by 12.2% and totaled US$ 15.0 M compared to US$ 13.3 M in the same period last year. Operating margin for the period increased and reached 13.5% compared to 11.9% in the same period in 2009.

The EBITDA achieved by Frutarom in Q3 2010 increased by 8.3% and reached US$ 19.8 M compared to US$ 18.3 M in the same period in 2009. EBITDA profitability reached 17.9% of the sales compared to 16.4% of the sales in the same period 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 to the material improvement in profit and margin.

Finance Expenses / Income

In Q3 of 2010, finance income totaled US$ 0.2 M (0.2% of sales) compared to finance expenses of US$ 0.1 M (0.1% of sales) in Q3 of 2009. Interest expenses in Q3 of 2010 totaled US$ 0.7 M and were offset by finance income from currency rate differences which totaled US$ 0.9 M (due to the weakening of the US$ exchange rate against the European currencies and the NIS as at September 30, 2010 compared to US$ exchange rate against those currencies as at June 30, 2010). In Q3 2009, the interest expenses for loans in the amount of US$ 0.9 M were set off by finance income from currency rate differences in the amount of US$ 0.8 M. The decrease in interest expenses arises mainly from the reduction of loans.

Profit before Tax

In Q3 2010, profit before tax increased at a rate of 14.5% and totaled US$ 15.2 M (13.7% of sales) compared to US$ 13.2 M in the same quarter last year (11.9% of sales).

Taxes on Income

In Q3 2010, taxes on income totaled US$ 4.0 M (26.5% of profit before tax) compared to US$ 3.2 M in the same quarter last year (24.3% of profit before tax).

Net Profit

In Q3 2010, net profit increased by 11.1% and reached US$ 11.1 M compared to US$ 10.0 M in Q3 2009. Net margin also increased and reached 10.0% compared to 9.0% in the same quarter last year.

Earnings per Share

In Q3 2010, earnings per share increased by 10.9% and reached $0.19 compared to $0.18 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	Q2 2010	Q3 2010
Income	122.0	132.6	120.0	98.7	98.4	106.7	111.6	108.5	113.5	114.3	111.0
Gross profit	44.8	49.7	45.3	36.5	35.2	39.4	41.2	39.6	43.5	46.9	43.2
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	28.2
Operating profit	15.3	17.9	15.0	8.4	10.2	12.8	13.3	11.0	16.6	19.4	15.0
EBITDA	20.2	23.8	20.0	12.4	14.5	17.4	18.3	16.0	21.3	24.0	19.8
Finance expenses	2.8	2.2	2.5	3.0	3.3	0.1	0.0	0.9	1.3	2.3	-0.2
Profit before tax	12.5	15.7	12.4	5.4	6.9	12.7	13.2	10.1	15.3	17.1	15.2
Net profit	9.7	12.0	9.4	6.0	5.6	10.1	10.0	7.5	11.1	13.0	11.1

Frutarom's business is characterized by seasonal fluctuations generally with higher sales and margin 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 Nesse and Gewurzmuller and the Savory activities of CH (the Christian Hansen group) 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.

C. RESULTS OF ACTIVITY IN THE FIRST NINE MONTHS OF 2010

In the first nine months of 2010, Frutarom achieved profitable growth in sales. The growth trend in sales in Frutarom's core activities, the improvement in the Group's product mix, the competitive expense level and operational efficiency achieved and maintained by the Company as a result of the steps taken in 2009 and the improvement which occurred in the global economic environment led to the material improvement in the operational and net profit and EBITDA and in the gross, operational and EBITDA margins and in the earning per share, which hit record levels compared to the same period in previous years.

Sales

In the first nine months of 2010, Frutarom achieved approximately 8.2% growth in sales in local currency terms compared to the first nine months of 2009. In US$, sales increased by 6.9% and reached US$ 338.7 M compared to US$ 316.7 M in the first nine months of 2009.

The increase in sales during the first nine months of 2010, results from:

a. Growth in the sales of the Flavors Segment.

b. Accelerated growth in the sales of the Specialty Fine Ingredients Segment as a result of a successful introduction of new products, mainly natural and of higher than average margin, which were developed by the group in recent years, and the restocking undergone by its customers in the first half of the year.

c. The merger of Oxford's activity in the UK, 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.

The weakening of the Euro and the Pound Sterling against the US$, which was slightly offset by the strengthening of the Swiss Franc and the NIS against the US$, reduced the Company's sales in US$ terms by approximately 1.3% during the first nine months of the year.

Additionally, the decrease in the trade and marketing activity in Israel (not one of Frutarom's core activities), caused a decrease of approximately 0.6% in sales.

