FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING MARCH 31, 2011

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

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company that was established 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, in itself and through its subsidiaries ("**Frutarom**" or the **"Group**") develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharmaceuticals/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia that serve a customer base of over 13,000 in more than 120 countries. The company produces, markets and sells over 20,000 products and employs roughly 1,500 people.

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

- **The Flavors Segment -** Frutarom develops, produces, markets and sells sweet and non-sweet (savory) flavor solutions, including flavors and products which contain, aside from flavors, fruit or vegetable ingredients and other natural ingredients (food systems) which are used mainly in the manufacture of foods, beverages and other consumer products. Frutarom develops thousands of different flavors for its customers, most of which are tailor-made and customized for specific customers, and consistently develops new products to meet changing consumer preferences and future customer needs.

  In recent years, Frutarom's Flavors segment has undergone accelerated growth as a result of the Group's internal growth, which has been focused on developed and emerging markets, on multinational, mid-sized, and local customers (including private label customers), and as a result of the

successful execution of strategic acquisitions that were successfully merged with Frutarom's global activity.

- **The Specialty Fine Ingredients Segment -** Frutarom develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharmaceutical/nutraceutical extracts, aroma chemicals, essential oils, unique citrus products, natural gums and stabilizers. The Specialty Fine Ingredients products are sold primarily to the food, beverage, flavor, fragrance, pharmaceutical/nutraceutical and personal care industries.

  In recent years, the Specialty Fine Ingredients segment has grown as a result of Frutarom's internal growth arising mainly from the development of new and innovative added-value products with higher-than-average margins and its focus on multinational, mid-size and local customers worldwide. Most of the specialty fine ingredients are natural products which enjoy higher-than-average demand compared to non-natural products. Frutarom acts to expand the natural product portfolio it offers its customers, with particular emphasis on natural, healthy and functional foods. In addition, as part of the Company's acquisition strategy, the acquisitions of companies and activities in this segment were successfully merged into Frutarom's global activity, contributing to the increased sales of the Specialty Fine Ingredients segment in recent years.

GROWTH STRATEGY AND ACQUISITIONS

Frutarom continues to act determinedly to implement its rapid growth strategy through a combination of organic, profitable growth in its core activities and strategic acquisitions. The Company intends to continue growing in the main regions in which it operates and to expedite its expansion in emerging markets including Asia, Central and South America, Eastern Europe and Africa, alongside growth in North America. Frutarom acts to accelerate its expansion in these markets through focused efforts on strengthening its research and development, production, sales and marketing infrastructures in important target countries and by exploring options for strategic acquisitions.

Frutarom has extensive experience in the successful implementation of acquisitions and mergers and it acts to integrate the acquired companies and activities into its existing activity, utilizing both commercial and operational synergies, to optimize cross-selling opportunities, cost savings and margin improvement. The companies and activities acquired by Frutarom in recent

years were successfully merged with Frutarom's global activity, contributing to both an increase in sales and an improvement in profit and margins.

In Q1 2011, Frutarom completed two strategic acquisitions:

1) Acquisition of the Savory Activity of Rieber & Son ASA:

On December 23, 2010, Frutarom signed an agreement, via a Norwegian subsidiary, for the acquisition of Rieber's Savory activity (the "**Rieber Activity**") in consideration for approximately US$ 4.3 M (approximately NOK 25 M). The acquisition was completed on February 1, 2011.

The sales turnover of the Rieber Activity in 2010 totaled approximately US$ 6.2 M (approximately NOK 37.8 M).

The Rieber Activity was acquired from the international food group Rieber & Son ASA; the acquired assets include the development, production and marketing of non-sweet flavor solutions including flavors, seasoning mixes and functional ingredients used by the food industry, and in particular by processed meat and fish and convenience food customers.

