07

ANNUAL REPORT

2007

To Be The Prefered Partner For Tasty And Healthy Success

FRUTAROM

FOUNDED 1933

Dear Shareholder,

We are pleased to report Frutarom's results and achievements for 2007, a year in which we continued the implementation of our rapid growth strategy, combining strong organic growth in core activities with acquisitions, while realizing our ambitious goals. In accordance with a strategic plan presented three years ago, we have succeeded in again doubling Frutarom's revenues. Frutarom's sales exceeded the US$ 300 million threshold to total US$ 368 million for 2007. In proforma terms (assuming the acquisitions made during the year had been entirely consolidated with Frutarom's results as of January 1, 2007), our Proforma sales, on an ongoing basis, total US$ 431 million. Frutarom is now firmly established as one of the top ten flavor and fragrance companies in the world.

Sales grew by 28.2% to US$ 368 million while Frutarom continued to achieve double digit organic internal growth, substantially higher than the rate experienced by our industry. Gross profit rose by 23.5% to US$ 131 million. Operating profit was US$ 34.5 million and net profit US$ 24.2 million.

These excellent results were achieved in a challenging business environment which, as opposed to the past, has been characterized by continued price rises in raw materials used in Frutarom's production. Price increases have been much greater for many natural ingredients, which make up the majority of ingredients used by Frutarom. To ensure further improvement in future margins, Frutarom continually seeks to raise the selling prices of our products to ensure our future profitability.

The industry trend of mergers and acquisitions of companies in our field, reducing the number of players, continued in 2007. Frutarom is one of the most active companies in making acquisitions. Our management devotes considerable resources to identifying and realizing acquisitions that fit our rapid growth strategy and ensure that we continue to create value for you, our shareholders. In 2007 Frutarom made seven acquisitions. These were: the Gewurzmuller Group in Germany, which established Frutarom's standing as a world leader in the field of savory solutions; Belmay and Jupiter Flavours in England, which established Frutarom's standing as the leading flavor producer in the British market; Raychan, Adumim and Rad in Israel; and Abaco in the United States. All of the acquisitions are synergetic and complement Frutarom's activity in flavors and unique ingredients and further the realization of Frutarom's vision:

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

Frutarom has extensive successful experience in merging and integrating acquired companies with its existing activity while capitalizing on commercial and operational synergies to achieve optimal advantage from cross selling opportunities, expense reductions and, thereby, improvement to profitability and profit. The 2007 acquisitions were made in locations where we already had activity, which allowed us to merge sites and benefit in the future from significant operational savings. The results of our activity were strongly influenced this year by the acquisitions, which expanded sales and temporarily reduced profitability, as expected. It is our view that the acquisitions will contribute, from the first quarter of 2008, to the continued growth trend in sales as well as to the growth of profit, while improving margins.

While investing in growth through mergers and acquisitions, Frutarom continues striving for rapid, profitable organic growth in core activities at rates that surpass those of the industry. We continue to concentrate both on our large multinational customers and on mid sized and local customers, providing all with the same excellent, quality service in accordance with their individual and special needs. We will persist in strengthening Frutarom's presence in developed markets such as Western Europe and the United States, and in augmenting and intensifying our activity in Asia and in the emerging markets through further penetration of additional markets that have higher growth rates than the global average. Frutarom continues to offer its customers a varied and expansive product range consisting mainly of natural products, along with new, innovative products, created with advanced technologies, with a special emphasis on functional and organic food ingredients.

The food market in recent years is developing in the direction of *natural, tasty and healthy*. We are witnessing increased consumer demand for natural products that have health and dietary values, reduced calories, fat, salt, cholesterol, and other health benefits, and for organic products with attributes proven to assist in disease prevention and strengthening of the immune system, known as functional foods. We also see growing consumer demand for products with 'clean labels.' Frutarom identified these trends some time ago and took strategic actions to position the Company at a unique crossroads, integrating our varied capabilities by combining the complementary activities of our two Divisions with the acquisitions made in recent years. Together, these initiatives enable us to provide our customers

with advanced, unique solutions that blend excellent taste and health benefits.

We regard our research, development, technology and innovation as core competencies, a significant advantage, and as one of our internal growth engines. Our research centers continue to invest resources in developing new and innovative added-value products that yield high profit margins, and to partner with leading research institutes, academic institutions and start-ups worldwide. Our research and development efforts will constitute the basis for our continued growth in the coming years and allow us to persevere in providing high added value to our customers. As part of realizing our strategy, this year we launched a new innovation center in Switzerland, which is among the most unique in the field. It will enable us to create, together with our customers, the most advanced solutions in the field of taste and health. This year we also established a new Internet site that is an additional platform for continuing to improve the relationship with our customers and shareholders.

To further strengthen Frutarom, we have continued expanding and deepening the managerial infrastructure and team to allow us to sustain our accelerated growth and achieve our ambitious goals. Frutarom's augmented management is working to realize the synergy and many cross selling opportunities within and between the Divisions and our customers and products, whether existing or added through future acquisitions, while extracting the full range of advantages each acquisition brings with it.

To strengthen our global management and infrastructure for activity expansion, in 2007 we continued the implementation of

an advanced ERP (Enterprise Resource Planning) system. The process was completed this year at our sites in Switzerland and Israel.