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

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Flavors Segment	**Sales**	19.9	30.0	34.9	49.7	70.8	119.6	141.5	169.2	268.6	220.4	228.2
	%	32.2%	38.7%	41.6%	48.3%	50.6%	62.5%	65.9%	65.1%	71.7%	69.6%	67.4%
Fine Ingredients Segment	**Sales**	38.0	44.1	45.6	49.8	65.6	69.8	72.0	86.1	98.9	92.9	108.3
	%	61.3%	56.9%	54.3%	48.4%	46.9%	36.5%	33.5%	33.1%	26.4%	29.3%	32.0%
Trade & Marketing	**Sales**	5.1	4.4	4.7	5.1	5.3	5.0	4.7	7.9	10.4	5.7	3.9
	%	8.2%	5.6%	5.6%	5.0%	3.8%	2.6%	2.2%	3.1%	2.8%	1.8%	1.1%
Inter Segments	**Sales**	-1.1	-1.0	-1.2	-1.7	-1.9	-3.2	-3.5	-3.4	-3.3	-2.3	-1.7
	%	-1.7%	-1.3%	-1.5%	-1.7%	-1.4%	-1.6%	-1.6%	-1.3%	-0.9%	-0.7%	-0.5%
Total sales		61.9	77.5	84.0	102.9	139.8	191.2	214.6	260.0	374.6	316.7	338.7

The following is condensed profit and loss reports of the first nine months of 2010 (US$M):

	Q1-Q3 2010	Q1-Q3 2009	Change (%)
Sales	338.7	316.7	6.9%
Gross profit	133.5	115.9	15.2%
R&D, Selling, Administration, General and Other income	82.6	79.6	3.8%
Operating profit	50.9	36.3	40.2%
EBITDA	65.2	50.2	29.8%
Profit before tax	47.5	32.9	44.7%
Net profit	35.3	25.7	37.2%

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Gross profit in the first nine months of 2010 increased by 15.2% reaching US$ 133.5 M compared to US$ 115.9 in the first nine months of 2009. Gross margin hit record level of 39.4% compared to 36.6% in the same period in 2009. The increase in profit and margin arises mainly from the improvement of the product mix and the operational efficiencies achieved while strengthening Frutarom's competitiveness.

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

In the first nine months of 2010, selling, marketing, research and development, administration, general and other expenses totaled US$ 82.6 M (24.4% of sales) compared to US$ 79.6 M in the same period in 2009 (25.1% of sales).

Operating Profit and EBITDA

In the first nine months of 2010, operating profit increased at a sharp rate of 40.2% and reached US$ 50.9 M compared to US$ 36.3 M in the same period last year. Operating margin increased and reached 15.0% compared to 11.5% in the same period in 2009.

The EBITDA recorded by Frutarom in the first nine months of 2010 increased by 29.8% and reached US$ 65.2 M compared to US$ 50.2 M in the same period in 2009. EBTIDA margin reached 19.2% of sales compared to 15.8% of sales in the same period 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 to the aforementioned material improvement in profit and margin.

Finance Expenses / Income

In the first nine months of 2010, finance expenses totaled US$ 3.4 M (1.0% of sales) compared to US$ 3.5 M (1.1% of sales) in 2009. Interest expenses in the first nine months of 2010 totaled US$ 1.7 M compared to US$ 3.5 M in the same period last year. The decrease in interest expenses arises mainly from the reduction of loans.

In the first nine months of 2010, finance expenses totaled US$ 1.7 M due to currency rate differences compared to the same period last year in which finance expenses due to currency rate differences were negligible. The change in finance expenses due to currency rate differences arises mainly from the strengthening of the US$ exchange rate against the European currencies as at September 30, 2010 compared to December 31, 2009.

Profit before Tax

In the first nine months of 2010, profit before tax increased at a sharp rate of 44.7% and totaled US$ 47.5 M (14.0% of sales) compared to US$ 32.9 M in first nine months of 2009 (10.4% of sales).

Taxes on Income

In the first nine months of 2010, taxes on income totaled US$ 12.3 M (25.8% of profit before tax) compared to US$ 7.1 in the first nine months of 2009 (21.7% of profit before tax).

Net Profit

In the first nine months of 2010, net profit increased by 37.2% and reached US$ 35.3 M compared to US$ 25.7 M in the first nine months of 2009. Net margin also increased sharply and reached 10.4% compared to 8.1% in the first nine months of 2009.

Earnings per Share

In the first nine months of 2010, earnings per share increased by 36.9% and reached US$ 0.62 per share compared to US$ 0.45 per share in the same period last year.

