FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT OF THE COMPANY'S BUSINESS
FOR THE PERIOD ENDING JUNE 30, 2012

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, Latin America, Israel, Asia and Africa, marketing and selling over 30,000 products to more than 14,000 customers in more than 130 countries, and employing 2,100 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, and it currently constitutes 74% of Frutarom's total sales (compared to 40% in 2001). This accelerated growth is the result of the focus on natural and plant food flavors it offers its mid-size and local customers, in emerging and developed markets (focusing in particular on private labels); the provision of customized services, including technological and marketing support and assistance in the development of products; the offer of high level tailor-made services and products, as are normally provided for large multi-national companies; Frutarom's unique, cutting edge products offered to the large multi-national market sector; and Frutarom's strategic acquisitions, which have and are being successfully incorporated with Frutarom's global activities.

- **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.

  Specialty Fine Ingredients activities focus on a value-added product basket, which gives Frutarom a competitive edge over its rivals. 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.

RAPID GROWTH STRATEGY – PROFITABLE ORGANIC GROWTH AND STRATEGIC ACQUISITIONS

Frutarom continues to act with determination to implement its rapid profitable growth strategy with focused strengthening of its development, manufacture, marketing and sales infrastructures together with continued examination of additional strategic acquisitions.

Over the last ten years, Frutarom has grown at an average yearly rate of 17%, through a combination of organic growth and 23 acquisitions. The Company's revenues over this period grew from revenues of approximately US$100 M and net profit of US$4 M in 2001 to revenues of US$518.4 M and net profit of US$42 M in 2011. Over the first half of 2012 Frutarom has continued its rapid and profitable growth trend and achieved record sales of US$316 M and a record net profit of US$27.0 M. Frutarom has successfully completed 23 acquisitions since 2001.

The successful implementation of rapid strategic growth allowed Frutarom to significantly expand its activities in the Flavors segment, its most profitable activity, to 74.3% of total Frutarom sales (compared to 40% of total sales ten years ago), while achieving organic growth at a rate higher than market growth. The Company estimates that its rapid growth trend will continue even under today's challenging market conditions.

Frutarom's accelerated expansion to target markets with higher growth rates is reflected in the results of H1 2012, mainly in emerging markets including Asia, Central and South America, Central and Eastern Europe and Africa. This quarter’s results also reflect the continued rapid growth of the Flavors’ activities in North America, which is the largest market in the world for flavors.

Frutarom continues to invest great resources in order to accelerate its expansion in these markets and to utilize their full potential and commercial opportunities.

Frutarom has extensive experience with successful implementation of acquisitions and mergers, and 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.

After having conducted seven acquisitions in 2007 and three in 2009, all of which were successfully integrated with its global activities and contribute to both a growth in sales and improved margins, Frutarom has continued its acquisition strategy and completed five additional strategic acquisitions in 2011 and three in the first quarter of 2012. The full acquisition of the Slovenian company Etol Tovarna arom in eteričnih olj d.d ("Etol") was completed on June 5, 2012. The overall cost of the acquisition came to Euro 35.4 M.

Integration of the eight acquisitions is moving ahead successfully and according to plan, and has already contributed in this quarter not only to growth in sales but also to improved profit. As integration progresses and the many synergies are realized, contribution to profit will increase, and is expected to mainly be seen in next year's results. In addition, Frutarom acts for the realization of plans for integrating production sites and activities, and for transfer of other activities to countries where operating costs are lower with the anticipation of achieving savings which will come to fruition already in the coming year.

Frutarom is developing innovative tailor made flavor and health solutions. The solutions provided by the Company are in line with the world food market central trends and consumer demand including combining flavor with health, health supplements, anti-aging products and food targeting specific population and age groups. The added value which Frutarom offers its customers and Frutarom’s positioning at the unique crossroads of flavor and health give the Company an important competitive advantage among customers in both emerging and developed markets.

It is Frutarom's assessment that its capital structure (total assets of US$754.3 M, equity of US$412.9 M as of June 30, 2012, constituting 54.7% of the total assets) and net debt level (total loans after deduction of cash), which stand at US$164.8 M as of June 30, 2012, are supported by the cash flow it achieves, and together with bank backing, will allow it to continue to realize strategic acquisitions as it has done over the past few years while strengthening its position as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

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

B. FINANCIAL STATUS

The Group's total assets as at June 30, 2012 totaled US$754.3 M compared to US$570.0 M as at June 30, 2011 and US$650.0M as at December 31, 2011.

The Group's current assets totaled US$293.4 M, compared to US$ 241.9 M as at June 30, 2011 and US$246.6 M as at December 31, 2011.