The Rieber Activity includes a research and development, manufacturing and marketing site in Norway as well as a broad customer base including a number of leading food manufacturers located mainly in Scandinavian countries. The Rieber Activity is highly synergetic with Frutarom's non-sweet flavors activity in Europe and Israel. Frutarom is working to merge the Rieber Activity with the Group’s existing activities in Germany and Scandinavia and until this acquisition is completed, the activity's products are manufactured in accordance with a production agreement between Frutarom and Rieber & Son ASA.

For additional details regarding the acquisition of the Rieber Activity, refer to the Company's Immediate Reports dated December 26, 2010 and February 1, 2011 (references 2010-01-729906 and 2011-01-035625).

2) Acquisition of EAFI's activity and assets

On January 20, 2011, Frutarom signed an agreement, through a UK subsidiary, for the acquisition of the activity and assets of the English company East Anglian Food Ingredients Ltd. (**"EAFI"**) for a consideration of US$ 4.8 M (GBP 3 M). The acquisition was completed on January 31, 2011.

EAFI's sales turnover for the 12 months ending December 2010 totaled approximately US$ 8.4 M (approximately GBP 5.4 M).

Founded in 1979, EAFI develops, manufactures and markets savory solutions, including flavors, seasoning mixes and functional ingredients for the food industry, in particular for processed meat and fish and convenience food customers. EAFI owns a research and development, manufacturing and marketing site in the UK, included in the acquired assets, and a broad customer base.

EAFI's activity is highly synergetic with Frutarom's savory activity. Frutarom is working to merge the operation, purchasing and sales activities of EAFI with its existing activity in the UK and with the development and marketing activities of the savory activity in Europe and in Israel.

For additional details regarding the acquisition of EAFI, refer to the Company's Immediate Reports in the matter dated January 23, 2011 and February 1, 2011 (references: 2011-01-024681 and 2011-01-035154).

Frutarom estimates that its strong capital structure (equity totals US$ 380.1 M as at March 31, 2011), and its net debt level (total loans including deduction of cash flow stand at only US$ 33.4 M as at March 31, 2011), along with the support of its cash flow position and the backing of leading banks, will allow the Company to continue the implementation of its acquisition strategy it has pursued in recent years, further strengthen its position as one of the leading global companies in the field of flavors and fine ingredients, and realize its vision:

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

B. FINANCIAL STATUS

The Group's total assets as of March 31, 2011 totaled US$ 558.7 M compared to US$ 511.7 M as at March 31, 2010 and US$ 519.0 M as at December 31, 2010.

The Group's current assets totaled US$ 236.5 M compared to US$ 206.8 M in the same quarter last year and US$ 214.3 M as at December 31, 2010.

The fixed assets with deduction of cumulative depreciation and other assets net as at March 31, 2011 totaled US$ 320.4 M compared to US$ 300.9 M at the end of Q1 2010 and US$ 303.3 M as at December 31, 2010.

The increase of assets was affected by the acquisitions that were completed at the beginning of 2011 and by currency translation of subsidiary asset values in European currencies as opposed to reporting in US$ (the strengthening of the currency exchange rates of European currencies and the NIS against the US$ as at March 31, 2011 compared to March 31, 2010 and December 31, 2010).

C. RESULTS OF OPERATIONS IN Q1 2011

The trend of growth in sales has continued also in Q1 2011. This growth was also achieved compared to the same and strong quarter last year, in which an increase in the activity occurred upon the improvement in the global economy and the restocking of Frutarom's customers. The growth in sales of Frutarom's core activities and the successful maintenance of its competitive expense structure, led to record levels in gross profit, operating profit, EBITDA, net profit, and earnings per share compared to Q1 in previous years.

Sales

In Q1 2011, Frutarom's sales increased by 6.7% totaling US$ 121.0 M compared to US$ 113.5 M in the same quarter in 2010. In local currency terms, sales increased by 4.6%.

