FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING JUNE 30, 2011

BOARD OF DIRECTORS' DISCUSSIONS OF THE COMPANY'S STATE OF BUSINESS

A. REVIEW OF ACTIVITY

Frutarom Industries Ltd. (the **"Company"**) is a global company established in Israel in 1933 which became a public company in 1996 by 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 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 which serve over 13,000 customers in more than 120 countries. The company produces markets and sells over 20,000 products and employs approximately 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 consumed 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 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, deriving 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 in which growth rate is higher, as well as 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 with 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 improvement of profit margin. 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 as well as an improvement in profit and margins.

In H1 2011, two strategic acquisitions were completed and up to this report's publication another acquisition was completed (a total of three 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 of 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 manufacturers.

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 savory activity in Europe and Israel. Frutarom is working to merge the Rieber Activity with the Group's existing activities in Germany and Scandinavia. Until this merger is completed which is expected by the end of the fiscal year 2011, the activity's products are manufactured in accordance with a production agreement between Frutarom and Rieber & Son ASA.

This acquired activity has created an added income of US$ 3M and a net profit (including the cost of purchase) of US$ 0.2M, this within the timeframe from the date of the completion of the acquisition until June 30, 2011.

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.

2) Acquisition of EAFI's activity and assets

On January 20, 2011, Frutarom signed an agreement, through a UK subsidiary, for acquisition of the activity and assets of the English company East Anglian Food Ingredients Ltd. (**"EAFI"**) for a consideration of approximately US$ 4.8 M (approximately 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 manufacturers. EAFI owns a research and development, manufacturing and marketing site in the UK, included in the acquired assets, as well as 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 facilities of the savory activity in Europe and in Israel.

This acquired activity has created an added income of US$ 3.9 M and a net profit (including the cost of purchase) of US$ 0.2M, this within the timeframe from the date of the completion of the acquisition until June 30, 2011.

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.

3) Acquisition of Christian Hansen ITALIA S.p.a's activity and assets

On May 26, 2011, Frutarom signed an agreement, through a subsidiary, for acquisition of the activity and assets of the Christian

Hansen Italia (**"CH Activity"**) for a consideration of approximately Euro 25 M (approximately US$ 35.7 M). The acquisition was completed on July 29, 2011.

CH Activity's sales turnover during the fiscal year 2010 totaled approximately Euro 18.3 M (approximately US$ 24.3 M).

CH Activity is comprised of development, manufacture and marketing of savory solutions, including flavors, seasoning mixes and functional ingredients for the food industry, in particular for processed meat and convenience food manufacturers. CH Activity owns an innovative and efficient manufacturing site in Parma, Italy, including research and development laboratories, as well as a broad customer base, mostly comprised of leading processed meat manufacturers in Italy as well as Russia, Ukraine, Poland, France and the Czech Republic.

CH's activity is synergetic with Frutarom's savory activity and will allow Frutarom to further position itself as a leading company within the European flavor market. Frutarom acts to merge the operation, development and sales activities of CH with its existing activity.

Frutarom estimates that its equity structure (an equity totaling US$ 402.2M as at June 30, 2011), and its net debt level (total loans deducted by cash totals to US$ 27.6M as at June 30, 2011), along with the support of its cash flow position and the backing of leading banks, will enable the Company to continue the implementation of its acquisition strategy as it has pursued in recent years, further strengthening 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. FINANCIAL STATUS

The Group's total assets as at June 30, 2011 totaled US$ 570 M compared to US$ 492.5 M as at June 30, 2010 and US$ 519 M as at December 31, 2010.

The Group's current assets totaled US$ 241.9 M compared to US$ 205.8 M in the same quarter last year and US$ 214.3 M as at December 31, 2010.

The fixed assets deducted by accumulated depreciation and other assets net as at June 30, 2011 totaled US$ 326.5 M compared to US$ 284.9 M at the end of Q2 2010 and US$ 303.3 M as at December 31, 2010.

The increase of assets was affected by the acquisitions completed at the beginning of 2011 and by currency exchange differences translation of subsidiary assets 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 June 30, 2011 compared to June 30, 2010 and December 31, 2010).