The fixed assets deducted by accumulated depreciation and other assets net as at June 30, 2012 totaled US$457.9 M compared to US$326.5 M as at June 30, 2011 and US$401.2 M as at December 31, 2011.

The increase in total assets was mainly affected by the acquisitions completed in 2011 and during the first quarter of 2012. The increase was slightly set off by differences in currency exchange translation differences of subsidiary assets values with operating currencies other than the dollar, following the weakening of the currency exchange rates of European currencies and the NIS versus the US dollar as at June 30, 2012 compared to June 30, 2011.

C. RESULTS OF OPERATIONS IN Q2 2012

In Q2 2012 Frutarom achieved a quarterly record high in sales, gross profit, operational profit, EBITDA, net profit and profit per share, representing substantial improvement in cash flow, despite the challenging market conditions in the world economy in general, and in Western Europe in particular, and despite the strengthening of the dollar versus the main currencies in which it operates, which detracted from sales and dollar profits.

Frutarom sales over Q2 2012 grew, net of currency impacts, by 35.2%, reaching a quarterly sales record high of US$164.8 M, compared to US$130.6 M during the same quarter last year.

The trend of improvement in profit and gross and operational margins continues. Gross margin increased and achieved 37.5% in Q2, compared to 37.1% in the same quarter last year, and 36.3% in Q1 of this year. Net of

Etol's trade and marketing activity (a non-core activity for Frutarom) , gross margin rate over the quarter increased and reached 38.5%. The improvement derives from a combination of adjustments of Frutarom's product sales prices to its customers, stabilization and even the start of some decreases in the prices of some of the raw materials Frutarom uses in the manufacture of its products, as well as actions taken for lowering costs of raw materials by strengthening global purchase (also by utilizing the many operational synergies derived from the recent acquisitions) - actions whose results are expected to come more fully to fruition over the course of next year.

Frutarom has acted and acts in order to achieve a successful integration and maximal utilization of cross-selling possibilities deriving from the acquisitions made during 2011 and over the first quarter of 2012. The acquisitions contributed to an increase of US$38.6 M in sales for the second quarter of 2012.

The integration of sales, marketing, research and development, purchasing and production activities of the eight acquisitions made in 2011 and during the first quarter of 2012 are progressing successfully as planned. Over Q2 the acquisitions contributed not only to a growth in sales but also to improved profit. The acquisitions created many opportunities for improvement of profit and margins, among other things, through integration of production sites in the main countries in which the Company operates, optimization of supply and logistics, and improvement of global purchase capacity, utilizing the Company's purchase power which substantially increased and strengthening purchase sources. In addition, Frutarom is also acting to realize a number of plans for integration of production sites and activities, and examining transfer of other activities to countries where operating costs are lower. As integration moves ahead and the many synergies achieved from the acquisitions are realized, their contribution to profits will increase, and are anticipated to come to fruition mainly over the coming year.

Frutarom estimates that the continued internal growth and a combination of stabilization of raw material prices, together with the impact of the adjustment of its product selling prices, which has continued over the last few months, the contribution of the continued realization of streamlining processes and improving its costs structure, while taking maximum advantage of its production sites throughout the world and the successful integration of its recent acquisitions, will bring about improved future margins and continued strengthening of Frutarom's competitive advantage and its positioning as one of the leading companies in the world in the fields of taste, health and fine ingredients.

Sales

In Q2 2012, Frutarom's sales, net of currency influences, increased by 35.2% reaching a quarterly record high of US$164.8 M compared to US$130.6 M in the same quarter in 2011. The strengthening of the exchange rate of the US$ versus average exchange rates of most of the currencies in which the Company operates (the NIS by 10.0%, the Euro by 10.9%, the Pound Sterling by 2.9% and the Swiss franc by 7.0%), which diminished sales by US$8.7 M, (9%). The acquisitions made in 2011 and in Q1 2012 contributed US$38.6 M to sales during this quarter. Organic growth (net of the contribution of the acquisitions and currency effect) reached 3.5% this quarter.

Frutarom's sales in the Flavors segment grew, net of currency effects, by 43.2% compared to the same quarter last year, reaching 74.3% of Frutarom sales and a quarterly record high of US$122.5 M. Exchange rate effects reduced sales by US$7.2 M (11.1%) in this sector.

Growth in the Flavor segment, Frutarom's most profitable activity, derives from internal growth at rates above market growth rates in the strategic markets in which Frutarom has invested great resources for acceleration of growth, mainly in North America, Latin America, Africa, Central and Eastern Europe and Asia (organic growth, net of the contribution of the acquisitions and currency effects, of 4.1%), and from the acquisitions made over 2011 and at the beginning of 2012 in Flavors, which contributed US$33.5 M to sales this quarter.