Frutarom's sales in the Flavor segment increased by 6.3% compared to the same quarter last year, totaling US$ 80.2 M. The weakening of the US$ against some of the European currencies and the NIS contributed to the sales in Dollar terms approximately 2.0%. The acquisitions executed at the beginning of 2011, contributed approximately US$ 2.8 M.

Frutarom's sales in the Specialty Fine Ingredients segment increased by approximately 4.1% compared to the first quarter of 2010 (in which sales increased by 18% compared to Q1 2009) and reached US$ 39.1 M. The effect of the currency exchange rates, as mentioned, contributed approximately 1.9%. The increase in Frutarom's sales in the Specialty Fine Ingredients segment derives mainly from successful introduction of new, and mostly natural, products.

Sales Breakdown by Fields of Activity in Q1 in 2001-2011 (US$ M and %)

		Q1 2001	Q1 2002	Q1 2003	Q1 2004	Q1 2005	Q1 2006	Q1 2007	Q1 2008	Q1 2009	Q1 2010	Q1 2011
Flavor Segment	**Sales**	9.0	10.8	12.7	20.3	40.3	44.7	49.9	84.4	67.4	75.4	80.2
	%	37.3 %	39.9%	45.0 %	46.2%	62.3%	63.0%	62.0%	69.2%	68.5%	66.5%	66.3%
Fine Ingredient Segment	**Sales**	13.9	14.9	14.2	22.5	23.4	25.5	29.1	35.3	29.6	37.6	39.1
	%	57.7 %	55.0%	50.4 %	51.3%	36.2%	35.9%	36.2%	28.9%	30.1%	33.1%	32.3%
Trade & Marketing	**Sales**	1.5	1.6	1.8	1.7	1.8	1.4	2.6	3.6	2.2	1.2	2.4
	%	6.2%	5.9%	6.4%	3.9%	2.8%	2.0%	3.2%	3.0%	2.2%	1.1%	2.0%
Inter Segments	**Sales**	-0.3	-0.2	-0.5	-0.6	-0.8	-0.6	-1.1	-1.3	-0.7	-0.8	0.7-
	%	-1.2%	-0.7%	-1.8%	-1.4%	-1.2%	-0.9%	-1.4%	-1.1%	-0.8%	-0.7%	0.6%-
Total Sales		24.1	27.1	28.2	43.9	64.7	71.0	80.5	122.0	98.4	113.5	121.0

The following is a summary of the profit and loss report for Q1 2010 - 2011 (US$ M):

	Q1 2010	Q1 2011	Change (%)
Sales	113.5	121.0	6.7%
Gross profit	43.5	45.7	5.0%
R&D, Selling, Administration, General and Other income	26.9	29.0	7.9%
Operating profit	16.6	16.6	0.4%
EBITDA	21.3	21.5	0.7%
Profit before tax	15.3	17.5	14.4%
Net profit	11.1	13.1	18.2%

Gross Profit

The Company's gross profit in Q1 2011 increased by 5.0%, reaching a record level of US$ 45.7 M in Q1 (37.7% of sales) compared to US$ 43.5 M in Q1 2010 (38.3% of sales).

The increase in gross profit was achieved despite the global trend of increase in raw material prices, including a major part of the raw materials used by Frutarom in the manufacture of its products. The Company acts, and will continue to act determinedly as long as this trend persists, by adjusting the selling prices of its products that are affected by the increase in raw material prices to avoid future influence on the results of its activity. Frutarom continues to expand the variety of suppliers and to optimally use the diverse capabilities of its production sites worldwide. Frutarom's management continues to achieve efficiency while maintaining expenses in order to improve its future competitiveness.

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

In Q1 2011 selling, marketing, research and development, general and administrative and other expenses totaled US$ 29.0 M (24.0% of sales) compared to US$ 26.9 M in Q1 2010 (23.7% of sales).

The increase in expense in Dollar terms derives mainly from the weakening of the US$ against some of the European currencies and the NIS. One-time

expenses following the acquisitions implemented during the quarter also contributed to the increase in expenses. Frutarom has been acting as stated to achieve utmost efficiencies in its expense level while strengthening its future competitiveness.

