FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING SEPTEMBER 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. Frutarom became a public company in 1996 upon 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, 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, Asia and Africa, marketing and selling over 20,000 products to more than 13,000 customers in more than 130 countries, and employing approximately 1,600 people throughout the world.

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 savory flavor solutions, including flavors and products which in addition to flavors also contain 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, and from strategic acquisitions of companies and activities in the sector, performed over the past few years and successfully merged with Frutarom’s global activities. 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 the area of natural, functional and healthy foods.

PROFITABLE GROWTH STRATEGY AND ACQUISITIONS

Frutarom continues to act with determination 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, which is the largest market in the world for flavors. 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 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.

After having conducted seven acquisitions in 2007 and three in 2009, all of which were successfully merged with its global activities, Frutarom has continued with its acquisition strategy and completed five additional strategic acquisitions this year to date, the merging of which is progressing successfully.

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 activity includes 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.

Frutarom is working to merge the Rieber Activity with the Group's existing activities in Germany and Scandinavia. Until recently, Reiber Activity products were produced by Rieber & Son ASA in accordance with a production agreement with them. On November 1, 2011, a process which will bring about more efficient and economic operational activity was successfully completed, in accordance with the plan for transfer of production from Norway to Germany. This process will bring about improved profit and margins.
The acquired activity produced approximately US$4.7M income, and net profit (after acquisition and financing expenses) of approximately US$0.3 M, from the date of completion of the transaction until September 30, 2011.

For more details regarding the acquisition of the Rieber Activity, see the Company's Immediate Reports of 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 (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).

Frutarom has merged EAFI's operational, acquisition and sales systems with Frutarom's activities in the UK and with its European and Israeli development and marketing systems.

This acquired activity has created an added income of US$6.6M and a net profit (after purchase costs) of US$0.3M, from the date of the completion of the acquisition until September 30, 2011.

For additional details regarding the acquisition of EAFI, see the Company's Immediate Reports on the matter dated January 23, 2011 and February 1, 2011.
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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"**). The cost of the acquisition came to approximately US$36.1 M (approximately €25 M) and was financed through short term bank credit which was replaced by a 42 month loan with LIBOR + 2.4% interest. According to the adaptation mechanisms in the acquisition agreement, Frutarom is expected to receive a return in the amount of US$1,483 thousand (€1,028 thousand) from the vendors. The transaction completed on July 29, 2011.

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

CH's activity is synergetic with Frutarom's savory activity and constitutes another step in establishing Frutarom's status as a leading company within the European savory market, a status it has held over the past few years in a combined process of internal growth and strategic acquisitions. Frutarom acts to merge the operation, development and sales activities of CH with its existing activity.

Since the acquisition on July 29, 2011 and through to September 30, 2011, this acquisition has yielded income in the amount of US$3.2 M and net profit of US$0.2 M (after acquisition and financing expenses). There were further one-time expenses for the acquisition, in the amount of US$1.2 M.

For more details see the Company's immediate reports dated May 26, 2011 and July 31, 2011, and from November 23, 2011.

4) Acquisition of Aromco

On August 19, 2011, Frutarom, through a subsidiary in the UK, signed an agreement for the acquisition of 100% of the share capital of the British Aromco Ltd. **(**hereinafter**: "Aromco"**), in return for payment of approximately US$24.6 M (GBP15 M). Aromco's sales turnover for 2010 totaled US$12.7 M in 2010 (approximately GBP 7.7 M).

The acquisition was completed at the time of signing and financed through bank credit.

Aromco, founded in 1985, deals in the development, production and marketing of flavors for the food and beverage industries. Aromco is mainly active in developing markets with high growth rates in Eastern Europe, Africa and Asia, and in the British market. Aromco employs some 40 people, and operates a plant in Hertfordshire, England.

The acquisition of Aromco allows Frutarom to expand and deepen its activities and market sector in the developing markets in which Aromco works, which are fast growing markets, and to strengthen its product supply and R&D thorough advanced and innovative solutions developed by Aromco. Frutarom is acting to merge Aromco's activities with Frutarom's global activities, while creating operational synergies and cross-selling.

The activities acquired have yielded income in the amount of US$2.6 M and net profits (after purchase and financing expenses) of US$0.4 M since the acquisition and until September 30, 2011.

For more details regarding the Aromco acquisition, see the Company's report dated August 21, 2011.