Frutarom sales in the Fine Ingredients segment increased, net of currency effects, by 2.4% compared to the same quarter last year, reaching US$36.5 M. Currency effects reduced dollar sales by US$1.5 M (4.1%) of sales in the segment.

Frutarom sales in Trade and Marketing increased by US$4.7 M compared to the same quarter last year, reaching US$6.3 M. Growth in sales derives from the inclusion of Etol's activities in this area, which contributed US$5.1 M to sales this quarter.

Sales Breakdown by Fields of Activity in Q2 in 2001-2012 (US$ M and %)

		Q2 2001	Q2 2002	Q2 2003	Q2 2004	Q2 2005	Q2 2006	Q2 2007	Q2 2008	Q2 2009	Q2 2010	Q2 2011	Q2 2012
Flavor Segment	**Sales**	10.9	11.9	15.7	23.7	43.1	49.5	61.7	98.1	75.8	77.4	92.7	122.5
	%	40.4%	41.7%	49.1%	53.1%	64.2%	68.4%	67.3%	74.0%	71.0%	67.7%	71.0%	74.3%
Fine Ingredient Segment	**Sales**	15.1	15.5	15.2	19.7	23.7	22.5	28.9	32.5	29.7	36.2	37.2	36.5
	%	55.9%	54.4%	47.4%	44.2%	35.3%	31.1%	31.5%	24.5%	27.9%	31.7%	28.5%	22.2%
Trade & Marketing	**Sales**	1.4	1.6	1.7	1.9	1.5	1.5	2.1	2.9	2.0	1.1	1.6	6.3
	%	5.2%	5.7%	5.5%	4.2%	2.2%	2.1%	2.3%	2.2%	1.9%	1.0%	1.2%	3.8%
Inter Segments	**Sales**	-0.4	-0.5	-0.6	-0.8	-1.2	-1.1	-1.0	-0.9	-0.8	-0.4	- 0.9	-0.5
	%	-1.5%	-1.7%	-1.9%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%	-0.8%	-0.4%	-0.7%	-0.3%
Total Sales		27.0	28.6	32.0	44.6	67.1	72.3	91.7	132.6	106.7	114.3	130.6	164.8

The following is a summary of the profit and loss report for Q2 2011 – 2012 (US$ M):

During Q2 2012 Frutarom achieved quarterly record highs in gross, operating, net profits, EBITDA and profit per share, despite the strengthening of the dollar versus the main currencies in which it operates (European currencies and the NIS), which detracted from sales and from dollar profits. Changes in exchange rates brought about a rise in financing expenses.

	Q2 2011	Q2 2012	Difference between 2011 – 2012 (%)
Sales	130.6	164.8	26.2%
Gross profit	48.5	61.8	27.4%
R&D, Selling, Administration, General and Other expenses	31.5	40.0	27.1%.
Operating profit	17.0	21.8	28.1%
EBITDA	22.2	28.5	28.3%
Profit before tax	16.2	17.5	7.9%
Financing expenses(income)	0.8	4.3	-
Net profit	12.3	13.5	10.0%

Gross Profit

The Company’s gross profit in Q2 2012 increased by 27.4%, reaching a quarterly record high of US$61.8 M compared to US$48.5 M during the same quarter last year. Gross margin net of Etol’s trade and marketing activity (a non-core activity of Frutarom) increased, achieving 38.5% compared to gross margin of 37.1% during the same period in 2011. Gross margin including Etol’s trade and marketing activity also increased, reaching 37.5%.

The improvement in gross profit and margin derived from a combination of updating Frutarom’s selling prices, stabilization and even the start of some decreases in the prices of some of the raw materials Frutarom uses for the manufacture of its products, and from actions Frutarom takes in order to maximize potential for lowering costs of raw material by strengthening global purchase and as the result of utilization of the many operational synergies from the recent acquisitions, whose main impact is not yet seen in the Company's results.

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

In Q2 2012 selling, marketing, research and development, general and administrative and other expenses, totaled US$40.0 M (24.3% of sales), compared to US$31.5 M (24.1% of sales) during the same quarter last year.

Sales and marketing, research and development, general and administrative expenses included one-time expenses for acquisitions in the amount of US$0.4 M.

The increase in expenses derived from a growth in the scope of activity, and mainly from the acquisitions made in 2011 and over the first quarter of 2012 and from one-time expenses for acquisitions, as explained above.