Operating Profit and EBITDA

In Q1 2011, operating profit reached US$ 16.6 M (13.7% of sales) similarly to the same quarter last year (US$ 16.6 M, accounting for 14.6% of sales).

The EBITDA achieved by Frutarom in Q1 2011 reached US$ 21.5 M (17.7% of sales) compared to US$ 21.3 M in the same quarter last year (18.8% of sales).

Finance Expenses / Income

In Q1 2011, finance expenses totaled US$ 0.9 M (0.7% of sales), compared to US$ 1.3 M (1.1% of sales) in Q1 2010. Interest expenses in Q1 2011 totaled US$ 0.4 M and were offset by finance income due to differences in currency exchange rates totaling US$ 1.3 M. In Q1 2011, interest expenses on loans totaled US$ 0.6 M and finance expenses due to differences in currency exchange rates totaled US$ 0.7 M.

Profit before Tax

In Q1 2011, profit before tax increased by 14.4% and totaled US$ 17.5 M (14.5% of sales) compared to US$ 15.3 M in Q1 2010 (13.5% of sales).

Taxes on Income

In Q1 2011, taxes on income totaled US$ 4.4 M (25.0% of profit before tax) compared to US$ 4.2 M in Q1 2010 (27.4% of profit before tax).

Net Profit

In Q1 2011, net profit increased by 18.2% and reached a Q1 record level of US$ 13.1 M compared to US$ 11.1 M in Q1 2010. Net margin also increased and reached 10.8% compared to 9.8% in Q1 2010.

Earnings per Share

In Q1 2011, earnings per share increased by 18.2% and reached a Q1 record level of US$ 0.23 per share compared to US$ 0.19 per share in Q1 2010.

Summary of the quarterly profit and loss reports for 2009 - 2011 (US$ M):

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Income	98.4	106.7	111.6	108.5	113.5	114.3	111.0	112.4	121.0
Gross profit	35.2	39.4	41.2	39.6	43.5	46.9	43.2	41.3	45.7
Selling, Marketing, R&D, General and Administrative, and Other Expenses	25.0	26.7	27.9	28.6	26.9	27.5	28.2	29.2	29.0
Operating profit	10.2	12.8	13.3	11.0	16.6	19.4	15.0	12.1	16.6
EBITDA	14.5	17.4	18.3	16.0	21.3	24.0	19.8	16.9	21.5
Finance expenses	3.3	0.1	0.0	0.9	1.3	2.3	-0.2	-0.2	-0.9
Profit before tax	6.9	12.7	13.2	10.1	15.3	17.1	15.2	12.2	17.5
Net profit	5.6	10.1	10.0	7.5	11.1	13.0	11.1	8.8	13.1

Frutarom's business is characterized by seasonal fluctuations, generally characterized by higher sales and profitability in the first half of a given year, with lower sales and profitability during the second half, mainly in the fourth quarter. The seasonality is a result of 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, for which the demand increases during the summer months. As a result, sales of certain flavor solutions and fine ingredients produced by the Company tend to increase in the first half of the year as manufacturers of beverages, ice cream and yogurt restock their inventories and increase production in advance of rising demand during the summer months. The effect of seasonality on the Company's results and activity has become more subtle in recent years with the significant increase in sales of savory products following

the acquisitions of the companies and the activities in this field. The increase in the sales of natural functional food ingredients, and natural pharmaceutical/nutraceutical extracts, which are intended for the pharmaceutical/nutraceutical industries, also contributes to the lower seasonality in demand.

D. LIQUIDITY

During Q1 2011, the Company's cash flow from current activities reached US$ 2.8 M compared to a cash flow of US$ 5.2 M achieved in Q1 2010.