C. RESULTS OF OPERATIONS IN Q2 2011

The sales increased during Q2 2011 by 14.3% and totaled US$ 130.6 M in comparison with the same quarter previous year which was particularly strong.

During the second quarter as well as during previous quarters, the global trend of raw material prices increase of most ingredients which are used by Frutarom to manufacture its products has continued. This trend seems to be slightly moderated through the recent weeks.

Frutarom's management has acted with determination to adjust its products selling prices and to protect its margin. These actions assisted to minimize the negative effect over profitability. Following these actions, the average gross, operating and net profit levels as well as the EBITDA achieved by Frutarom during the recent five years (apart from 2010 which was exceptional and in which its high profitability was affected also by a significant restocking trend due to the global economy recovery, compared to stocks reduction which had taken place mostly through the first half of 2009 after the beginning of the recession) were kept.

Gross, Operating, and Net Margins and EBITDA for Q2 and H1 for the years 2007-2011:

		2007	2008	2009	2010	2011
Gross Margin	**Q2**	35.8%	37.5%	37.0%	41.0%	37.1%
	H1	36.4%	37.1%	36.4%	39.7%	37.4%
Operating Margin	**Q2**	9.3%	13.5%	12.0%	17.0%	13.0%
	H1	11.0%	13.0%	11.2%	15.8%	13.4%
EBITDA	**Q2**	12.9%	17.9%	16.3%	21.0%	17.0%
	H1	14.6%	17.3%	15.5%	19.9%	17.4%
Net Margin	**Q2**	6.5%	9.1%	9.5%	11.4%	9.4%
	H1	7.9%	8.5%	7.6%	10.6%	10.1%

Frutarom has acted in order to achieve a successful integration and maximal utilization of synergies and cross-selling possibilities deriving from the acquisitions executed at the first half of 2011. Those acquisitions have contributed to the sales increase whereas their contribution to the Group's profit was marginal (partly as a result of the expenses which were incurred). Frutarom expects that the successful mergers in accordance with its advance planning will contribute to improved future margin and profit.

Frutarom will continue to act with determination in order to see the realization of efficiency and cost reduction processes Frutarom strives to maintain a competitive cost structure and continued adjustment of product selling prices which were affected by the increasing prices of raw materials used for its manufacturing process, expand the Company's pool of suppliers, decrease procurement costs and maximize utilization of diversified abilities of its production sites around the world.

The actions which are been taken by Frutarom will contribute to improve its future profitability and strengthen its competitive position as one of the leading global players in the flavors, health and specialty fine ingredients fields.

Sales

In Q2 2011, Frutarom's sales increased by 14.3% totaling US$ 130.6 M compared to US$ 114. 3 M in Q2 2010. The continued strengthening of the European currencies and the NIS compared to the US$ contributed 11.0% to the sales performed in US$. The acquisitions executed at the beginning of 2011 contributed US$ 4.1M.

Frutarom's sales in the Flavor segment increased by approximately 19.7% compared to the same quarter last year, totaling US$ 92.7 M. The effect of the currency exchange rates, as mentioned, contributed approximately 13.2% to the sales performed in US$. The acquisitions executed at the beginning of 2011 contributed US$ 4.1M.

Frutarom's sales in the Specialty Fine Ingredients segment increased by approximately 2.7% compared to the second quarter of 2010 (in which sales increased by 21.6% compared to Q2 2009) and totaled US$ 37.2 M. The effect of the currency exchange rates, as mentioned, contributed approximately 6.5%.

Sales Breakdown by Fields of Activity in Q2 in 2001-2011 (US$ M and %)