Frutarom acted and acts to achieve maximum efficiency by improving its cost structure and strengthening its future competitiveness, maximally utilizing its manufacturing sites throughout the world and its successful integration of its latest acquisitions.

As stated, the acquisitions, apart from the many cross-selling opportunities offered, created many opportunities for improvement of the Company's profits and profitability, including in joining of production infrastructures in the main countries in which the Company operates, optimization of supply and logistics, and improvement of global purchase capacity and strengthening purchase sources. In addition, Frutarom is also acting to realize plans for integrating production sites and activities, and for transfer of other activities to countries where operating costs are lower. Activities whose main contributions to profit and margins are anticipated to come to fruition over the coming year.

Operating Profit and EBITDA

In Q2 2012, operating profit increased by 28.1%, reaching a record quarterly high totaling US$21.8 M (13.2% of sales) compared to US$17.0 M (13.0% of sales) during the same quarter last year.

The EBITDA achieved by Frutarom in Q2 2012 increased by 28.3% reaching a quarterly record high of US$28.5 M (17.3% of sales), compared to US$22.2 M during the same period last year (17.0% of sales).

Operating profit and EBITDA included one-time expenses of US$0.4 M, as detailed above.

Finance Expenses / Income

In Q2 2012, financing expenses totaled US$4.3 M (2.6% of sales), compared to financing expenses of US$0.8 M (0.6% of sales) during Q2 2011.

Interest expenses during Q2 2012 reached US$1.9 M compared to US$0.4 M during the same quarter last year. The increase in interest expenses is due to the increase in the Company's loans in light of the acquisitions made.

Financing expenses due to differences in currency exchange rates totaled US$2.4 M compared to US$0.4 M during the same quarter last year.

Increase in financing expenses was influenced by the strengthening of the dollar exchange rate mainly versus European currencies and the Israeli shekel as of June 30, 2012, compared to the exchange rate of the dollar versus those same currencies at March 31, 2012.

Profit before Tax

In Q2 2012, profit before tax came to a second quarter record high of US$17.5 M (10.6% of sales) compared to US$16.2 M in Q2 2011 (12.4% of sales).

Taxes on Income

In Q2 2012, taxes on income totaled US$3.9 M (22.5% of profit before tax) compared to US$3.9 M in Q2 2011 (24.0% of profit before tax).

The decrease in the rate of tax expenses during Q2 2012 is mainly due to changes in profit mix between companies in the Group acting in different countries, where there are different tax rates, and from a decrease in tax rates in some of the countries in which Frutarom operates.

Net Profit

In Q2 2012, net profit increased by 10% reaching a quarterly record high of US$13.5 M compared to US$12.3 M in Q2 2011. Net margin totaled 8.2% compared to 9.4% during the same quarter last year.

Earnings per Share

In Q2 2012, earnings per share reached a quarterly high of US$0.23 per share, compared to US$ 0.21 in the same quarter last year.

Summary of the quarterly profit and loss reports for 2009 - 2012 (US$ M):

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q 2 2012
Income	98.4	106.7	111.6	108.5	113.5	114.3	111.0	112.4	121.0	130.6	135.3	131.6	151.2	164.8
Gross profit	35.2	39.4	41.2	39.6	43.5	46.9	43.2	41.3	45.7	48.5	47.7	46.8	54.9	61.8
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	34.6	37.1	40.0
Operating profit	10.2	12.8	13.3	11.0	16.6	19.4	15.0	12.1	16.6	17.0	*12.9	12.2	17.8	21.8
EBITDA	14.5	17.4	18.3	16.0	21.3	24.0	19.8	16.9	21.5	22.2	*18.6	18.1	25.0	28.5
Finance expenses	3.3	0.1	0.0	0.9	1.3	2.3	-0.2	-0.2	-0.9	0.8	2.6	3.2	0.9	4.3
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	8.9	16.9	17.5
Net profit	5.6	10.1	10.0	7.5	11.1	13.0	11.1	8.8	13.1	12.3	8.7	7.9	13.5	13.5

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 2012

Sales

In H1 2012, Frutarom's sales, net of currency influences, increased by 31.4% reaching a half-yearly high of US$316.0 M compared to US$251.6 M in the same period of 2011. The strengthening of the exchange rate of the dollar versus the average exchange rates of most of the currencies in which the Company operates (the NIS by 7.30%, the Euro by 7.6%, the Pound Sterling by 2.4% and the Swiss franc by 2.6%) diminished sales by US$11.1 M (5.8%). The acquisitions made in 2011 and in Q1 2012 Contributed US$70.0 M to sales during this period.