The cash flow was affected by an increase in current activities, increase in tax payments and a certain increase in the raw material inventory. Frutarom is acting to maintain optimal inventory levels which correspond to the expected growth rate, taking into consideration the seasonality in the supply of different raw materials and their current and future demand and prices.

E. SOURCES OF FINANCE

Sources of Equity

Frutarom's equity as at March 31, 2011 totaled US$ 380.1 M (68.0% of the balance sheet) compared to US$ 316.6 M as at March 31, 2010 (61.9% of the balance sheet). The change derives mainly from the net profit in the period and the strengthening of the European currencies against the dollar.

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

Long-term credit from banks provided to the Company in Q1 2011 totaled US$ 63.1 M compared to US$ 103.3 M in Q1 2010. The decrease in long-term credit is a result of loan repayment, made possible by the strong cash flow achieved by the Company.

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

Short-term credit from banks provided to the Company in Q1 2011 totaled US$ 2.6 M, similarly to US$ 2.5 M in Q1 2010.

Credit from Suppliers and to Customers (Average)

In Q1 2011, the Company utilized credit from suppliers and other creditors in the amount of US$ 67.5 M compared to US$ 55.7 M in the same quarter last year. During Q1 2011, the Company granted credit of US$ 78.7 M to its customers, compared to US$ 70.9 M during Q1 2010. The increase in credit from suppliers and customers is a result of the increase in the Group's sales and its activity as well as the strengthening of the NIS and European currencies against the dollar.

F. SUMMARY OF SENSITIVITY TESTS TABLES

The functional currency of the majority of the Group's companies is the local currency in their respective country of residence; therefore, the currency translations of balance sheet balances of these companies do not affect the Company's profit and loss report and are directly attributed to the Company's equity (currency translation capital fund).

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	3.829	3.655	3.481	3.307	3.133
	US$ 000				
Total Exposure net	(31)	(14)	303	14	31

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	0.684	0.653	0.622	0.591	0.559
	US$ 000				
Total Exposure net	1,488	745	(14,887)	(745)	(1,488)

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	0.774	0.738	0.703	0.668	0.633
	US$ 000				
Total exposure, net	3,402	1,700	(34,020)	(1,700)	(3,402)

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	1.007	0.961	0.915	0.869	0.824
	US$ 000				
Total exposure, net	225	113	(2,259)	(113)	(225)

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	(1,101)	(551)	11,005	551	1,101

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	8	4	1,364	(3)	(7)

EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

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	3.829	3.655	3.481	3.307	3.133
	US$ 000				
Cash and cash equivalents	(22)	(11)	223	11	22
Customers	(1,031)	(515)	10,305	515	1,031
Other debtors	(376)	(188)	3,761	188	376
	(1,429)	**(714)**	**14,289**	**714**	**1,429**
Bank loans	221	111	2,212	(111)	(221)
Suppliers and service providers	644	322	6,442	(322)	(644)
Other creditors	533	267	5,332	(267)	(533)
	1,398	**700**	**13,986**	**(700)**	**(1,398)**
Total exposure, net	**(31)**	**(14)**	**303**	**14**	**31**

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

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	0.684	0.653	0.622	0.591	0.559
	US$ 000				
Cash and cash equivalents	(472)	(236)	4,719	236	472
Customers	(766)	(383)	7,663	383	766
Other debtors	(100)	(50)	996	50	100
	(1,338)	**(669)**	**13,378**	**669**	**1,338**
Bank loans	1,579	790	15,794	(790)	(1,579)
Suppliers and service providers	624	312	6,238	(312)	(624)
Other creditors	623	312	6,233	(312)	(623)
	2,826	**1,414**	**28,265**	**(1,414)**	**(2,826)**
Total exposure, net	**1,488**	**745**	**(14,887)**	**(745)**	**(1,488)**