To conclude on a personal note, our continued success could not have been achieved without the dedication and work of all of Frutarom's employees throughout the world and their ongoing quest for creativity and excellence. For this, we would like to acknowledge and thank them. The initiative and excellence of Frutarom's employees, under the guidance of our experienced global management team, constitute a strong foundation for our continued growth and future success. We are confident that, with the continued contribution of our employees and management and the ongoing support of our board members and our shareholders, we will continue to develop and grow our Company. We will continue to supply innovative, quality, tasty and healthy products to our many loyal customers throughout the world, provide them with excellent service and successfully meet the ambitious goals and challenges ahead of us.

Sincerely,

Dr. John J. Farber
Chairman
The Board of Directors

Ori Yehudai
President & CEO

March 17, 2008

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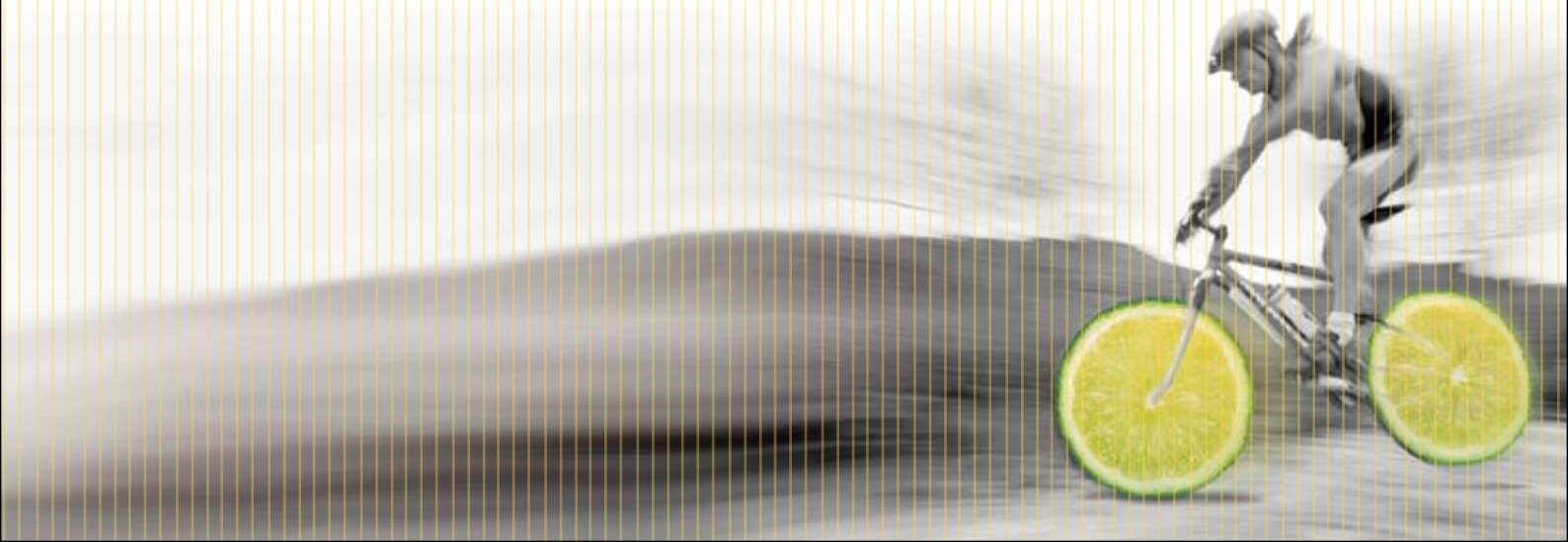
SECTION **A**

DESCRIPTION OF THE COMPANY'S BUSINESS



FORWARD-LOOKING STATEMENTS

This report includes statements that are "forward-looking statements." Forward-looking statements, as defined in the Securities Law – 1968, include forecast estimates or other information relating to future events or circumstances whose occurrence is not certain and which are not solely in the Company's control. These forward-looking statements can be identified, among others, by the use of terms such as, "believes," "estimates," "intends," "expects," "plans," "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.

By their nature, forward-looking statements involve risk and uncertainty. Forward-looking statements are not guarantees of future performance and the actual results of the Company's operations, financial conditions and its development, including the realization of its strategy and goals, may be materially different from those described or discussed in this report.

Important factors that could cause the actual results of the Company's activity, financial status and development, including realization of its strategy and goals, to differ materially from those described in this report, include, among others: competition in the markets in which the Company operates; changes in demand for the Company's products; changes in the Company's ability to introduce, produce and market new products; future changes in accounting policies; the ability of the Company to successfully identify and acquire complementary products and companies; the ability of the Company to merge activities and/or companies that have been and/or will be acquired by it; the impact of certain laws, regulations and standards, especially in the areas of the environment, intellectual property, tax, health and safety; currency fluctuations; the Company's ability to obtain regulatory approvals for its products; the Company's ability to maintain access to raw materials; and the recruitment and continued employment of key employees.

Subject to the requirements of the Tel Aviv Stock Exchange and/or the London Stock Exchange and/or as required by applicable law, the Company does not intend to update any industry information or forward-looking statements set out in this report.