Q2 2011	Q2 2010	Q2 2009	Q2 2008	Q2 2007	Q2 2006	Q2 2005	Q2 2004	Q2 2003	Q2 2002	Q2 2001		
92.7	77.4	75.8	98.1	61.7	49.5	43.1	23.7	15.7	11.9	10.9	**Sales**	**Flavor Segment**
71.0%	67.7%	71.0%	74.0%	67.3%	68.4%	64.2%	53.1%	49.1%	41.7%	40.4%	**%**	
37.2	36.2	29.7	32.5	28.9	22.5	23.7	19.7	15.2	15.5	15.1	**Sales**	**Fine Ingredient Segment**
28.5%	31.7%	27.9%	24.5%	31.5%	31.1%	35.3%	44.2%	47.4%	54.4%	55.9%	**%**	
1.6	1.1	2.0	2.9	2.1	1.5	1.5	1.9	1.7	1.6	1.4	**Sales**	**Trade & Marketing**
1.2%	1.0%	1.9%	2.2%	2.3%	2.1%	2.2%	4.2%	5.5%	5.7%	5.2%	**%**	
-0.9	-0.4	-0.8	-0.9	-1.0	-1.1	-1.2	-0.8	-0.6	-0.5	-0.4	**Sales**	**Inter Segments**
-0.7%	-0.4%	-0.8%	-0.7%	-1.1%	-1.6%	-1.8%	-1.8%	-1.9%	-1.7%	-1.5%	**%**	
130.6	114.3	106.7	132.6	91.7	72.3	67.1	44.6	32.0	28.6	27.0	**Total Sales**	

The following is a summary of the profit and loss report for Q2 2010 - 2011 (US$ M):

	Q2 2010	Q2 2011	Change (%)
Sales	114.3	130.6	14.3%
Gross profit	46.9	48.5	3.4%
R&D, Selling, Administration, General and Other expenses	27.5	31.5	14.5%
Operating profit	19.4	17.0	-12.3%
EBITDA	24.0	22.2	-7.3%
Profit before tax	17.1	16.2	-5.2%
Net profit	13.0	12.3	-5.5%

Gross Profit

The Company's gross profit in Q2 2011 increased by 3.4%, reaching US$ 48.5 M compared to US$ 46.9 M in Q2 2010. Gross margin reached 37.1% compared to the record gross margin of 41.0% in the same period last year (which was affected, as mentioned above, from the restocking trend of Frutarom's customers that contributed to the significant increase in sales, primarily in the Specialty Fine Ingredients segment).

The increase in gross profit and margin were affected by 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. As mentioned, the Company acts determinedly to adjust the selling prices of its products that are affected by the increase in raw material prices. As mentioned, despite the increase in raw material prices, Frutarom's average gross and operating margin characterized by the five recent years (with the sole exception of the year 2010) was maintained.

Frutarom's management acts to achieve maximum efficiency while controlling expenses in order to improve its future competitiveness and profitability.

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

In Q2 2011 selling, marketing, research and development, general and administrative and other expenses totaled US$ 31.5 M (24.1% of sales) compared to US$ 27.5 M in Q2 2010 (24.1% of sales).

The increase in expenses in Dollar terms derives mainly from the strengthening of the European currencies and the NIS compared to the US$ and the growth in activity, including the acquisitions executed in the first half of 2011. As mentioned, Frutarom acted and acts to achieve maximum efficiency while improving its future competitiveness.

Operating Profit and EBITDA

In Q2 2011, operating profit totaled US$ 17.0 M (13.0% of sales) compared to US$ 19.4 M in the same quarter last year (17.0% of sales).

The EBITDA achieved by Frutarom in Q2 2011 totaled US$ 22.2 M (17.0% of sales) compared to US$ 24.0 M in the same quarter last year (21.0% of sales).
Operating margin and the EBITDA were affected mainly from the changes in gross profit compared to the exceptionally strong Q2 last year.

Finance Expenses / Income

In Q2 2011, finance expenses totaled US$ 0.8 M (0.6% of sales), compared to US$ 2.3 M (2.0% of sales) in Q2 2010. Interest expenses in Q2 2011 totaled US$ 0.4 M similar to the finance expenses due to differences in currency exchange rates, interest expenses on loans totaled approximately US$ 0.5 M and finance expenses due to differences in currency exchange rates totaled US$ 1.8 M.

Profit before Tax

In Q2 2011, profit before tax totaled US$ 16.2 M (12.4% of sales) compared to US$ 17.1 M in Q2 2010 (14.9% of sales).

Taxes on Income

In Q2 2011, taxes on income totaled US$ 3.9 M (24.0% of profit before tax) compared to US$ 4.1 M in Q2 2010 (23.8% of profit before tax).

Net Profit

In Q2 2011, net profit reached US$ 12.3 M compared to US$ 13.0 M in Q2 2010. Net margin amounted to 9.4% compared to 11.4% in Q2 2010.