5) Acquisition of Flavor Systems

On September 13, 2011, Frutarom, through a subsidiary in the US, signed an agreement for the acquisition of 100% of the share capital of the American Flavor Systems International Inc. (hereinafter: "**Flavor Systems**"), in return for cash payment of US$35.3 M, The final price of the transaction will be determined in accordance with an agreed mechanism related to future earnings, based on a 6.5 multiplier of EBITDA exceeding US$5 M, gained by the operation of Flavor Systems during the 12 months starting on October 1, 2011 and ending on September 30, 2012 (the "**EBITDA**"), up to a ceiling of US$10 M. In addition, in the event that the EBITDA during that period will be less than US$5 million, the sellers will repay an amount of up to US$6 M to Frutarom. Consideration for the acquisition may range from US$29.3 M to US$45.3 M, according to the aforementioned mechanism. In addition, the Company paid US$ 6.5M for real estate assets owned by other companies held by Flavor System shareholders, including a new, modern plant, expected to begin manufacture of new and innovative products already in the fourth quarter of 2011. The acquisition was completed on October 3, 2011.

In the years ending on October 31, 2009 and October 31, 2010 and in the 12 months ending on July 31, 2011, the sales turnover of the acquired company was approximately US$16.2 M, $16.5 M and US$ 18.4 M, respectively, and the EBITDA was approximately US$3.2 million, US$2.9 million and US$4.2 million, respectively. Flavor Systems has a bank debt of approximately US$3.4 million.

Flavor Systems, founded in 1994, employs some 50 workers, and focuses on the development, manufacture and marketing of sweet and savory flavors for the Food and Beverages markets. Flavor Systems owns an innovative plant and R&D laboratories located in Cincinnati, in the US Midwest. As stated, the acquisition also included a new, modern production site with high production capacity, construction of which will be completed in the last quarter of 2011. Among other things, the site will enable a material expansion into market segments where Frutarom is not active presently, such as the growing market of flavored coffee and shakes sold at convenience stores and large food chain stores in the USA. Penetration into these areas will allow Frutarom exposure to large and growing market segments and to new customers, and this is a step which will allow Frutarom to penetrate more of its products by utilizing these new marketing channels. In addition, through this acquisition, Frutarom gains access to the field of savory flavors in the USA, in which it did not act as yet. Frutarom has extended its growing activities in this field in the European market, through several acquisitions in recent years, including three acquisitions this year. Frutarom intends to leverage its capacities in the savory field in the American market as well.

Frutarom will act to achieve business and operational efficiencies in the integration of Flavor Systems operations with its current flavor operations on the East and West Coast of the USA. Flavor System's R&D, marketing and sales systems, production and supply chain

functions will be consolidated with Frutarom’s existing organization in the US, taking maximum advantage of the many synergies between activities. Frutarom will also act to utilize the numerous cross-selling possibilities arising from this acquisition, and will take steps to expand its product range and customer base in the US market. This acquisition is consistent with the acquisition of Flavors Specialties Inc. in Corona, California, USA, in 2009 and will also support Frutarom's expansion strategy in Central and South America.
Flavor Systems will be included in Frutarom’s financial reports starting October 3, 2011.

For more details regarding Flavor Systems’ acquisition, see the Company’s immediate reports dated September 13, 2011 and October 4, 2011.

Frutarom estimates that its equity structure (scope of assets of US$ 612.2 M and equity capital of US$ 395.5 as at Sept. 30, 2011), and its net debt level (total loans deducted by cash totals to US$ 69.0 M as at September 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 September 30, 2011 totaled US$612.2 M compared to US$531.7 M as at September 30, 2010 and US$519 M as at December 31, 2010.

The Group's current assets totaled US$ 247.0 M compared to US$225.1 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 September 30, 2011 totaled US$363.0 M compared to US$305.0 M at the end of Q3 2010 and US$303.3 M as at December 31, 2010.

The increase of assets was affected by the acquisitions completed during 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 against the US$ as at 30 September 2011 compared to September 30, 2010 and December 31, 2010).

C. RESULTS OF OPERATIONS IN Q3 2011

Sales increased during Q3 2011 by 21.9% and reached a quarterly sales high of US$135.3 M, compared to US$111.0M in the same quarter of 2010.

Gross margin was affected by the global trend reported over the last quarters, of substantial raw material prices increase of most ingredients used by Frutarom to manufacture its products. This trend of price increase has moderated during the third quarter of this year, and lately some stability and even the start of a fall in some prices for raw materials, from the record high level which they currently stand at, has been observed. Frutarom has acted and continues to act with diligence to adapt the sales prices of its products (some of which cannot yet been seen in this quarter's results), to continue expanding its circle of suppliers and to lower purchase costs, while improving future margins.