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Chapter 1 – THE COMPANY'S BUSINESS AND ITS DEVELOPMENT

The following terms will have the meaning ascribed to them:

"US$"	United States dollar
"Financial reports"	The financial reports of the company as at December 31, 2007 attached as chapter 3 to this report
"The Company" or "Frutarom"	Frutarom Industries Ltd., including all its subsidiaries
"The Regulation"	Income Tax Regulation (New Version)
"Share"	Ordinary share par value NIS 1.00 of the Company
"GDR"	Global Depositary Receipt
"Flachsmann"	Emil Flachsmann AG
"IFF"	International Flavors & Fragrances Inc.
"Nesse"	GewurzMühle Nesse GmbH and GewurzMühle Nesse Gebr. Krause GmbH
"Acatris"	Acatris Inc., Acatris Specialities Holding B.V., and Acatris Belgium NV
"Belmay"	Belmay Limited
"Jupiter"	Jupiter Flavours Limited
"Raychan"	Raychan Be'erot Yitzhak Food Industries Ltd.
"Adumim"	Adumim Food Additives Ltd.
"Abaco"	Abaco Manufacturing LLC and Abaco Incorporated
"Gewurzmuller Group"	Gewurzmuller GmbH and Blessing Biotech GmbH
"Rad"	Rad Natural Technologies Ltd.

All the data in this report are in US dollars unless stated otherwise.

1. The Group's Activity and Description of the Development of its Business

General

1.1. Frutarom Industries Ltd. (the "Company" or "Frutarom") was associated in Israel in 1995 as a private company with limited shares under the name Frutarom NewCo (1995) Ltd. In 1996 the Company changed its name to Frutarom Industries Ltd.

1.2. Frutarom Ltd., a wholly owned subsidiary through which the Company coordinates and holds its business and production activity, was

established in 1933 as Frutarom Palestine Ltd. Frutarom's operations initially consisted of the cultivation of aromatic plants and flowers for the extraction and distillation of flavor and fine ingredients materials and essential oils.

1.3. In 1952, Frutarom's assets were purchased by Electrochemical Industries Ltd. ("EIL").

1.4. In May 1996, as part of the Company's spin off from EIL, the Company's shares were listed for trade on the Tel Aviv Stock Exchange.

1.5. Today, the Frutarom Group is a global leading company in the field of flavors and unique fine ingredients mainly for the food, beverage, flavor, fragrance, pharma/nutraceutical, health and functional food, food additives, personal care and other industries. Each year the Company produces, markets and sells over 20,000 products to more than 10,000 customers in over 120 countries, has production facilities in Europe, North America, Israel and Asia, and employs 1,500 people.

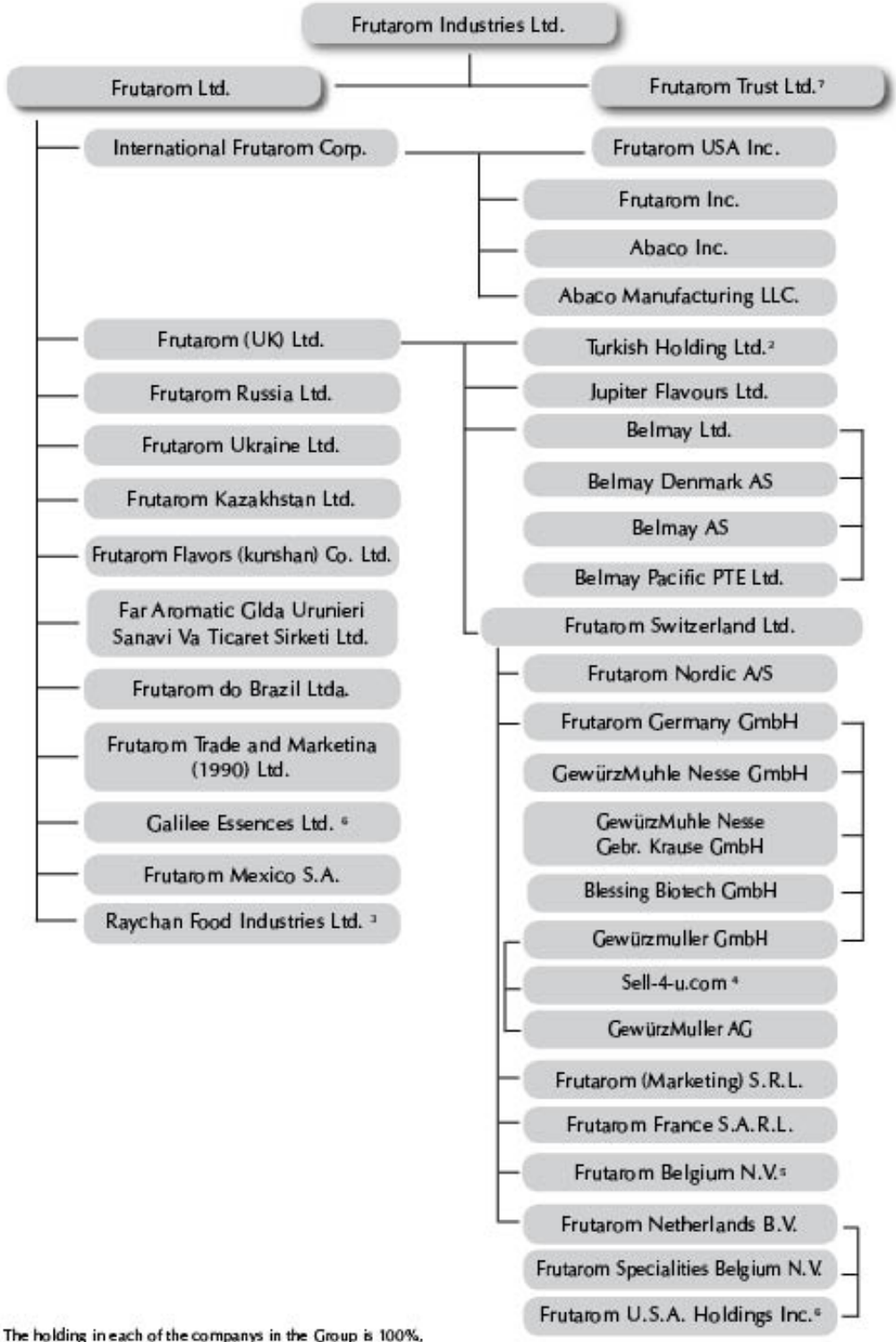
1.6. In February 2005, the Company raised capital from international and Israeli institutional investors by issuing shares and registering GDRs for trade on the London Stock Exchange Main List. The net proceeds from the capital raising are intended for use in financing future strategic acquisitions as part of Frutarom's rapid growth strategy, combining rapid internal growth of core activities at above average industry growth, with strategic acquisitions of activities and knowhow in Frutarom's main fields of activity and in strategic geographic locations, as well as to refinance the cost of acquiring IFF's European Food Systems business, which was completed during the second half of 2004.