D. FINANCIAL STATUS

Total assets on September 30, 2010 totaled US$ 531.7 M compared to US$ 541.0 M on September 30, 2009 and US$ 526.1 M on December 31, 2009.

The Company's current assets totaled US$ 225.1 M compared to US$ 209.8 M in the same quarter last year and US$ 203.6 M on December 31, 2009.

As at September 30, 2010, net fixed assets excluding accumulated depreciation and other assets totaled US$ 305.0 M compared to US$ 327.8 M at the end of Q3 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 against the US$, due to the strengthening of the US$ rate as at September 30, 2010 compared to December 31, 2009 and September 30, 2009.

E. LIQUIDITY

During Q3 of 2010, cash flow from current activities reached US$ 18.4 M compared to a cash flow of US$ 27.5 M achieved in Q3 2009. During the first nine months of 2010, the Company generated a positive cash flow from current activities in the amount of US$ 49.0 M compared to US$ 57.9 M in the same period last year.

The strong cash flow in 2009 was also affected by the reduction in working capital demands (mainly reduction in inventories performed by Frutarom in the same year in correspondence with the reduction in the inventory levels performed by its customers) compared to an increase in the level of the activity this year and restocking while maintaining an optimal inventory level which corresponds with the expected growth rate, and taking the seasonality in the supply of different raw materials into consideration.

F. SOURCES OF FINANCE

Sources of the Shareholders' Equity

The Company's shareholders' equity as at September 30, 2010, totaled US$ 351.5 M (66.1% of the balance sheet) compared to US$ 311.9 M on September 30, 2009 (57.7% of the balance sheet) and US$ 318.5 M (60.5% of the balance sheet) on December 31, 2009. The shareholders' equity in Q3 of 2010 was affected by the profit gained during the period and by the weakening of the US$ exchange rate compared to European currencies which are the currency of the main activities of certain consolidated companies which their functional currency is different from the functional currency of the parent company (US$) on September 30, 2010 compared to June 30, 2010, 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.

<u>Long Term Loans Including Current Maturities of Long Term Loans (Average)</u>

The long-term credit from banks in Q3 2010 totaled US$ 76.1 M compared to US$ 129.1 M in the same quarter in 2009. The reduction in the long-term credit arises from repayment of long-term loans which was made possible due to the strong cash flow achieved by the Company during 2009 and in the first nine months of 2010.

<u>Short Term Loans Excluding Current Maturities of Long Term Loans (Average)</u>

Short-term credit from banks provided to the Company in Q3 2010 also decreased and totaled only US$ 1.2 M compared to US$ 14.1 M in the same quarter of 2009. The decrease in the short-tern credit arises from repayment of short-term loans which was made possible, as aforementioned, due to the strong cash flow achieved by the Company during 2009 and in the first nine months of 2010.

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 additional external sources of finance.

<u>Credit from Suppliers and to Customers (Average)</u>

In Q3 2010, the average amount of credit from suppliers and other creditors was US$ 64.6 M compared to US$ 56.6 M during the same period last year. During Q3 2010, the Company granted its customers a credit of US$ 75.2 M compared to US$ 75.3 M in the same period last year.

G. 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 the balances appearing on the balance sheet 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-NIS Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.032**	**3.848**	**3.665**	**3.482**	**3.299**
	US$ 000				
Total Exposure net	**(392)**	**(196)**	**3,930**	**196**	**392**

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	**0.695**	**0.663**	**0.632**	**0.600**	**0.569**
	US$ 000				
Total Exposure net	**1,874**	**937**	**(18,740)**	**(937)**	**(1,874)**

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	**0.808**	**0.772**	**0.735**	**0.698**	**0.661**
			US$ 000		
Total exposure, net	**3,576**	**1,788**	**(35,769)**	**(1,788)**	**(3,576)**

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	**1.075**	**1.026**	**0.977**	**0.928**	**0.879**
			US$ 000		
Total exposure, net	**(101)**	**(49)**	**1,012**	**49**	**101**

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	**(796)**	**(398)**	**7,956**	**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		
Total exposure, net	**11**	**6**	**1,965**	**(6)**	**(11)**

EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

The Company's activity is characterized by significant dispersal. Through its two major operational Segments (as aforementioned the Flavors Segment and the Specialty Fine Ingredients Segment), 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 & 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 of 2009, which was published by the Company on March 17, 2010.