Frutarom's sales in the Flavors segment, net of currency influences, increased by approximately 41.4% compared to the H1 last year, reaching a high of US$231.4 M, constituting 73.2% of Frutarom’s total sales. The currency exchange effect mentioned above detracted US$9.2 M (7.5%) from Flavor sales.

Accelerated growth in the Flavor segment, Frutarom's most profitable activity, derives from internal growth at rates above market growth rates in the strategic markets in which Frutarom has invested great resources for acceleration of growth, mainly in North America, Latin America, Africa, Central and Eastern Europe and Asia, and from the acquisitions made over 2011 and over the first quarter of 2012 in Flavors, which contributed US$61.1 M to sales over H1 2012. Frutarom's sales in the Specialty Fine Ingredients segment decreased, net of currency influences, by approximately 0.6% compared to the first half of 2011 totaling US$74.0 M. The aforementioned effect of the currency exchange rates detracted US$1.9 M from sales performed in US$, which is 2.4% of sales.

Frutarom sales in Trade and Marketing increased by US$7.7 M compared to H1 2011, reaching US$11.7 M. Sales included Etol’s activities in this field, which contributed US$8.9 M sales over H1.

Sales Breakdown by Fields of Activity in H1 in 2001-2012 (US$ M and %)

		H1 2001	H1 2002	H1 2003	H1 2004	H1 2005	H1 2006	H1 2007	H1 2008	H1 2009	H1 2010	H1 2011	H1 2012
Flavor Segment	**Sales**	20.0	22.7	28.4	42.6	83.4	94.2	111.6	182.5	143.1	152.8	172.9	231.4
	%	39.1%	40.9%	47.2%	48.1%	63.3%	65.7%	64.8%	71.7%	69.8%	67.1%	68.7%	73.2%
Fine Ingredient Segment	**Sales**	29.0	30.5	29.3	43.6	47.1	48.0	58.0	67.8	59.3	73.8	76.3	74.0
	%	56.6%	54.8%	48.7%	49.3%	35.7%	33.5%	33.7%	26.6%	28.9%	32.4%	30.3%	23.4%
Trade & Marketing	**Sales**	2.9	3.3	3.5	3.6	3.3	2.9	4.7	6.6	4.2	2.3	3.9	11.7
	%	5.7%	5.8%	5.8%	4.1%	2.5%	2.0%	2.7%	2.6%	2.1%	1.0%	1.6%	3.7%
Inter Segments	**Sales**	-0.7	-0.8	-1.1	-1.3	-2.0	-1.8	-2.1	-2.3	-1.5	-1.2	-1.5	-1.1
	%	-1.4%	-1.5%	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%	-0.8%	-0.5%	-0.6%	-0.3%
Total Sales		51.2	55.6	60.2	88.5	131.8	143.3	172.2	254.6	205.1	227.7	251.6	316.0

The following is a summary of the profit and loss report for H1 2011 - 2012 (US$ M):

During H1 2012 Frutarom achieved half-yearly record highs in gross, operating and net profits, EBITDA and profit per share, despite the strengthening of the dollar versus the main currencies in which it operates (European currencies and the NIS), which detracted from sales and from dollar profits. Changes in exchange rates brought about a rise in financing expenses in light of rate differentials.

	H1 2011	H1 2012	Change (%)
Sales	251.6	316.0	25.6%
Gross profit	94.1	116.7	24.0%
R&D, selling, Administration, General and Other expenses	60.5	77.1	27.4%
Operating profit	33.6	39.6	17.8%
EBITDA	43.7	53.5	22.3%
Financing expenses (income)	-0.1	5.2	-
Profit before tax	33.7	34.4	2.0%
Net profit	25.4	27.0	6.3%

Gross Profit

The Company's gross profit in H1 2012 increased by 24.0%, reaching a half-yearly high of US$116.7 M compared to US$94.1 M in H1 2011. Gross margin net of Trade and Marketing activity added following the acquisition of Etol (a non-core activity of Frutarom), gross margin reached 37.9% compared to gross margin of 37.4% during the same period in 2011. Gross margin including Etol's Trade and Marketing activity added following the acquisition of Etol reached 36.9%.

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

In H1 2012 selling, marketing, research and development, general and administrative and other expenses totaled US$77.1 M (24.4% of sales) compared to US$60.5 M (24% of sales) in H1 2011.

The selling, marketing, research and development, general and administrative and other expenses included one-time reorganization expenses in the amount of US$1.0 M. Other revenues included net one time revenues of US$0.8 M (negative goodwill for the acquisition of Etol in the amount of US$1.7M, set off by one–time purchase expenses in the amount of US$0.9 M), thus the net impact on operational profit was one-time expenses of US$0.2 M.