For additional information on the Company's growth strategy refer to section 39 of this report. For additional information on the acquisition of IFF's Food Systems business in Europe, refer to section 1.15 of this report.

1.7. The main shareholder in the Company is the ICC Group, which, through ICC Industries Inc.[1], holds 2,070,678 shares, comprising 3.59% of the Company's share equity and voting rights, and through ICC Handels AG[2] holds 19,227,347 shares, comprising 33.32% of the Company's share equity and voting rights.

[1] Dr. John Farber, the chairman of the board of directors of the Company, is the controlling shareholder of ICC Industries Inc.
[2] A company wholly owned by ICC Industries Inc.

The Group Structure[1]



1) The holding in each of the companys in the Group is 100%, excluding GewurzMuhle Nesse Gebr. Krause GmbH and GewurzMuhle Nesse GmbH, where the holding is 70%.
2) Dormant company, in the process of being removed from the register.
3) In merger process into Frutarom Ltd.
4) The full name is: sell-4-u.com Agentur fur Marketing E-business und Telemarketing GmbH
5) International Frutarom Corp. holds one share in Frutarom Belgium N.V.
6) Dormant company.
7) Frutarom Trust Ltd. Holds shares of the Company in trust for the Group's employees.

The Group's Development, Significant Mergers and Acquisitions

1.8. In the second half of the 1980s, when Frutarom came under new management, it was decided to adopt a business strategy whose aims included materially growing the Company's international activities and establishing Frutarom as a major multinational company in its field by substantially expanding the Company's activity in the flavors sector, which is the Company's most profitable field of activity.

1.9. At the beginning of the 1990s, Frutarom's management decided to expand the Company's global activity through acquisitions of companies and activities in the Company's fields of activity. Accordingly, at the beginning of the 1990s the Company acquired small flavors companies in the United States and United Kingdom. These acquisitions contributed to expanding Frutarom's geographic presence, product portfolio and customer base.

1.10. In 1993 the Company made its first strategic acquisition by acquiring the Meer Corporation in the United States, a company that produced, marketed and sold natural botanical extracts, gums and natural stabilizers. This acquisition provided Frutarom with a significant foothold in the American market and considerably expanded its natural product portfolio.

1.11. During 1997 and 1998, Frutarom made a strategic decision to penetrate and expand its activity in emerging markets by establishing subsidiaries in selected target countries. Accordingly, Frutarom established subsidiaries in Russia, Ukraine, Kazakhstan, and Romania. The Company also established subsidiaries in Brazil, Mexico, Turkey and China. Activity in these countries has grown significantly and become an important part of Frutarom's current and future activity. Frutarom intends to continue establishing additional subsidiaries and expanding its activities in emerging markets.

1.12. Between 1999 and 2007, Frutarom continued executing its rapid growth strategy by acquiring companies and activities that are complementary and synergetic with its core activities, while at the same time continuing its focus and achievement of organic growth at rates significantly higher than the industry average growth rate. During this period Frutarom made several strategic acquisitions of companies and activities that are complementary and synergetic with its own core activities by acquiring Baltimore Spice Israel Ltd. in 1999; CPL Aromas Ltd.'s flavors and fine ingredients activity in 2001 (refer to section 1.13); the Swiss company, Emil Flachsmann AG, in 2003 (refer to section 1.14); the European Food Systems activity of International Flavors & Fragrances during the second half of 2004 (refer to section 1.15); the German Nesse in January 2006 (refer to section 1.16); Acatris in October 2006 (refer to section 1.17); Belmay in England in March 2007 (refer to section 1.18); Jupiter in England in April 2007 (refer to section 1.19); Abaco in the USA in July 2007 (refer to section 1.20); the Adumim activity (refer to section 1.21) and Raychan (refer to section 1.22), which were completed in August 2007; the German Gerwurzmuller Group in October 2007 (refer to section 1.23) and the Rad activity in November 2007 (refer to section 1.24).