Frutarom has acted and acts in order to achieve a successful integration and maximal utilization of synergies and cross-selling possibilities deriving from the acquisitions executed during 2011. Those acquisitions have contributed to the sales increase, however their contribution to the Group's profit was still marginal partly as the result of one-time acquisition expenses for these acquisitions (in the amount of US$1.3M during the quarter), and as a result of the fact that advanced integration processes have not yet been completed according to the original plans, and are expected to be completed by the end of the year. Frutarom expects that the acquisitions performed and which will in future be performed will contribute to the Group's improved margin and profit.

Frutarom estimates that the continued internal growth and a combination of stabilization of raw material prices, together with adjustment of product selling prices which has continued even over the last few months, some of which have not yet been seen in Q3 results will cause improved future margins and the continued strengthening of Frutarom's competitive edge as one of the leading global players in the flavors, health and specialty fine ingredients fields. Continued realization of streamlining processes and improving the competitive costs structure, while taking maximum advantage of its productions sites throughout the world and the successful merging of acquisitions which will be concluded by the end of the year will also further contribute to this.

Sales

In Q3 2011, Frutarom's sales increased by 21.9% reaching a quarterly high (for both Flavors and specialty fine ingredients) totaling US$ 135.3 M compared to US$111.0 M in the same quarter in 2010. The continued strengthening of the European currencies and the NIS compared to the US$ contributed 9.6% to sales performed in US$. The acquisitions executed during 2011 contributed US$10.3M to sales during this quarter.

Frutarom's sales in the Flavor segment increased by approximately 28.6% compared to the same quarter last year, totaling US$96.9 M. The effect of the currency exchange rates, as mentioned, contributed approximately 11.6% to the sales performed in US$. The acquisitions executed during 2011 contributed US$10.3 M to sales during this quarter.

Frutarom's sales in the Specialty Fine Ingredients segment increased by approximately 9.3% compared to the third quarter of 2010 and totaled US$ 37.8 M. The effect of the currency exchange rates, as mentioned, contributed approximately 6.0%.

Sales Breakdown by Fields of Activity in Q3 in 2001-2011 (US$ M and %)

		Q3 2001	Q3 2002	Q3 2003	Q3 2004	Q3 2005	Q3 2006	Q3 2007	Q3 2008	Q3 2009	Q3 2010	Q3 2011
Flavor Segment	**Sales**	10.1	11.8	21.1	28.1	36.2	47.2	57.6	86.1	77.3	75.4	96.9
	%	38.1%	42.8%	49.8%	54.7%	61.0%	66.3%	65.7%	71.7%	69.3%	67.9%	71.7%
Fine Ingredient Segment	**Sales**	15.1	14.7	20.3	22.1	22.7	23.9	28.1	31.1	33.5	34.6	37.8
	%	57.2%	53.4%	48.0%	43.0%	38.2%	33.6%	32.0%	25.9%	30.1%	31.1%	27.9%
Trade & Marketing	**Sales**	1.5	1.5	1.6	1.8	1.6	1.8	3.3	3.8	1.5	1.5	1.3
	%	5.6%	5.4%	3.7%	3.5%	2.8%	2.5%	3.7%	3.2%	1.3%	1.4%	1.0%
Inter Segments	**Sales**	-0.2	-0.5	-0.6	-0.6	-1.1	-1.7	-1.3	-1.0	-0.7	-0.5	-0.7
	%	-0.8%	-1.6%	-1.5%	-1.2%	-2.0%	-2.4%	-1.4%	-0.9%	-0.7%	-0.5%	-0.5%
Total Sales		26.4	27.5	42.4	51.4	59.4	71.3	87.7	120.0	111.6	111.0	135.3

The following is a summary of the profit and loss report for Q3 2010 – 2011 (US$ M):

	Q3 2010	Q3 2011	Change (%)
Sales	111.0	135.3	21.9%
Gross profit	43.2	47.7	10.5%
R&D, Selling, Administration, General and Other expenses without one-time expenses	28.2	33.5	18.8%
Other expenses (one-time for acquisitions)	-	1.3	100%
Operating profit without one-time expenses	15.0	14.2	-5.3%
Operating profit	15.0	12.9	-13.9%
EBITDA without one-time expenses	19.8	19.9	0.4%
EBITDA	19.8	18.6	-6.5%
Net profit	11.1	8.7	-22.2%

Gross Profit

The Company's gross profit in Q3 2011 increased by 10.5%, reaching a record for the third quarters of US$47.7M compared to US$43.2 M in Q3 2010. Gross margin reached 35.2% compared to the record gross margin of 38.9% in the same period last year

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 with determination to adjust the selling prices of its products that are affected by the increase in raw material prices, and will continue to adjust and raise sales prices of its products affected by the rise in raw material prices should this trend continue, and acts to achieve maximum efficiency while controlling expenses in order to improve future competitiveness and profitability.