Earnings per Share

In Q2 2011, earnings per share reached US$ 0.21 per share compared to US$ 0.23 per share in Q2 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	Q2 2011
Income	98.4	106.7	111.6	108.5	113.5	114.3	111.0	112.4	121.0	130.6
Gross profit	35.2	39.4	41.2	39.6	43.5	46.9	43.2	41.3	45.7	48.5
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	31.5
Operating profit	10.2	12.8	13.3	11.0	16.6	19.4	15.0	12.1	16.6	17.0
EBITDA	14.5	17.4	18.3	16.0	21.3	24.0	19.8	16.9	21.5	22.2
Finance expenses	3.3	0.1	0.0	0.9	1.3	2.3	-0.2	-0.2	-0.9	0.8
Profit before tax	6.9	12.7	13.2	10.1	15.3	17.1	15.2	12.2	17.5	16.2
Net profit	5.6	10.1	10.0	7.5	11.1	13.0	11.1	8.8	13.1	12.3

Frutarom's business is characterized by seasonal fluctuations, generally expressed by higher sales and margin in the first half of a given year, with lower sales and margin 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 moderate in recent years with the significant increase in sales of savory products following the acquisitions of companies and 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's effect on demand.

D. RESULTS OF OPERATIONS IN H1 2011

The major trends mentioned in section C above regarding Q2 apply as well to H1 and affect its results.

Sales

In H1 2011, Frutarom's sales increased by 10.5% totaling US$ 251.6 M compared to US$ 227.7 M in the same period of 2010. The continued strengthening of the European currencies and the NIS compared to the US$ contributed approximately 6.6% to sales in US$. Acquisitions made at the beginning of 2011 contributed US$ 6.9M.

Frutarom's sales in the Flavors segment increased by approximately 13.1% compared to the same period last year, totaling US$ 172.9 M. The currency exchange effect mentioned above contributed 7.7% to the sales performed in US$. The acquisitions initiated at the beginning of 2011 contributed approximately US$ 6.9M.

Frutarom's sales in the Specialty Fine Ingredients segment increased by approximately 3.4% compared to the first half of 2010 (in which sales increased by 24.4% compared to H1 2009 in which the restocking trend of the Frutarom's customers added a significant increase in sales) and totaled US$ 76.3 M. The aforementioned effect of the currency exchange rates contributed approximately 4.2% sales performed in US$.

Sales Breakdown by Fields of Activity in H1 in 2001-2011 (US$ M and %)

H1 2011	H1 2010	H1 2009	H1 2008	H1 2007	H1 2006	H1 2005	H1 2004	H1 2003	H1 2002	H1 2001		
172.9	152.8	143.1	182.5	111.6	94.2	83.4	42.6	28.4	22.7	20.0	Sales	Flavor Segment
68.7%	67.1%	69.8%	71.7%	64.8%	65.7%	63.3%	48.1%	47.2%	40.9%	39.1%	%	
76.3	73.8	59.3	67.8	58.0	48.0	47.1	43.6	29.3	30.5	29.0	Sales	Fine Ingredient Segment
30.3%	32.4%	28.9%	26.6%	33.7%	33.5%	35.7%	49.3%	48.7%	54.8%	56.6%	%	
3.9	2.3	4.2	6.6	4.7	2.9	3.3	3.6	3.5	3.3	2.9	Sales	Trade & Marketing
1.6%	1.0%	2.1%	2.6%	2.7%	2.0%	2.5%	4.1%	5.8%	5.8%	5.7%	%	
-1.5	-1.2	-1.5	-2.3	-2.1	-1.8	-2.0	-1.3	-1.1	-0.8	-0.7	Sales	Inter Segments
-0.6%	-0.5%	-0.8%	-0.9%	-1.2%	-1.2%	-1.5%	-1.5%	-1.8%	-1.5%	-1.4%	%	
251.6	227.7	205.1	254.6	172.2	143.3	131.8	88.5	60.2	55.6	51.2	Total Sales	

The following is a summary of the profit and loss report for H1 2010 - 2011 (US$ M):

	H1 2010	H1 2011	Change (%)
Sales	227.7	251.6	10.5%
Gross profit	90.4	94.1	4.2%
R&D, selling, Administration, General and Other expenses	54.4	60.5	11.2%
Operating profit	36.2	33.6	-6.5%
EBITDA	45.3	43.7	-3.5%
Profit before tax	32.4	33.7	4.1%
Net profit	24.1	25.4	5.4%

Gross Profit

The Company's gross profit in H1 2011 increased by 4.2%, reaching US$ 94.1 M (37.4% of sales) compared to US$ 90.4 M in H1 2010 (39.7% of sales). As mentioned, Frutarom's average gross margin in the recent five years was maintained (with the sole exception of the year 2010).