B. DESCRIPTION OF MARKET RISKS

Raw material price risks

Frutarom depends on vendors which provide it with raw materials for the manufacture of its various products. The Group purchases raw materials from a very wide range of suppliers with no single supplier representing more than 5% of its total raw material purchases. Although most raw materials purchased by Frutarom 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 global supply and demand. Certain natural raw materials used by the Group are crop related, and their price, quality and availability could, among others, be adversely affected by unfavorable weather conditions. Frutarom does not normally make forward transactions of raw materials and is exposed to price fluctuations in the raw materials it uses in accordance with global price trends of those raw materials. An ongoing follow up on raw materials prices is maintained by the Company’s Executive Vice President Global Supply Chain & Operations.

In recent months, there is a price increase of some of the raw materials used by Frutarom for the manufacture of its products. Frutarom acts and will keep acting vigorously to adjust the selling prices of its products, which are affected by the price increase of these raw materials, as necessary and in correspondence with significant fluctuations in the prices of raw materials.

Currency Risks

The Group’s sales worldwide are conducted in a number of different currencies (mostly in Euro, US Dollars, Swiss Francs, Pound Sterling and NIS), therefore, there is a sensitivity to changes in currency exchange rates. However, the fact that raw materials used by Frutarom’s for production are also purchased 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$, GBP and NIS (according to the location of the borrowing company) and bear varying Libor interest. The Group’s policy is to not take protective steps against possible increases in interest; therefore, there is sensitivity to changes in interest rates. Effective as of the balance sheet date, the Company does not hold any financial instruments. The Company's has long term loans excluding current maturities in an overall amount of US$ 41.5 M and the scope of its short term debt including current maturities of long term loans is US$ 34.2 M. The Company's cash flow balance is approximately US$ 45.9 M.

C. THE COMPANY'S POLICY REGARDING RISK MANAGEMENT

1. 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 Group's activity are discussed by the Board of Directors. Frutarom acts to adjust the selling prices of its products as

necessary and in correspondence with significant fluctuations in the prices of raw materials.

2. 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.

3. The Executive Vice President & CFO is responsible for the management of the currency exposure in the Group. 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 Group’s accounting team and discussed by the Group's management and, from time to time, by the Company's Board of Directors.

4. Frutarom did not use financial instruments or other instruments in order to protect the market risks to which it is exposed.

In the first three quarters of 2010 there were no changes to the risk management policy.

D. SUPERVISION OF RISK MANAGEMENT POLICY AND ITS IMPLEMENTATION

The exposure to raw material prices is examined by the Executive Vice President Global Supply Chain & Operations, the Purchasing Department and the management of the segments on a regular basis and is reported to the Board of Directors as necessary. In addition, the Company's management holds a discussion quarterly on the implementation of the risk management policy regarding raw material prices, currency and interest. The Executive Vice President and CEO reports the exposures to the Board of Directors at least once a year and in time of sharp changes in the global economy, currency exchange rates, raw material prices and interest rates. In the first nine months of 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	**4.032**	**3.848**	**3.665**	**3.482**	**3.299**
	US$ 000				
Cash and equivalents	(58)	(29)	577	29	58
Customers	(1,264)	(632)	12,644	632	1,264
Other debtors	(348)	(174)	3,484	174	348
	(1,670)	**(835)**	**16,705**	**835**	**1,670**
Bank loans	111	55	1,105	(55)	(111)
Suppliers and Service providers	668	334	6,680	(334)	(668)
Other creditors	499	250	4,990	(250)	(499)
	1,278	**639**	**12,775**	**(639)**	**(1,278)**
Total exposure, net	**(392)**	**(196)**	**3,930**	**196**	**392**

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	**0.695**	**0.663**	**0.632**	**0.600**	**0.569**
	US$ 000				
Cash and equivalents	(591)	(296)	5,910	296	591
Customers	(528)	(264)	5,277	264	528
Other debtors	(68)	(34)	684	34	68
	(1,187)	**(594)**	**11,871**	**594**	**1,187**
Bank loans	1,834	917	18,338	(917)	(1,834)
Suppliers and service providers	468	234	4,680	(234)	(468)
Other creditors	759	380	7,593	(380)	(759)
	3,061	**1,531**	**30,611**	**(1,531)**	**(3,061)**
Total exposure, net	**1,874**	**937**	**(18,740)**	**(937)**	**(1,874)**

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	**0.808**	**0.772**	**0.735**	**0.698**	**0.661**
			US$ 000		
Cash and equivalents	(1,831)	(916)	18,311	916	1,831
Customers	(2,785)	(1,392)	27,847	1,392	2,785
Other debtors	(87)	(43)	867	43	87
	(4,703)	**(2,351)**	**47,025**	**2,351**	**4,703**
Credit from banks	5,076	2,538	50,761	(2,538)	(5,076)
Suppliers and service providers	1,244	622	12,443	(622)	(1,244)
Other creditors	1,027	513	10,266	(513)	(1,027)
Employee retirement rights liabilities	932	466	9,324	(466)	(932)
	8,279	**4,139**	**82,794**	**(4,139)**	**(8,279)**
Total exposure, net	**3,576**	**1,788**	**(35,769)**	**(1,788)**	**(3,576)**