1.13. **Acquisition of activity from CPL Aromas Ltd.** – In 2001 Frutarom, through Frutarom (UK) Ltd., acquired the activities and assets of CPL

Aromas Ltd.'s flavors and fine ingredients divisions. In consideration, Frutarom paid approximately US$ 16 million. This acquisition established Frutarom's position in the English market, and expanded its presence in additional international markets (for instance: Western Europe, the United States and Asia) and its product portfolio, including new products in the field of Food Systems.

1.14. **Acquisition of Emil Flachsmann AG** – In June 2003, Frutarom, through Frutarom (UK) Ltd., completed the acquisition of 100% of the issued share equity of Emil Flachsmann AG ("Flachsmann") for a total consideration of approximately US$ 18 million.

Flachsmann was established in Switzerland in 1935 and develops, manufactures, markets and sells natural flavors, botanical extracts and natural functional food ingredients for the food and beverage, pharma/nutraceutical, and flavor and fragrance industries.

The acquisition in June 2003 of the Flachsmann activity shares synergism with Frutarom's activity and has significantly bolstered Frutarom's flavors and fine ingredients business as well as Frutarom's unique natural product offering. The acquisition contributed to expanding Frutarom's research and development knowhow and capabilities and production capacity, and markedly contributed to expanding Frutarom's customer base and sales and marketing infrastructure. In addition, the acquisition also significantly contributed to strengthening Frutarom's market position in Western Europe, such as in Switzerland, Germany and Denmark, and strengthened its market penetration in markets such as Korea and Japan. In the Fine Ingredients Division, the Flachsmann acquisition contributed mainly to expanding Frutarom's natural product portfolio, including pharma-grade botanical extracts for flavors, functional food and pharma/nutraceutical applications.

Following the Flachsmann acquisition, Frutarom implemented a reorganization program in the Flachsmann activity in order to reduce costs and to merge Frutarom's and Flachsmann's marketing activities by leveraging the considerable synergy existing between them. The Flachsmann activities in Canada and Europe were merged with Frutarom's, while reducing manpower and closing certain Flachsmann activities. Upon completing the first phase of the integration and synergy extraction, Frutarom began the second phase, which is mainly utilization of the cross-selling opportunities that the Flachsmann acquisition provides.

The Flachsmann acquisition continues to be an important strategic step in Frutarom's business development.

1.15. **Acquisition of IFF's European Food System Activity** – During the second half of 2004 Frutarom, through its subsidiaries in Switzerland, Germany and France, completed the acquisition of IFF's European Food Systems business. The acquisition price was Eur 33.5 million (approximately US$ 41.3 million).

The acquired business develops, produces and markets Food Systems (for details of the Food Systems business refer to section 8.11 of this report), and has two production sites in Switzerland and Germany, as

well as marketing, sales and research and development activities in Switzerland, Germany and France.

The activity acquired included the Food Systems activity of IFF Switzerland and IFF Germany, which were acquired on August 17, 2004 for the purchase price of Eur 30 million (US$ 37 million).

On October 29, 2004, the Company completed the acquisition of IFF France's Food Systems activity for the purchase price of Eur 3.5 million (US$ 4.3 million).

According to the purchase agreement, the purchase price paid by the Company is subject to an adjustment mechanism based on the net book value of the inventory, fixed assets and liabilities assumed by the Company on August 17, 2004 (relative to Switzerland and Germany) and on October 29, 2004 (relative to France) compared with their net book value on December 31, 2003. After the adjustments, the purchase price for the acquisition of IFF Food Systems activity in Switzerland and Germany was Eur 25.1 million (US$ 31.5 million) and in France, Eur 2.2 million (US$ 2.8 million).

In addition, in accordance with the acquisition agreement's earn-out mechanism, the purchase price decreased by Eur 3.5 million depending on the results of the acquired business in 2005 and 2006.

The acquisition of IFF's European Food Systems activity significantly expanded Frutarom's food and beverage customer base, geographic reach in Europe, including entry into countries where Frutarom previously had little or no presence, and its product portfolio, including sales of products that integrate flavors, natural functional food ingredients and Food Systems. Similarly, the acquisition granted Frutarom new possibilities and opportunities for cross–selling that it is now working to realize.

Upon completing the acquisition of the food systems activity in France, Frutarom implemented a reorganization plan that included the transfer of the production activity conducted by IFF in France to Frutarom's food systems production sites in Switzerland and Germany, with the aim of reducing costs and improving production efficiency. Frutarom also leverage the synergies by integrating the sales and marketing and R &D teams in Europe; and the operational activities with the food systems (ripples) business in UK.

1.16. **Acquisition of Nesse –** In January 2006, Frutarom acquired 70% of the issued and paid up share equity of GewurzMuhle Nesse GmbH and GewurzMuhle Nesse Gebr. Krause GmbH. Companies owned by the Krause family, the sellers. The acquisition was performed through Frutarom Germany GmbH, a wholly owned subsidiary of Frutarom.

Nesse has been active since 1880 and today is an international group achieving high internal growth. Nesse operates two production sites in Germany and has sales and marketing representatives in 20 additional countries, mainly Eastern and Western Europe. Nesse develops, produces, markets and sells innovative, unique savory solutions that include savory flavors and specialty functional ingredients. Nesse’s extensive customer base includes hundreds of food manufacturers, principally in Eastern and Western Europe.