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

In Q3 2011 selling, marketing, research and development, general and administrative and other expenses, excluding one-time expenses for acquisitions, totaled US$ 33.5 M (24.8% of sales) compared to US$ 28.2 M in Q3 2010 (25.4% of sales).

Sales and marketing, research and development, general and administrative expenses before excluding one-time expenses for acquisitions (which included external consulting and purchase tax on properties) in Q3 2011 came to US$34.8M (25.7% 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$, from growth in activity, including the acquisitions executed over in the first nine months of 2011 and from one-time expenses for acquisitions, as explained above.
As mentioned, Frutarom acted and acts to achieve maximum efficiency while improving its future competitiveness.

Operating Profit and EBITDA

In Q3 2011, operating profit excluding one-time expenses for acquisitions totaled US$14.2 M (10.5% of sales) compared to US$15.0 M in the same quarter last year (13.5% of sales).

The operating profit achieved by Frutarom in Q3 2011 before excluding one-time expenses for acquisitions totaled US$12.9 M (9.5% of sales).

The EBITDA excluding one-time expenses for acquisitions achieved in Q3 2011 by Frutarom reached US$19.9 M (14.7% of sales),compared to US$19.8 M in the same quarter last year (17.9% of sales).

The EBITDA achieved by Frutarom in Q3 2011 before excluding one-time expenses for acquisitions reached US$18.6 M (13.7% of sales).

Finance Expenses / Income

In Q3 2011, finance expenses totaled US$2.6 M (1.9% of sales), compared to financing income that came to US$0.2M (0.2% of sales) during Q3 2010.

Interest expenses during Q3 2011 reached US$0.4 M compared to US$0.7 M during the same quarter last year.

Financing expenses due to differences in currency exchange rates totaled US$2.2 M compared to financing income due to differences in currency exchange rates which totaled US$0.9 M during the same quarter last year.

The difference in financing expenses is due to the strengthening of the dollar exchange rate versus European currencies and the Israeli shekel as of September 30, 2011, compared to the exchange rate of the dollar versus those same currencies at June 30, 2011.

Profit before Tax

In Q3 2011, profit before tax excluding one-time expenses for acquisitions totaled US$11.5 M (8.5% of sales) compared to US$15.2 M in Q3 2010 (13.7% of sales).

Profit before tax in Q3 2011 before excluding one-time expenses for acquisitions totaled US$10.3 M (7.6% of sales).

Taxes on Income

In Q3 2011, taxes on income totaled US$1.6 M (15.4% of profit before tax) compared to US$4.0 M in Q3 2010 (26.5% of profit before tax). The reduction in the rate of tax expenses during Q3 2011 is mainly due to tax income for previous years, totaling approximately US$1.0 M.

Net Profit

In Q3 2011, net profit reached US$ 8.7 M compared to US$11.1 M in Q3 2010. Net margin amounted to 6.4% compared to 10.0% in Q3 2010.

Earnings per Share

In Q3 2011, earnings per share reached US$0.15 per share compared to US$0.19 per share in Q3 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	Q3 2011
Income	98.4	106.7	111.6	108.5	113.5	114.3	111.0	112.4	121.0	130.6	135.3
Gross profit	35.2	39.4	41.2	39.6	43.5	46.9	43.2	41.3	45.7	48.5	47.7
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	31.5	34.8
Operating profit	10.2	12.8	13.3	11.0	16.6	19.4	15.0	12.1	16.6	17.0	*****12.9
EBITDA	14.5	17.4	18.3	16.0	21.3	24.0	19.8	16.9	21.5	22.2	*18.6
Finance expenses	3.3	0.1	0.0	0.9	1.3	2.3	-0.2	-0.2	-0.9	0.8	2.6
Profit before tax	6.9	12.7	13.2	10.1	15.3	17.1	15.2	12.2	17.5	16.2	10.3
Net profit	5.6	10.1	10.0	7.5	11.1	13.0	11.1	8.8	13.1	12.3	8.7

* One-time expenses for acquisitions performed from the beginning of the year in the amount of US$1.3 M affected the operational profit during Q3 2011, as stated.