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

In H1 2011 selling, marketing, research and development, general and administrative and other expenses totaled US$ 60.5 M (24.0% of sales) compared to US$ 54.4 M in H1 2010 (23.9% of sales).

The increase in expenses in Dollar terms was mainly due to the strengthening of the European currencies and the NIS compared to the US$ and due to growth in activity volume caused, among others, by acquisitions completed in H1 2011. As mentioned, Frutarom acts in order to continue to achieve maximum efficiency, while strengthening its competitive edge.

Operating Profit and EBITDA

In H1 2011, operating profit totaled US$ 33.6 M (13.4% of sales) compared to the same period last year (US$ 36.0 M, accounting for 15.8% of sales).

The EBITDA achieved by Frutarom in H1 2011 totaled US$ 43.7 M (17.4% of sales) compared to US$ 45.3 M in the same period last year (19.9% of sales).

Operating margin and the EBITDA were affected mainly by the change in the gross margin in comparison to an exceptionally strong H1 last year.

Finance Expenses / Income

In H1 2011, finance expenses totaled US$ 0.1 M, compared to US$ 3.6 M (1.6% of sales) in H1 2010. Interest expenses in H1 2011 totaled US$ 0.8 M and were offset by finance income from currency exchange rates totaling US$ 0.9M in H1 2011 interest expenses on loans totaled US$ 1.1 M and finance expenses due to differences in currency exchange rates totaled US$ 2.5 M.

Profit before Tax

In H1 2011, profit before tax increased by 4.1% and totaled US$ 33.7 M (13.4% of sales) compared to US$ 32.4 M in H1 2010 (14.2% of sales).

Taxes on Income

In H1 2011, taxes on income totaled US$ 8.3 M (24.5% of profit before tax) compared to US$ 8.2 M in H1 2010 (25.5% of profit before tax).

Net Profit

In H1 2011, net profit reached a record of US$ 25.4 M compared to US$ 24.1 M in H1 2010. Net margin amounted to 10.1% compared to 10.6% in H1 2010.

Earnings per Share

In H1 2011, earnings per share increased by 5.3% and reached a record of US$ 0.44 per share compared to US$ 0.42 per share in H1 2010.

E. LIQUIDITY

During Q2 2011, the Company's cash flow from current activities reached US$ 13.1 M, compared to a cash flow of US$ 25.3 M achieved in Q2 2010.

During H1 2011, the Company's cash flow from current activities reached US$ 15.9 M, compared to a cash flow of US$ 30.6 M achieved in H1 2010.

The cash flow was affected by the increase in activity volume and timing changes of tax payments (tax returns received last year for prior years totaling US$ 3.7M compared to tax payments made this year due to prior years totaling US$ 2.5M) and a certain increase in the raw material inventory. This increase is a result of maintaining optimal inventory levels which correspond and take into consideration the seasonality in the supply of different raw materials and their current and future demand and prices.

F. SOURCES OF FINANCE

Sources of Equity

Frutarom's equity as at June 30, 2011 totaled US$ 402.2 M (70.6% of its balance sheet) compared to US$ 319.8 M as at June 30, 2010 (64.9% of its balance sheet). The change derives mainly from the net profit in the period and the strengthening of the European currencies and the NIS against the dollar.

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

Long-term credit from banks provided to the Company in Q2 2011 totaled US$ 56.9 M compared to US$ 87.6 M in Q2 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 Q2 2011 totaled US$ 10.6 M, compared to to US$ 0.3 M in Q2 2010.

Credit from Suppliers and to Customers (Average)

In Q2 2011, the Company utilized credit from suppliers and other creditors in the amount of US$ 67.6 M compared to US$ 58.8 M in the same quarter last year. During Q2 2011, the Company granted credit of US$ 89.1 M to its customers, compared to US$ 73.1 M during Q2 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 from the strengthening of the NIS and the European currencies and the NIS against the dollar.