The consideration paid by Frutarom upon signature of the agreement for the acquisition of 70% of Nesse's issued and paid up shares was Eur 18.41 million. In addition, according to the agreement the sellers will be entitled to an additional estimated payment of Eur 19 million, which will be paid in March 2008, based on the improvement to Nesse's operating profit in the years 2005-2007.

As part of the acquisition agreement, for a period of two years as of the end of 2007 Frutarom has a call option to purchase and the sellers have a put option to sell the remaining 30% of Nesse's issued and paid up shares. The exercise price will be based on 30% of the average annual operating profit achieved by Nesse during the eight quarters preceding the exercise of the option, multiplied by 6.5.

On May 23, 2006, the Company issued an immediate report that included an estimation of the value for Nesse's assets and liabilities.

This strategic acquisition was another significant milestone in implementing Frutarom's rapid growth strategy. The acquisition strengthened Frutarom's technological capabilities and offering to customers in the savory field and contributes contributed to strengthening and positioning Frutarom in Western and Eastern Europe as a leading flavors supplier. The Nesse acquisition expanded Frutarom's geographic spread to additional countries in which Frutarom was less active, such as Poland, Czech Republic, Latvia, and others.

Nesse's savory activity is synergetic with Frutarom's activities in the more than 120 countries in which Frutarom operates, especially in Western and Eastern Europe. Frutarom is taking advantage of its large, dedicated global sales and marketing infrastructure to realize the substantial cross-selling opportunities created by the acquisition, by expanding both the customer base and the product portfolio.

As part of the Acatris activity integration process into Frutarom, the name of the American Acatris Inc. was changed to Frutarom Inc., Acatris Belgium NV was changed to Frutarom Belgium NV, and the Dutch Acatris Specialities Holding B.V. was changed to Frutarom Netherlands B.V.

1.17. **Acquisition of Acatris –** In October 2006, Frutarom completed the acquisition of 100% of the issued and paid share equity of the American company, Acatris Inc.; of the Dutch company, Acatris Specialities Holding B.V.; and of the Belgian company Acatris Belgium NV in consideration for Eur 10.5. The acquisition was performed through Frutarom's wholly owned subsidiary.

Acatris manages multinational activity from its centers in Holland and Belgium, through which it produces and markets active ingredients and unique, natural botanical extracts with scientifically proven health attributes that are supported by clinical research and protected by patents, and owns the Lifeline products line that includes, among others, the products Fenulife, Soylife and Linumlife. The Acatris group sells its products to over 450 customers, some leaders in their fields, mainly in Western Europe and the USA in the nutraceutical, food, functional food and cosmeceutical markets.

The acquisition of Acatris was strategic and an additional important step in implementing Frutarom's strategy for rapid growth. This acquisition substantially strengthened the unique, natural product portfolio offered by Frutarom to its customers, particularly in the rapidly growing nutraceutical and functional food markets, and Frutarom's position as a leading global manufacturer in these markets.

The activity of Frutarom and Acatris are highly synergistic, especially in the field of unique natural products. Frutarom completed the integration of Acatris's activity with the global organization of Frutarom's Fine Ingredients Division, particularly with the activity of Frutarom Switzerland (formerly Flachsmann) and Frutarom USA in the field of unique natural botanical extracts as part of the Frutarom Health business unit (for further details on Frutarom Health refer to section 16.8 below).

1.18. **Acquisition of Belmay –** In April 2007, Frutarom completed the acquisition of 100% of the share equity of the English company Belmay in consideration for a payment in cash of US$ 17.8 million. Belmay has subsidiaries in Singapore, Norway and Denmark.

Belmay is a leading British flavor house that develops, produces and markets flavors, with a particular focus on natural flavors, for the food and beverage industry. Belmay has a site with significant production capacity that is located close to Frutarom's production site in Kettering, England. Belmay's extensive customer base includes leading food and beverage manufacturers in its countries of operation.

The Belmay acquisition is an important strategic acquisition that continues the implementation of Frutarom's rapid growth strategy and makes Frutarom the leading flavor house in the British market. The Belmay acquisition significantly strengthened Frutarom's technological capabilities and the product portfolio it offers its customers in the flavors field, especially in soft drinks and alcoholic beverages.

Upon completing the acquisition, Frutarom acted to merge and consolidate Belmay's activity with that of Frutarom's Flavors Division in England in order to achieve optimal operational efficiency and savings. During the fourth quarter of 2007, Frutarom completed a process of reorganizing the Flavors Division's activity in England, including reducing headcount and merging the flavors activity of Frutarom's Flavors Division in England—of Belmay, Jupiter and Frutarom UK—at Belmay's site.

1.19. **Acquisition of Jupiter –** In April 2007, through its subsidiary Frutarom (UK) Limited, Frutarom signed an agreement to acquire 100% of the share equity of the English company Jupiter Flavours Limited, which develops, produces and markets flavors. In consideration, Frutarom made a cash payment of US$ 2.8 million. In accordance with the acquisition agreement, an additional payment of US$ 600,000 was made based on Jupiter's results during 2007.

The acquisition of Jupiter, which joins Frutarom's acquisition of the British company, Belmay (for further details refer to section 1.18 above), contributed to strengthening Frutarom's activity in Britain and to its position as the leading flavors producer in the British market.