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 THE FIRST NINE MONTHS OF 2011

The major trends mentioned in section C above regarding Q3 also apply with regards to the first nine months and affect its results.

Sales

In the first nine months of 2011, Frutarom's sales increased by 14.2% and reached a high of US$386.9 M for nine month sales, compared to US$ 338.7 M during the first nine months of 2010. The continued strengthening of the European currencies and the NIS compared to the US$ contributed approximately 7.5% to sales in US$. Acquisitions performed during 2011 contributed US$17.2 M.

Frutarom's sales in the Flavors segment increased by approximately 18.2% compared to the first nine months of 2010, and totaled US$269.8 M. The currency exchange effect mentioned above contributed 8.9% to the sales performed in US$. The acquisitions over 2011 contributed approximately US$17.2M.

Frutarom's sales in the Specialty Fine Ingredients segment increased by approximately 5.3% compared to the first nine months of 2010 (in which sales increased by 16.7% compared to the first nine months of 2009, mainly because of the restocking trend of the Frutarom's customers, which added a significant increase in sales) and totaled US$114.1 M. The aforementioned effect of the currency exchange rates contributed approximately 4.8% sales performed in US$.

Sales Breakdown by Fields of Activity in the first nine months of 2001-2011 (US$ M and %)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Flavor Segment	Sales	30.0	34.9	49.7	70.8	119.6	141.5	169.2	268.6	220.4	228.2	269.8
	%	38.7%	41.6%	48.3%	50.6%	62.5%	65.9%	65.1%	71.7%	69.6%	67.4%	69.7%
Fine Ingredient Segment	Sales	44.1	45.6	49.8	65.6	69.8	72.0	86.1	98.9	92.9	108.3	114.1
	%	56.9%	54.3%	48.4%	46.9%	36.5%	33.5%	33.1%	26.4%	29.3%	32.0%	29.5%
Trade & Marketing	Sales	4.4	4.7	5.1	5.3	5.0	4.7	7.9	10.4	5.7	3.9	5.2
	%	5.6%	5.6%	5.0%	3.8%	2.6%	2.2%	3.1%	2.8%	1.8%	1.1%	1.4%
Inter Segments	Sales	-1.0	-1.2	-1.7	-1.9	-3.2	-3.5	-3.4	-3.3	-2.3	-1.7	-2.2
	%	-1.3%	-1.5%	-1.7%	-1.4%	-1.6%	-1.6%	-1.3%	-0.9%	-0.7%	-0.5%	-0.6%
Total Sales		77.5	84.0	102.9	139.8	191.2	214.6	260	374.6	316.7	338.7	386.9

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

	2010	2011	Change (%)
Sales	338.7	386.9	14.2%
Gross profit	133.5	141.8	6.2%
R&D, selling, Administration, General and Other expenses without one-time expenses	82.6	93.7	13.5%
Other (one-time for acquisitions)	-	1.6	100%
Operating profit without one-time expenses	50.9	48.1	-5.6%
Operating profit	50.9	46.5	-8.6%
EBITDA without one time expenses	65.2	63.8	-2.1%
EBITDA	65.2	62.3	-4.4%
Profit before tax	47.6	44.0	-7.6%
Net profit	35.3	34.1	-3.3%

Gross Profit

The Company's gross profit in the first nine months of 2011 increased by 6.2%, reaching US$ 141.8 M (36.7% of sales) compared to US$ 133.5 M (39.4% of sales) in the first nine months of 2010.

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

In the first nine months of 2011 selling, marketing, research and development, general and administrative and other expenses excluding one-time expenses for acquisitions in the amount of US$1.6 M, totaled US$93.7 M (24.2% of sales) compared to US$82.6 M in the same period in 2010 (24.4% of sales).

Selling, marketing, research and development, general and administrative and other expenses in the first nine months of 2011, including one-time expenses for acquisitions, totaled US$95.3 M (24.6% 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 including as a result of acquisitions completed in the first nine months of 2011, and from one-time expenses for the aforesaid acquisitions.

As mentioned, Frutarom has acted and continues to act in order to continue to achieve maximum efficiency, while strengthening its competitive edge.

Operating Profit and EBITDA

In the first nine months of 2011, operating profit excluding one-time expenses for acquisitions, totaled US$48.1 M (12.4% of sales), compared to US$50.9 M (15.0% of sales) during the same period in 2010.