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	**0.774**	**0.738**	**0.703**	**0.668**	**0.633**
	US$ 000				
Cash and cash equivalents	(1,069)	(534)	10,685	534	1,069
Customers	(3,274)	(1,637)	32,740	1,637	3,274
Other debtors	(77)	(39)	771	39	77
	(4,420)	**(2,210)**	**44,196**	**2,210**	**4,420**
Credit from banks	4,403	2,201	44,028	(2,201)	(4,403)
Suppliers and service providers	1,443	721	14,427	(721)	(1,443)
Other creditors	995	497	9,948	(497)	(995)
Employee retirement rights liabilities	981	491	9,813	(491)	(981)
	7,822	**3,910**	**78,216**	**(3,910)**	**(7,822)**
Total exposure, net	**3,402**	**1,700**	**(34,020)**	**(1,700)**	**(3,402)**

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	**1.007**	**0.961**	**0.915**	**0.869**	**0.824**
	US$ 000				
Cash and cash equivalents	(329)	(164)	3,289	164	329
Customers	(806)	(403)	8,058	403	806
Other debtors	(114)	(57)	1,135	57	114
	(1,249)	**(624)**	**12,482**	**624**	**1,249**
Credit from banks	493	247	4,934	(247)	(493)
Suppliers and service providers	791	395	7,905	(395)	(791)
Other creditors	190	95	1,902	(95)	(190)
Employee retirement rights liabilities	**1,474**	**737**	**14,741**	**(737)**	**(1,474)**
Total exposure, net	**225**	**113**	**(2,259)**	**(113)**	**(225)**

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 cash equivalents	(413)	(207)	4,131	207	413
Customers	(963)	(482)	9,631	482	963
Other debtors	(23)	(11)	226	11	23
	(1,399)	**(700)**	**13,988**	**700**	**1,399**
Credit from banks	2	1	18	(1)	(2)
Suppliers and service providers	163	81	1,628	(81)	(163)
Other creditors	122	61	1,223	(61)	(122)
Employee retirement rights liabilities	11	6	114	(6)	(11)
	298	**149**	**2,983**	**(149)**	**(298)**
Total exposure, net	**(1,101)**	**(551)**	**11,005**	**551**	**1,101**

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)	8	4	1,364	(3)	(7)
Total exposure, net	**8**	**4**	**1,364**	**(3)**	**(7)**

CORPORATE GOVERNANCE ASPECTS

A. APPROVAL PROCESS OF THE FINANCIAL REPORTS

The Company's financial reports are submitted for approval to the Board of Directors, which is the body responsible for the Company's overall supervision, a few days after the committee of the Board of Directors for the review of the financial reports (the "**Balance Sheet Committee**") discusses the financial reports and forms recommendations to the Board of Directors in accordance with the Companies Regulations (Instructions and Terms for the Approval Procedure of the Financial Reports), 2010 ("**Reports Approval Regulations**").

Members of the Company's Board of Directors

The Board of Directors of the Company has seven members, of whom five are directors who have accounting and financial expertise as detailed above.

Members of the Balance Sheet Committee

The members of the Balance Sheet Committee are the members of the Audit Committee – Yaacov Elinav, External Director and the chairman of the committee, Isaac Angel, External Director, and Gil Leidner, Director. The Balance Sheet Committee members have financial and accounting expertise and ability to read financial reports and provided the Company with a written declaration in this regard. Mr. Yaacov Elinav and Mr. Isaac Angel are independent directors by their being External Directors and Mr. Gil Leidner is an independent director in accordance with the decision of the Company's Audit Committee dated May 19, 2011. For details regarding the skills, education, experience and knowhow of the members of the Balance Sheet Committee, based on which the Company refers to them as directors with financial and accounting expertise, refer to regulation 26 in Chapter D of the Company's periodic report dated December 31, 2010 (Additional Details on the Corporation).