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%**	**-**	**-10%**	**-5%**
Exchange rate	**1.075**	**1.026**	**0.977**	**0.928**	**0.879**
			US$ 000		
Cash and equivalents	(649)	(324)	6,488	324	649
Customers	(667)	(333)	6,667	333	667
Other debtors	(72)	(36)	724	36	72
	(1,388)	**(693)**	**13,879**	**693**	**1,388**
Suppliers and service providers	414	207	4,140	(207)	(414)
Other creditors	734	367	7,336	(367)	(734)
Employee retirement rights liabilities	139	70	1,391	(70)	(139)
	1,287	**644**	**12,867**	**(644)**	**(1,287)**
Total exposure, net	**(101)**	**(49)**	**1,012**	**49**	**101**

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	(210)	(105)	2,095	105	210
Customers	(747)	(374)	7,474	374	747
Other debtors	(26)	(13)	257	13	26
	(983)	**(492)**	**9,826**	**492**	**983**
Credit from banks	-2	1	19	(1)	(2)
Suppliers and service providers	64	32	642	(32)	(64)
Other creditors	110	55	1,099	(55)	(110)
Employee retirement rights liabilities	11	6	110	(6)	(11)
	187	**94**	**1,870**	**(94)**	**(187)**
Total exposure, net	**(796)**	**(398)**	**7,956**	**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		
Total exposure, net	11	6	1,965	(6)	(11)
Long term loans (Euro)	**11**	**6**	**1,965**	**(6)**	**(11)**

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 J. Farber, Mr. John Oram, Mr. Hans Abderhalden, Mr. Yacov Elinav and Mr. Isaac Angel.

Independent Directors

As of 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).

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 comprises six members, out of which five have accounting and financial expertise as mentioned above. Several days before the meeting of the Board of Directors, the members receive the drafts of the financial reports. The Company's auditors and members of the Company's senior management, including President & CEO Mr. Ori Yehudai, Executive Vice President & CFO Mr. Alon Granot, and Vice President of Finance Mr. Guy Gill, are also invited to attend the meeting. The Internal Auditor of the Company, Mr. Yoav Barak, is also invited to attend the meeting.

During the meeting, the President & CEO and the Executive Vice President & CFO present the financial results of the Group 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 Group's financial results, the members of 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. Finally, the Board of Directors votes with respect to the approval of the Financial Reports. All of the members of the Board of Directors were present at the Board meeting held on November 15, 2010, in which the Q3 2010 Financial Reports were unanimously approved.

C. <u>EFFECTIVITY OF INTERNAL CONTROL</u>

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 existing controls on the financial report and the disclosure as well as the analysis of the existing gaps in the planning of the internal control.

DISCLOSURE RELATING TO THE CORPORATE'S FINANCIAL REPORTING

A. <u>DISTRIBUTION OF DIVIDEND IN 2010</u>

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 totaled NIS 10,408,744 (approximately US$ 2,777 K). On May 6, 2010, the dividend was paid to the shareholders.

B. On July 15, 2010, 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 issued from the Company's registered and unissued capital, or allocated from shares held by the Company either now or in the future. 745,000 options out of these 1,000,000 options are for 11 managers in the Group and 255,000 options are for future grants. For further information on the option plan aforementioned, please refer to Note 7 to the Company's Financial Reports as at September 30, 2010 as well as to the proposal report which was published by the Company on November 1, 2010 (reference no.: 2010-01-665073).

C. EVENTS FOLLOWING THE FINANCIAL STATUS

On November 15, 2010, the Company's Board of Directors appointed Gil Leidner as Director and as member of the Audit Committee until the upcoming annual meeting of the Company's shareholders.

D. 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 financial reports which were published by the Company on March 17, 2010.

Taxes on Income and Deferred Taxes

The Group is assessed for tax purposes in numerous jurisdictions; accordingly, the Group's management is required to exercise discretion in order to determine the overall provision in respect of taxes on income. The Group 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 Group 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 Group regularly reviews its deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse effect on its operating results.

Severance Pay

The present value of the Group'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 Group 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 Group'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 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.

E. 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 and 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 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 the Directors' Report as at December 31, 2009, which was published by the Company on March 17, 2010).

The Board of Directors of the Company held five meetings during the first nine months of 2010.

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

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

Date: November 15, 2010