G. 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- NIS Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	3.757	3.586	3.415	3.244	3.074
			US$ 000		
Total Exposure net	(261)	(131)	2,618	131	261

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	0.687	0.656	0.625	0.594	0.562
			US$ 000		
Total Exposure net	1,402	702	(14,034)	(702)	(1,402)

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	0.760	0.725	0.691	0.656	0.622
			US$ 000		
Total exposure, net	2,553	1,276	(25,526)	(1,276)	(2,553)

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	0.918	0.876	0.834	0.793	0.751
	US$ 000				
Total exposure, net	338	170	(3,390)	(170)	(338)

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	(1,147)	(573)	11,465	573	1,147

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	7	3	1,388	(4)	(8)

EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

SENSITIVITY TESTS

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	**3.757**	**3.586**	**3.415**	**3.244**	**3.074**
			US$ 000		
Cash and cash equivalents	(36)	(18)	364	18	36
Customers	(1,190)	(595)	11,898	595	1,190
Other debtors	(375)	(187)	3,747	187	375
	(1,601)	**(800)**	**16,009**	**800**	**1,601**
Bank loans	514	257	5,139	(257)	(514)
Suppliers and service providers	343	171	3,426	(171)	(343)
Other creditors	483	241	4,826	(241)	(483)
	1,340	**669**	**13,391**	**(669)**	**(1,340)**
Total exposure, net	**(261)**	**(131)**	**2,618**	**131**	**261**

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	0.687	0.656	0.625	0.594	0.562
			US$ 000		
Cash and cash equivalents	(222)	(111)	2,217	111	222
Customers	(906)	(453)	9,061	453	906
Other debtors	(80)	(40)	795	40	80
	(1,208)	**(604)**	**12,073**	**604**	**1,208**
Bank loans	1,353	677	13,534	(677)	(1,353)
Suppliers and service providers	621	311	6,214	(311)	(621)
Other creditors	636	318	6,359	(318)	(636)
	2,610	**1,306**	**26,107**	**(1,306)**	**(2,610)**
Total exposure, net	**1,402**	**702**	**(14,034)**	**(702)**	**(1,402)**

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	**0.760**	**0.725**	**0.691**	**0.656**	**0.622**
			US$ 000		
Cash and cash equivalents	(1,041)	(520)	10,407	520	1,041
Customers	(3,497)	(1,749)	39,974	1,497	3,749
Other debtors	(174)	(87)	1,735	87	174
	(4,712)	**(2,356)**	**47,116**	**2,356**	**4,712**
Credit from banks	3,802	1,901	38,017	(1,901)	(3,802)
Suppliers and service providers	1,636	818	16,356	(818)	(1,636)
Other creditors	831	415	8,308	(415)	(831)
Liability for employees rights upon retirement	996	498	9,961	(498)	(996)
	7,265	**3,632**	**72,642**	**(3,632)**	**(7,265)**
Total exposure, net	**2,553**	**1,276**	**(25,526)**	**(1,276)**	**(2,553)**

<u>Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate</u>

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.918**	**0.876**	**0.834**	**0.793**	**0.751**
			US$ 000		
Cash and cash equivalents	(169)	(84)	1,689	84	169
Customers	(854)	(427)	8,535	427	854
Other debtors	(212)	(106)	1,635	106	212
	(1,187)	**(593)**	**11,859**	**593**	**1,187**
Credit from banks	479	240	4,790	(240)	(479)
Suppliers and service providers	828	414	8,282	(414)	(828)
Other creditors	218	109	2,177	(109)	(218)
Liability for employees rights upon retirement	**1,525**	**763**	**15,021**	**(763)**	**(1,525)**
Total exposure, net	**338**	**170**	**(3,390)**	**(170)**	**(338)**

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	(594)	(297)	5,938	297	594
Customers	(880)	(440)	8,798	440	880
Other debtors	(29)	(14)	285	14	29
	(1,503)	**(751)**	**15,021**	**751**	**1,503**
Credit from banks	2	1	16	(1)	(2)
Suppliers and service providers	182	91	1,821	(91)	(182)
Other creditors	161	80	1,605	(80)	(161)
Liability for employees rights upon retirement	11	6	114	(6)	(11)
	356	**178**	**3,556**	**(178)**	**(356)**
Total exposure, net	**(1,147)**	**(573)**	**11,465**	**573**	**1,147**