During the fourth quarter of 2007, Frutarom completed the integration of Jupiter's activity with its existing activity in England, as stated.

1.20. **Acquisition of Raychan –** In August 2007, Frutarom completed the acquisition of Raychan for a consideration of US$ 1 million and the assumption of Raychan's debt in the amount of US$ 1.2 million. It become possible to complete the transaction after the Israeli Anti Trust Commission granted final approval for the merger.

Raychan develops, produces and markets flavor compounds and markets ingredients for the food industry. Raychan's activity is highly synergetic with Frutarom's activity in Israel and that of Nesse, which was acquired by Frutarom at the beginning of 2006, and broadens Frutarom's product offering in the fields of savory and functional products and solutions to its customers in Israel and worldwide. During the fourth quarter of the year, the merger and integration of Raychan's activities at Frutarom's site in Acco was completed while achieving operational savings.

1.21. **Acquisition of Adumim –** In August 2007, Frutarom completed the acquisition of the activity of Adumim. According to the agreement, Frutarom acquired Adumim's assets (without Adumim's liabilities and excluding real estate and the customer, debit and cash balances) in consideration for US$4.3 million.

Adumim has two main fields of activity: the development, production and marketing of ingredients and unique fine ingredients for the food and functional food industries, and the development and production of dietary additives containing medicinal plant extracts, vitamins and minerals.

Adumim's activity is synergetic and complements the Frutarom Group's operations and broadened Frutarom's product portfolio and the natural, healthful solutions which Frutarom offers its customers worldwide, especially in the fields of food, nutraceuticals and functional food. The acquisition also strengthened Frutarom in the natural emulsions and clean label areas, both of which are characterized by an above average growth rate. Adumim's products, some of which are patented, were integrated into Frutarom's product offering.

The merger of Adumim's activity and its transfer to Frutarom Israel's existing sites, while achieving substantial operating savings, was mostly completed during the fourth quarter of 2007 and is expected to end during the first quarter of 2008.

1.22. **Acquisition of Abaco –** In July 2007, through its subsidiary Frutarom USA, Frutarom signed an agreement to acquire 100% of the ownership of Abaco (including Abaco Manufacturing LLC and Abaco Incorporated), a private American company, for a consideration of US$ 4 million (and the assumption of Abaco's debt in the amount of US$ 1.1 million.)

Abaco develops, produces and markets unique ingredients for the flavors and fragrances industry and its activity is very compatible with that of Frutarom's Fine Ingredients Division, whose main development laboratories and production facilities are in the USA, England and Israel. The acquisition mainly expands the activity of Frutarom USA.

The acquisition strengthened Frutarom's capabilities and expertise in the field of unique ingredients for the flavor and fragrance industry and improved Frutarom's service and quality to customers in the field, particularly in the USA. The process of integrating Abaco's activity with Frutarom USA's existing activity was completed during the fourth quarter of 2007.

1.23. **Acquisition of the Gewurzmuller Group –** In October 2007, Frutarom acquired 100% of the share equity of the Gewurzmuller Group for a cash consideration of US$ 67 million (about Euro 47.3 million). The acquisition agreement determined a future payment mechanism such that the final payment to be made will reflect the Gewurzmuller Group's value based on an average multiple of 7.1 on the EBITDA that the Gewurzmuller Group achieves during the twelve months ending December 31, 2007. The Gewurzmuller Group's sales turnover for 2006 totaled US$ 65 million (about Euro 46 million). For further information on the acquisition of the Gewurzmuller Group, refer to the Company's complementary Immediate Report dated October 17, 2007 and published at the time.

Gewurzmuller was established in 1896 by the seller, the Rendlen family, and today is a leading international group in its field employs 164 people as at December 31, 2007. Gewurzmuller develops, produces and markets unique and innovative savory solutions, including savory flavors, seasoning compounds and functional ingredients for the food industry, with special emphasis on the fields of processed meat and convenience food. Blessing Biotech develops, produces and markets starter cultures, which are natural products based on microbiological processes, mainly fermentation of microorganisms and enzymes, and which are used to manufacture food, especially meat, dairy and baked goods. Starter cultures enable food manufacturers to control flavor, color, texture and shelf life.

The Gewurzmuller Group operates two production sites in Stuttgart, Germany. The main site, which was built two years ago, is modern and efficient and would allow a substantial increase in production capacity. This site meets the most exacting standards of the European food industry.

The Gewurzmuller Group has sales and marketing representatives in 12 countries. The Gewurzmuller Group's extensive customer base includes thousands of food manufacturers, among them leaders in their field, especially in Eastern and Western Europe, in particular Germany, Austria, Switzerland, Sweden, Denmark, Russia, Ukraine and Bulgaria.

Gewurzmuller's activity is especially synergetic with Frutarom's and will be integrated with the activity of the German company Nesse, which was acquired by Frutarom at the beginning of 2006, and with Frutarom's activity in Israel. The acquisition considerably boosts both Frutarom's technological capabilities and its product offering to customers worldwide in the field of savory flavors and functional products, as well as Frutarom's extensive global customer base.

Upon completing the acquisition, Frutarom began implementing a plan to merge the Gewurzmuller Group's activity with Frutarom's and to extract the maximum use of the cross selling opportunities and the

synergy existing in Germany and other countries in order to attain optimal operational efficiency and savings. To date the sales, service and purchasing systems have been consolidated as planned, efficiently and successfully in accordance with the merger program while meeting the goals determined in advance.