The operating profit during the first nine months of 2011 totaled US$46.5 M (12.0% of sales),

The EBITDA achieved by Frutarom in the first nine months of 2011 excluding one-time expenses for acquisitions totaled US$ 63.8 M (16.5% of sales) compared to US$65.2 M in the same period last year (19.2% of sales).

The EBITDA achieved by Frutarom in the first nine months of 2011 totaled US$62.3 M (16.1% of sales).

Operating margin and the EBITDA were affected mainly by the change in the gross margin following a significant rise in prices of most of the raw materials used to manufacture Frutarom's products, in comparison to the exceptionally strong nine months last year, also affected by the restocking trend of the Frutarom's customers and the one-time acquisition expenses for the acquisitions performed this year.

Finance Expenses / Income

In the first nine months of 2011, financing expenses totaled US$2.6 M, (0.7% of sales) compared to US$3.4 M (1.0% of sales) in the first nine months of 2010.

Interest expenses in the first nine months of 2011 totaled US$1.2 M compared to interest expenses on loans in the amount of US$1.7 M during the first nine months of 2010.

Financing expenses from exchange rate differences for the first nine months of 2011 totaled US$1.4 M compared to US$1.7 M during the same period last year.

Profit before Tax

In the first nine months of 2011, excluding one-time expenses for acquisitions profit before tax totaled US$45.5 M (11.8% of sales) compared to US$ 47.5 M in the first nine months of 2010 (14% of sales).

Profit before tax for the first nine months of 2011 totaled US$44.0 M (11.4% of sales).

Taxes on Income

In the first nine months of 2011, taxes on income totaled US$9.8 M (22.4% of profit before tax) compared to US$12.3 M in the first nine months of 2010 (25.8% of profit before tax), Income from taxes for previous years, totaling approximately US$1.0 M, contributed to the reduction in tax expenses during the first nine months of 2011.

Net Profit

In the first nine months of 2011, net profit totaled US$34.1 M compared to US$ 35.3 M in the first nine months of 2011. Net margin amounted to 8.8% compared to 10.4% in the first nine months of 2010.

Levels of gross and operating margin, the EBITDA and the average net which characterized Frutarom's operations over the past 5 years were maintained (except in 2010, which was exceptionally strong). Frutarom's management estimates that the combination of the moderation and stabilization of the rise in raw material prices trend, the actions which the group has taken in order to adapt its products' sales prices (some of which are not yet seen in theresults), operational streamlining processes on which it focuses and successful integration of operations acquired this year will bring about improved future margins and profits.

Earnings per Share

In the first nine months of 2011, earnings per share totaled US$0.59 per share compared to US$ 0.62 per share in the first nine months of 2010.

E. LIQUIDITY

During Q3 2011, the Company's cash flow from current activities reached US$16.6 M, compared to a cash flow of US$18.4 M achieved in Q3 2010.

During the first nine months of 2011, the Company's cash flow from current activities reached US$32.5 M, compared to a cash flow of US$49.0 M achieved in the first nine months of 2010.

The reduction in cash flow from current activities as compared to the same period last year was caused as a result of an increase in operating capital, following the increase of activities, which caused an increase in customer balances and inventory, and as a result of timing differences in tax payments partially set off by the increase in supplier balances. The reduction in cash flow from current activities during the nine month period, as compared to the same period last year, was also affected as the result of the purchase of activities in Norway and Italy, where customer balances were not acquired, therefore customer balances during this period increased also as the result of these new activities.

F. SOURCES OF FINANCE

Sources of Equity

Frutarom's equity as at September 30, 2011 totaled US$395.5 M (64.6% of its balance sheet) compared to US$ 351.5 M as at September 30, 2010 (66.1% of its balance sheet). The change derives mainly from the net profit in the period.

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

Long-term credit from banks provided to the Company in Q3 2011 totaled US$46.9 M compared to US$76.1 M in Q3 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 Q3 2011 totaled US$57.3 M, compared to US$1.2 M in Q3 2010. The increase is due to interim financing of acquisitions with short term loans, to be exchanged for long term loans as will be agreed upon with the lending parties.

Loans and maintaining financial standards

In accordance with the statements in clarification 14D to the Company’s financial statements of Dec. 31, 2010, to guarantee long term loans taken from Bank Leumi LeIsrael Ltd. and from the First International Bank of

Israel Ltd., the group took upon itself to maintain financial standards, to be examined at the end of each quarter.