The increase in expenses was mainly due to the increase in the scope of activity, and mainly from acquisitions performed over 2011 and Q1 2012.

Frutarom acted and acts to achieve maximum efficiency by improving its cost structure and strengthening its future competitiveness, maximally utilizing its manufacturing sites throughout the world and its successful integration of its latest acquisitions.

Operating Profit and EBITDA

In H1 2012, operating profit increased by 17.8% reaching a half-yearly high of US$39.6 M (12.5% of sales) compared to US$33.6 M (13.4% of sales) over the same period last year.

The EBITDA achieved by Frutarom in H1 2012 increased by 22.3% reaching an H1 high of US$53.5 M (16.9% of sales), compared to US$ 43.7 M (17.4% of sales) in the same period last year.

Operating margin and the EBITDA included one-time expenses of US$0.2 M, as explained above.

Finance Expenses / Income

In H1 2012, finance expenses totaled US$5.2 M (1.7% of sales) compared to finance income of US$ 0.1 M in H1 2011.

Interest expenses in H1 2012 totaled US$3.8 M compared to US$0.8 M during the same half last year. The increase in interest expenses derived from an increase in the loan status due to acquisitions performed. Finance expenses due to differences in currency exchange rates totaled US$1.4 M compared to financing income from differences in currency exchange of US$0.9 M over the same half last year. The increase in financing expenses from currency exchange differences derives from the strengthening of the exchange rate of the dollar mainly versus European currencies (other than the Pound Sterling) and the NIS as of June 30, 2012, compared to the exchange rate of the dollar versus those same currencies on December 31, 2011.

Profit before Tax

In H1 2012, profit before tax achieved a half-yearly high of US$34.4 M (10.9% of sales) compared to US$33.7 M (13.4% of sales) in H1 2011.

Taxes on Income

In H1 2012, taxes on income totaled US$7.3 M (21.3% of profit before tax) compared to US$8.3 M (24.5% of profit before tax) in H1 2011.

The decrease in the rate of tax expenses during H1 2012 is mainly due to changes in profit mix between companies in the Group acting in different countries, where there are different tax rates, and from a the decrease in tax rates in some of the countries in which Frutarom operates.

Net Profit

In H1 2012, net profit increased by 6.3% reaching a half yearly high of US$27.0 M, compared to US$25.4 M in H1 2011. Net margin amounted to 8.6% compared to 10.1% in H1 2011.

Earnings per Share

In H1 2012, earnings per share reached a record of US$0.47 per share compared to US$ 0.44 per share in H1 2011.

E. LIQUIDITY

During Q2 2012 there was a marked improvement in the Company's cash flow from operating activities, reaching US$22.3 M, compared to a cash flow of US$13.1 M for the same quarter last year.

Over H1 2012 cash flow from operating activities increased by US$24.0 M, reaching US$39.9 M, compared to US$15.9 M during the same period last year.

Growth in profit, actions taken for optimizing inventory levels and adjustment to changes in prices of raw materials and a decrease in tax payments contributed to the increase in cash flow from operating activities.

Frutarom acts and will continue to act to maintain an optimal level of working capital suited to the expected rate of growth, taking into account seasonality, demand and the various raw materials and their current and future anticipated prices.

F. SOURCES OF FINANCE

Sources of Equity

Frutarom's equity as at June 30, 2012 totaled US$412.9 M (54.7% of the total balance sheet) compared to US$402.2 M (70.6% of its total balance sheet) as at June 30, 2011 and US$393.6 M as at December 31, 2011 (60.6% of its total assets). The change derives mainly from the growth in net profit during the period, set off by a decrease in capital fund from translation differences in light of the strengthening of the dollar versus European currencies and the NIS as of June 30, 2012 compared to June 30, 2011.

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

Average long-term credit from banks provided to the Company in Q2 2012 totaled US$168.0 M compared to US$57.0 M in Q2 2011. The increase is a result of an increase in loans taken for financing the Company's acquisitions.

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

Average short -term credit from banks provided to the Company in Q2 2012 totaled US$44.9 M compared to US$10.6 M in Q2 2011. The increase is a result of an increase in loans taken for financing the Company's acquisitions.

Suppliers' and Customers' Credit (Average)

In Q2 2012, the Company utilized credit from suppliers and other creditors in the amount of US$96.3 M compared to US$67.6 M in the same quarter last year. During Q2 2012, the Company granted credit of US$117.3 M to its customers, compared to US$89.1 M during the same period last year. The increase in credit from suppliers and to customers is a result mainly of the increase in the Group's sales and its activities, and from its recent acquisitions.