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)	7	3	1,388	(4)	(8)
Total exposure, net	**7**	**3**	**1,388**	**(4)**	**(8)**

CORPORATE GOVERNANCE ASPECTS

A. APPROVAL PROCESS OF THE FINANCIAL STATEMENTS

The Company's financial statements are submitted for approval to the Board of Directors, which is the body responsible for the Company's governance, 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 statements and forms recommendations to the Board of Directors in accordance with the Companies Regulations (Instructions and Terms for the Approval Procedure of the Financial Statements), 2010 ("**Statements Approval Regulations**").

Members of the Company's Board of Directors

The Board of Directors of the Company is comprised of seven members, of whom five are directors with accounting and financial expertise as detailed below.

Members of the Balance Sheet Committee

The members of the Balance Sheet Committee are the members of the Audit Committee – Ya'acov Elinav, External Director and the chairman of the committee, Isaac Angel, External Director, and Gil Leidner, Director. The Balance Sheet Committee members are independent directors and have financial and accounting expertise and ability to read and understand financial statements and had provided the Company with a written declaration in this regard. For details regarding the skills, education and experience 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 statements for Q2 2011 were discussed at the meeting of the Balance Sheet Committee held on August 15, 2011. The members of the committee received the financial statements several days before the meeting. Two out of three members of the Balance Sheet Committee attended the meeting (Mr. Ya'akov Elinav, Chairman of the committee and Mr. Yitzhak Angel) 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 included in the financial statements, the internal control on financial reporting, the completeness and fairness of the disclosure in the financial statements, the accounting policy adopted, the financial practice implemented at the material matters of the Group, and the valuations, including the assumptions and estimations on which the data in the financial information is based. Within the discussion, the Balance Sheet Committee formed its recommendations to the Board of Directors in accordance with the Statements Approval Regulations. The recommendations of the committee were delivered to the Company's Board of Directors two business days prior to the Board meeting at which the financial statements were discussed. The Board of Directors considered the mentioned time period as reasonable in light of the scope and complexity of the recommendations.

<u>Approval Procedure of the Reports by the Board of Directors</u>

The members of the Board of Directors received the draft of the financial statements several days prior to the date of the Board meeting at which the statements 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 that meeting. During the meeting, the Board of Directors discussed the recommendations of the Balance Sheet Committee regarding the financial statements. The President and CEO and Executive Vice President and CFO presented during the meeting the Group's business and financial results to the Board of Directors for the relevant period in comparison with previous periods emphasizing 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 statements. All of the members of the Board of Directors were present at the Board meeting held on August 17, 2011, when the financial statements for Q2 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 cash dividend in the amount of NIS 0.2 per share. The dividend in the total amount of US$ 3,380,000 was paid on May 5, 2011.

B. APPROVAL OF GRANT OF OPTIONS

On February 7, 2011, the Company's Board of Directors approved a grant of 40,000 options for senior officeholders of the Company, as detailed in the offering report, published by the Company on February 8, 2011. 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 statements dated September 30, 2010, as well as the offering report published by the Company on August 19, 2010.

C. EVENTS OCCURRED SUBSEQUENT TO THE DATE OF THE REPORT ON THE FINANCIAL STATUS WHICH ARE MENTIONED IN THE FINANCIAL STATEMENTS

On July 29, 2011, the acquisition of Christian Hansen Itailia's savory activity was completed for a consideration of Euro 25 M (US$ 35.7 M). The acquisition was financed using a short term labor interest of +1.6% loan. This loan will be replaced by a long term loan which details are yet to be determined with the creditor. Additional details can be found in the company's immediate reports dating May 26, 2011 and July 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. <u>EXCLUSION OF THE COMPANY'S SEPARATE FINANCIAL STATEMENTS UNDER REGULATION 9(C) TO THE REGULATIONS</u>

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

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 statements. The Company does not employ people and it does not make any sales or expenses toward 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 management and employees for the Company's fine achievements.

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

August 17, 2011