The actual standards maintained as stated above were as follows:

	Required Standard	**Dec. 31, 2010**	**March 31, 2011**	**June 30, 2011**	**Sep. 30, 2011**
Total equity capital	Minimum US$ 180 M	359,792	380,073	402,169	395,549
% of equity capital out of total balance	Minimum 30% of all assets	69.3%	68.0%	70.6%	64.6%
Debt to bank to divide in EBITDA	Maximum 6	0.78	0.82	0.76	1.34

Frutarom's total loans as at September 30, 2011 stand at US$106,250 thousand, out of which there is one substantial short term loan from a banking corporation in the amount of US$33,970 thousand, taken on July 25, 2011 for the purchase of CH activities. . This loan was replaced on November 22, 2010 with a 42 month loan with LIBOR + 2.4% interest (the "**Loan**"). The Loan will be repaid in 14 equal quarterly installments, and as security, the Company has undertaken a negative pledge on Frutarom Ltd.'s assets. For more details regarding the loan, see the Company's report on the matter dated November 23, 2011.

Credit from Suppliers and to Customers (Average)

In Q3 2011, the Company utilized credit from suppliers and other creditors in the amount of US$68.0 M compared to US$64.6 M in the same quarter last year. During Q3 2011, the Company granted credit of US$88.6 M to its customers, compared to US$75.2 M during Q3 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 and from the new acquisitions performed during this period.

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	4.083	3.898	3.712	3.526	3.341
	US$ 000				
Total Exposure, net	1,762	880	(17,612)	(880)	(1,762)

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	0.704	0.672	0.640	0.608	0.576
	US$ 000				
Total Exposure net	1,167	584	(11,677)	(584)	(1,167)

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	0.810	0.773	0.736	0.699	0.662
	US$ 000				
Total exposure, net	5,452	2,727	(54,519)	(2,727)	(5,452)

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	0.990	0.945	0.900	0.855	0.810
	US$ 000				
Total exposure, net	264	131	(2,638)	(131)	(264)

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	(1,254)	(628)	12,534	628	1,254

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	3	2	(609)	(1)	(2)

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	**4.083**	**3.898**	**3.712**	**3.526**	**3.341**
Cash and cash equivalents	(164)	(82)	1,639	82	164
Customers	(1,152)	(576)	11,515	576	1,152
Other debtors	(81)	(41)	814	41	81
	(1,397)	**(699)**	**13,968**	**699**	**1,397**
Bank loans	2,343	1,171	23,429	(1,171)	(2,343)
Suppliers and service providers	264	132	2,635	(132)	(264)
Other creditors	552	276	5,516	(276)	(552)
	3,159	**1,579**	**31,580**	**(1,579)**	**(3,159)**
Total exposure, net	**1,762**	**880**	**(17,612)**	**(880)**	**(1,762)**

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	**0.704**	**0.672**	**0.640**	**0.608**	**0.576**
			US$ 000		
Cash and cash equivalents	(333)	(166)	3,325	166	333
Customers	(999)	(500)	9,993	500	999
Other debtors	(99)	(50)	994	50	99
	(1,431)	**(716)**	**14,312**	**716**	**1,431**
Bank loans	1,321	661	13,211	(661)	(1,321)
Suppliers and service providers	595	298	5,954	(298)	(595)
Other creditors	682	341	6,824	(341)	(682)
	2,598	**1,300**	**25,989**	**(1,300)**	**(2,598)**
Total exposure, net	**1,167**	**584**	**(11,677)**	**(584)**	**(1,167)**

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	**0.810**	**0.773**	**0.736**	**0.699**	**0.662**
			US$ 000		
Cash and cash equivalents	(989)	(494)	9,889	494	989
Customers	(3,435)	(1,717)	34,345	1,717	3,435
Other debtors	(341)	(170)	3,408	170	341
	(4,765)	**(2,381)**	**47,642**	**2,381**	**4,765**
Credit from banks	6,500	3,250	64,996	(3,250)	(6,500)
Suppliers and service providers	1,881	940	18,809	(940)	(1,881)
Other creditors	882	441	8,816	(441)	(882)
Liability for employees rights upon retirement	954	477	9,540	(477)	(954)
	10,217	**5,108**	**102,161**	**(5,108)**	**(10,217)**
Total exposure, net	**5,452**	**2,727**	**(54,519)**	**(2,727)**	**(5,452)**