EXPOSURE TO MARKET RISKS AND THEIR MANAGEMENT

During Q2 2012, there were no substantial changes regarding the Company's exposure to market risks and its management of such, including the impact of the Company's linkage balance, with regard to the Company's reports on this matter in its periodic report for 2011, published by the Company on March 15, 2012, except with regards to its loans, which have increased following the Company's latest acquisitions. As of June 30, 2012, the Group has a long term loan after deduction of current maturities in a total amount of US$147.1 M, and its short term loans, including current maturities, of long term loans total US$56.3 M. The Company has cash balances of US$38.6 M.

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	**4.315**	**4.119**	**3.923**	**3.727**	**3.531**
Cash and cash equivalents	(14)	(7)	139	7	14
Customers	(1,068)	(534)	10,676	534	1,068
Other debtors	(59)	(29)	589	29	59
	(1,141)	**(570)**	**11,404**	**570**	**1,141**
Bank loans	525	263	5,251	(263)	(525)
Suppliers and service providers	157	79	1,571	(79)	(157)
Other creditors	385	192	3,845	(192)	(385)
	1,067	**534**	**10,667**	**(534)**	**(1,067)**
Total exposure, net	(74)	(36)	**737**	**36**	**74**

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	**0.703**	**0.671**	**0.639**	**0.607**	**0.576**
	US$ 000				
Cash and cash equivalents	(379)	(190)	3,793	190	379
Customers	(1,203)	(602)	12,034	602	1,203
Other debtors	(139)	(69)	1,389	69	139
	(1,721)	**(861)**	**17,216**	**861**	**1,721**
Bank loans	3,150	1,575	31,501	(1,575)	(3,150)
Suppliers and service providers	739	369	7,387	(369)	(739)
Other creditors	841	420	8,407	(420)	(841)
Other long term creditors	37	18	367	(18)	(37)
	4,767	**2,382**	**47,662**	**(2,382)**	**(4,767)**
Total exposure, net	**3,046**	**1,521**	**(30,446)**	**(1,521)**	**(3,046)**

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	**0.875**	**0.835**	**0.795**	**0.756**	**0.716**
	US$ 000				
Cash and cash equivalents	(1,444)	(722)	14,444	722	1,444
Customers	(4,749)	(2,375)	47,493	2,375	4,749
Other debtors	(197)	(98)	1,968	98	197
	(6,390)	**(3,195)**	**63,905**	**3,195**	**6,390**
Credit from banks	10,363	5,181	103,625	(5,181)	(10,363)
Suppliers and service providers	2,377	1,189	23,772	(1,189)	(2,377)
Other creditors	923	461	9,229	(461)	(923)
	13,663	**6,831**	**136,626**	**(6,831)**	**(13,663)**
Total exposure, net	**7,273**	**3,636**	**(72,721)**	**(3,636)**	**(7,273)**

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**1.051**	**1.003**	**0.956**	**0.908**	**0.860**
			US$ 000		
Cash and cash equivalents	(207)	(104)	2,074	104	207
Customers	(779)	(389)	7,788	389	779
Other debtors	(85)	(43)	851	43	85
	(1,071)	**(536)**	**10,713**	**536**	**1,071**
Suppliers and service providers	388	194	3,884	(194)	(388)
Other creditors	852	426	8,515	(426)	(852)
	1,240	**620**	**12,399**	**(620)**	**(1,240)**
Total exposure, net	**169**	**84**	**(1686)**	**(84)**	**(169)**

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	(713)	(357)	7,134	357	713
Customers	(1,608)	(804)	16,077	804	1,608
Other debtors	(35)	(17)	347	17	35
	(2,356)	**(1,178)**	**23,558**	**1,178**	**2,356**
Credit from banks	184	92	1,844	(92)	(184)
Suppliers and service providers	211	105	2,106	(105)	(211)
Other creditors	245	122	2,446	(122)	(245)
Other long term creditors	66	33	659	(33)	(66)
	706	**352**	**7,055**	**(352)**	**(706)**
Total exposure, net	**(1,650)**	**(826)**	**16,503**	**826**	**1,650**

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				
Short Term Loans (RMB)	18	9	1,826	(9)	(18)
Long Term Loans (Euro)	1	1	177	(1)	(1)
Total exposure, net	**19**	**10**	**2,003**	**(10)**	**(19)**

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 translation differences of these companies' balance sheet balances 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	4.315	4.119	3.923	3.727	3.531
	US$ 000				
Total Exposure, net	**(74)**	**(36)**	**737**	**36**	**74**