Processes held by the Balance Sheet Committee for Forming its Recommendation to the Board of Directors

The Company's financial reports for Q1 2011 were discussed at the meeting of the Balance Sheet Committee held on May 19, 2011. Several days before the meeting, the members of the committee received the financial reports. All three members of the Balance Sheet Committee attended the meeting as well as the Company's Independent Auditors, the Company's President and CEO, Mr. Ori Yehudai, the Executive Vice President and CFO, Mr. Alon Granot, the Vice President of Finance, Mr. Guy Gill, and the Global Vice President of Legal Affairs and Corporate Secretary, Ms. Tali Mirsky. At the meeting, the Balance Sheet Committee discussed, among other things, the estimates and evaluations in the financial reports, the internal control on financial reporting, the completeness and fairness of the disclosure in the financial reports, the accounting policy adopted, the financial treatment implemented on the material matters of the Group, and the valuations, including the assumptions and estimations on which the data in the financial information is based. In the framework of the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Reports Approval Regulations. The recommendations of the committee were delivered to the Company's Board of Directors two business days before the Board meeting at which the financial reports were discussed. The Board of Directors considered the said time period as reasonable in light of the scope and complexity of the recommendations.

Approval Procedure of the Reports by the Board of Directors

The members of the Board of Directors received the draft financial reports several days before the date of the Board meeting at which the reports were submitted for their approval. The Company's Independent Auditors and members of the Company's senior management were also invited to attend the meeting, including Mr. Ori Yehudai - the President and CEO, Mr. Alon Granot - Executive Vice President and CFO, Mr. Amos Anatot, Executive Vice President Global Supply Chain and Operations, Mr. Guy Gill - Vice President of Finance, and Ms. Tali Mirsky - Global Vice President of Legal Affairs and Corporate Secretary. The Internal Auditor of the Company, Mr. Yoav Barak, was also invited to the meeting. During the meeting, the Board of Directors discussed the recommendations of the Balance Sheet Committee regarding the financial reports. Also in the meeting, the President and CEO and Executive Vice President and CFO presented the Group's business and financial results to the Board of Directors for the relevant period in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the results of the Group, the Company's management members answered questions and related to the Directors' comments. Following

presentation of the Company's financial results, the Company's Independent Auditors answered the Directors' questions. Finally, the Board of Directors voted on approval of the financial reports. All of the members of the Board of Directors were present at the Board meeting held on May 23, 2011, when the financial reports for Q1 2011 were unanimously approved.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION

On March 23, 2011, the Company's Board of Directors resolved to approve a distribution of a cash dividend in the amount of NIS 0.2 per share. The stated dividend totaled NIS 11,565,000. The dividend was paid on May 5, 2011.

B. APPROVAL OF GRANT OF OPTIONS

On February 7, 2011, the Company's Board of Directors approved the grant of 40,000 options for senior officeholders in the Company, as detailed in the offering report, published by the Company on February 8, 2011 (reference no.: 2011-01-043281). The grant of the options is made as part of the Option Plan for senior management, which was approved by the Company's Board of Directors on July 15, 2010. For additional details on the Option Plan, refer to Note 7 of the Company's financial reports dated September 30, 2010, as well as the offering report published by the Company on August 19, 2010 (reference no.: 2010-01-592389).

C. OCCURRENCES FOLLOWING THE DATE OF THE REPORT ON THE FINANCIAL STATUS WHICH ARE MENTIONED IN THE FINANCIAL REPORT

Following the date of the report on the financial status there were no occurrences which are mentioned in the financial reports dated March 31, 2011.

D. CRITICAL ACCOUNTING ESTIMATIONS

No significant event has occurred in the period of the report compared to the Company's report in the Board of Directors' report as at December 31, 2010, which was published by the Company on March 24, 2011.

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

The Company excluded, from the Periodic 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 for the reasonable investor which is not included in the Company's consolidated reports.

The Company determined 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 have no effect on the Groups' consolidated profit and loss reports. The Company does not employ employees and 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 consolidated company and which are attributed to it.

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

(For additional details, refer to the Board of Directors Report dated December 31, 2010, published by the Company on March 24, 2011).

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

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

May 23, 2011