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	**0.990**	**0.945**	**0.900**	**0.855**	**0.810**
			US$ 000		
Cash and cash equivalents	(350)	(175)	3,502	175	350
Customers	(670)	(335)	6,697	335	670
Other debtors	(155)	(78)	1,551	78	155
	(1,175)	**(588)**	**11,750**	**588**	**1,175**
Credit from banks	444	222	4,442	(222)	(444)
Suppliers and service providers	785	392	7,845	(392)	(785)
Other creditors	210	105	2,101	(105)	(210)
Liability for employees rights upon retirement	**1,439**	**719**	**14,388**	**(719)**	**(1,439)**
Total exposure, net	**264**	**131**	**(2,638)**	**(131)**	**(264)**

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	(556)	(278)	5,556	278	556
Customers	(1,010)	(505)	10,096	505	1,010
Other debtors	(55)	(28)	552	28	55
	(1,621)	**(811)**	**16,204**	**811**	**1,621**
Credit from banks	2	1	20	(1)	(2)
Suppliers and service providers	202	101	2,020	(101)	(202)
Other creditors	138	69	1,384	(69)	(138)
Liability for employees rights upon retirement	25	12	246	(12)	(25)
	367	**183**	**3,670**	**(183)**	**(367)**
Total exposure, net	**(1,254)**	**(628)**	**12,534**	**628**	**1,254**

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)	3	2	609	(1)	(2)
Total exposure, net	**3**	**2**	**609**	**(1)**	**(2)**

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 the capacity to read and understand financial statements and have 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, see regulation 26 in Chapter D of the Company's periodic report dated December 31, 2010 (Further Details on the Corporation).

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

The Company's financial statements for Q3 2011 were discussed at the meeting of the Balance Sheet Committee held on November 20, 2011. The members of the committee received the financial statements several days prior to the meeting. Two out of three members of the Balance Sheet Committee attended the meeting (External Director Mr. Ya'akov Elinav, Chairman of the committee and the Director Gil Leidner) 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 three 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.

Approval Procedure of the Reports by the Board of Directors

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 November 23, 2011, where the financial statements for Q3 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 (ref: 043281-01-2001. Options granted were part of the senior management Option Plan approved by the Company's Board of Directors on 15 July 2010. For additional details on the Option Plan, see 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 (ref: 592389-01-2010).

C. EVENTS SUBSEQUENT TO THE DATE OF THE REPORT ON THE FINANCIAL STATUS

1. On October 4 2011, the acquisition of 100% of the share capital of the American Flavor Systems International Inc. in return for cash payment of. US$35.3 M, The final price of the transaction will be determined in accordance with an agreed mechanism related to future earnings based on a multiplier of 6.5 for EBITDA over US$5 M which FSI's activities achieve during 12 months starting October 1, 2011 and ending 30 September 2012 (the "**EBITDA"**), up to a ceiling of US$10M. In addition, in the event that the EBITDA during that period will be less than $5 million, the sellers will repay an amount of up to $6 million to Frutarom. Therefore, the consideration for the acquisition may range from $29.3 million to $45.3 million, according to the aforementioned mechanism. In addition, Frutarom will pay $6.5 million for real-estate assets (which include a new plant, scheduled to start production in the fourth quarter of

2011) that are under the ownership by other companies owned by the shareholders of Flavor Systems. Consideration for the acquisition was financed through a short term loan from a banking corporation, Libor interest + 1%, and will be replaced by a long term loans whose terms are being negotiated with the lending body. For further details regarding the acquisition of Flavor Systems, see the Company's immediate reports dated September 13, 2011 and October 4, 2011.

2. On November 22, 2011, the Company, through its subsidiary, Frutarom Ltd., was granted a loan from a banking corporation in the amount of €25 M for a period of 42 months, with interest of 2.4% + LIBOR (the "**Loan**"). The Loan was taken for the purpose of financing the acquisition of assets and savory activities of Christian Hansen ITALIA S.p.a ("**CH**") and replaces a short term loan the Company took for interim financing ,

   For more details see the Company's reports on the matter dated May 26, 2011, July 31, 2011 and November 23, 2011.

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D. CRITICAL ACCOUNTING ESTIMATIONS

No significant event has occurred in the report period 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 STATEMENTS UNDER REGULATION 9(C) TO THE REGULATIONS

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 have any sales or expenses toward third parties, excluding a portion of the Board of Directors' expenses, 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 contained in Regulation 10(14) to the Regulations and determined that they do not exist.(For more details, see 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.

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

November 23, 2011