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	0.703	0.671	0.639	0.607	0.576
	US$ 000				
Total Exposure net	**3,046**	**1,521**	**(30,446)**	**(1,521)**	**(3,046)**

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	0.875	0.835	0.795	0.756	0.716
	US$ 000				
Total exposure, net	7,273	3,636	(72,721)	(3,636)	(7,273)

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	1.051	1.003	0.956	0.908	0.860
	US$ 000				
Total exposure, net	169	84	(1,686)	(84)	(169)

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	(1,650)	(826)	16,503	826	1,650

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	19	10	2,003	(10)	(19)

CORPORATE GOVERNANCE ASPECTS

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 statements (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 above. For further details regarding the Company's directors see regulation 26 to Chapter D of the Company's periodic report for 2011, published on March 15, 2012 (Further Details on the Corporation).

Balance Sheet Committee and Members

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 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. Mr. Ya'acov Elinav and Mr. Isaac Angel are independent directors by virtue of their being external directors. Mr. Gil Leidner is an independent director in accordance with the determination of the Company's Audit Committee of May 19, 2011, and the determinations of the Board of Directors on August 17, 2011. 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 for 2011, published on March 15, 2012 (Further Details on the Corporation).

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

The Company's financial statements were discussed at the meeting of the Balance Sheet Committee held on August 16, 2012. The members of the committee received the financial statements several days prior to the meeting. The three members of the Balance Sheet Committee attended the meeting as well as the Company's independent auditors, the Company's President and CEO, Mr. Ori Yehudai, the Executive Vice President and CFO, Mr. Alon Granot, the Vice President of Finance, Mr. Guy Gill, and the Global Vice President of Legal Affairs and Corporate Secretary, Ms. Tali Mirsky. At the meeting, presentations were given by the Company and by the auditors. 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, which in the opinion of the Board of Directors and in accordance with their resolution was a reasonable time period 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 August 20, 2012, where the financial statements for June 30, 2012 were unanimously approved.

Amendment of the Company's articles of association and indemnification of Office Holders

On June 10, 2012 the Company's General Meetingapproved, inter alia, the amendment of the Company's articles of association in a manner adapting them to the updated wording of the Companies Law and of the Efficiency of Enforcement Proceeding of the Securities Authority (Legislation Amendments) Law, 2011 ("**Administrative Enforcement Law**"), updating undertakings for indemnification of office holders and directors who are not controlling members or their relatives, granting approval of undertakings for indemnification of directors who are controlling members or their relatives for a period of three years, expansion of the existing insurance policy for directors and officeholders who are not controlling shareholder or relatives of such in a manner which will include events which may be insured under the Administrative Enforcement Law and increasing the limit of liability of the insurance and engagement under the directors' insurance policy for directors who are controlling members or their relatives under conditions identical to those given to directors who are not controlling members or their relatives for a period of three years.

For more details see the supplementary report on the convening of a general meeting of the Company published by the Company on March 15, 2012.

DISCLOSURE RELATING TO THE CORPORATE FINANCIAL REPORTING

A. DIVIDEND DISTRIBUTION IN 2012

On March 14, 2012, 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$3,029 thousand was paid on May 6, 2012.

B. LOAN AGREEMENT

On June 25, 2012 the Company, through its subsidiary Frutarom Switzerland, signed an agreement for a loan of €50.0 M from two banking corporations in Switzerland. The loan was taken for financing 100% of the share capital of Etol, and replaced the short term loan the Company had taken for interim financing, and also served to repay part of the loan Etol had taken from banking corporations in Slovenia.

For further details regarding the loan see the Company's immediate report on the matter dated June 26, 2012.

C. CRITICAL ACCOUNTING ESTIMATIONS

No significant event has occurred in the report period compared to the Company's periodic report for 2011, published on March 15, 2012.

D. 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 Statement"**) 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.

All of the Company's revenues (dividend and financing income on re-evaluations of capital bills versus Frutarom Ltd.) derive from Frutarom Ltd.

From a balance sheet aspect, other than the settling of accounts with the income tax authority, the Company has no balances versus third parties. The only balances it has are loans and balances to Group members (fully owned) and land in the amount of US$139 thousand.

The management of the Company has determined that so long as income from externals or from Companies not fully held by the Company are lower than 5% of total revenues in the consolidated financial reports, and so long as expenses to externals or Companies not fully held by the Company are lower than 5% of total expenses in the consolidated financial statements, the Company's separate financial information under regulation 9C to the Regulations is insignificant, and the absence of such does not harm investors' ability to estimate the Company's fluidity risks and does not add any substantial information for reasonable investors.

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.

The Board of Directors held one meeting over Q2 2012.

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

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

August 20, 2012