The acquisition of Gewurzmuller continues the implementation of Frutarom's rapid growth strategy and is an important strategic and significant acquisition that further establishes Frutarom's position as one of the ten largest global leaders in the field of flavors and enhances its presence and position as a leading global producer of savory flavors.

1.24. **Acquisition of Rad –** In November 2007, Frutarom acquired the activity of Rad through its subsidiary, Frutarom Ltd. Rad researches, develops, produces, markets, distributes and sells unique natural plant extracts with anti-oxidant activity for use in food, dietary supplements and cosmetic products. RAD possesses unique knowhow, which is protected by patents, in this field.

In accordance with the acquisition agreement, Frutarom acquired Rad's assets in consideration for a cash payment of US$ 4.1 million. The acquisition agreement also determined an earn out mechanism for a future payment according to which Rad will be entitled to an additional payment if accumulated sales for Rad's products in 2008 and 2009 are more than US$ 4 million. If the accumulated sales for Rad's products in 2008 and 2009 exceed US$ 11.1 million, the maximum additional payment to which Rad will be entitled will be US$ 4.9 million.

Rad's activity is synergetic with and complements Frutarom's activity and expands the range of natural health and taste solutions that Frutarom offers its customers worldwide. Rad has an impressive pipeline of projects together with its varied customers throughout the world, including large, multinational leaders in their field. RAD's products, which are protected by patents, will be integrated with the product offering of products produced and marketed by Frutarom's Flavors Division.

2. The Group's Fields of Operation

Frutarom is a global company that develops, manufactures, markets and sells flavors and fine ingredients used in the production of food and beverage, flavors and fragrances, pharma/nutraceutical, personal care and other products. The Company's operates principally in two divisions, each of which is a main field of activity and reports as a business sector in the Company's consolidated financial reports (refer also to Note 7 in the financial reports for 2007, which are included in this periodic report), as detailed below:

2.1. **The Flavors Division** – Frutarom's Flavors Division develops, produces, markets and sells high quality, value added sweet and savory flavors and Food Systems used mainly by manufacturers of food and beverages and other consumer products. Frutarom develops for its customers thousands of different flavors, most of which are tailor-made, and continuously develops new flavors in order to meet changing consumer preferences and customer needs. The Flavors

Division is the most profitable of Frutarom's Divisions and has experienced rapid growth since 2001. Sales for the Flavors Division increased from US$ 39.1 million in 2001 to US$ 247.7 million in 2007. The growth in the Flavors Division's sales derives from the Division's focus on both developed and emerging markets and by serving multinational, mid sized and local customers, and the execution of strategic acquisitions. The proportion of Frutarom's total sales represented by the Flavors Division's products has increased from 38.7% in 2001 to 67.3% in 2007.

2.2. **The Fine Ingredients Division** – The Fine Ingredients Division develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, citrus products, aroma chemicals, and natural gums. The products of the Fine Ingredients Division are sold principally to the food and beverage, flavor and fragrance, pharmaceutical and personal care industries. The Fine Ingredients Division has experienced significant growth since 2001, with sales increasing from US$ 57.5 million in 2001 to US$ 115 million in 2007. The growth in sales was achieved by focusing primarily on the development of new and innovative value-added products, and as a result of several strategic acquisitions, and by focusing on multinational, mid sized customers. The proportion of Frutarom's total sales represented by the Fine Ingredients Division's products totaled 31.2% in 2007.

Although a majority of the fine ingredients produced by the Company are sold to third parties, a portion of Frutarom's specialty fine ingredients production, for example in citrus, is reserved solely for use by the Flavors Division in its production of certain flavors, giving Frutarom a unique advantage.

2.3. **Trade & Marketing Activity** – In addition to the Flavors and Fine Ingredients Divisions, Frutarom trades and markets various raw materials produced by third parties to customers in Israel. As a result of this activity being considered non core by management and its low volume, it will not be reviewed separately in this report. In 20076 the activity totaled US$ 10.5 million and its relative portion of Frutarom's total sales was 2.9%.

3. Investments in the Company's Capital and Transactions in its Shares

3.1. In a significant private placement and non significant private offering made by the Company in January 2004, the Company allocated 900,000 shares par value NIS 1.00 each of the Company to three officers in the Company, including the President of the Company, Mr. Ori Yehudai, as part of the Options Plan for officers (refer to section 29.10 of this report).

3.2. In a non significant private placement made by the Company in June 2004, the Company allocated to an officer 150,000 inconvertible options to an officeholder in accordance with the instructions in Section 102(b)(3) of the Income Tax Regulation (New Version). Each option may be exercised to one ordinary share par value NIS 1.00 each of the Company and in total to 150,000 ordinary shares of the Company. For details on the stated private offering refer to the immediate report of the Company regarding a private offering that is not significant dated May

18, 2004 as published on May 15, 2004. In June 2007, the officeholder realized 30,000 options for which the Company allocated 30,000 shares in consideration for NIS 326,100.

3.3. On February 8, 2005 the Company completed an offering by way of issuing its shares and registering GDRs in the London Stock Exchange Main Listing ("capital recruitment"). In recruiting the capital the Company offered 10,000,000 ordinary shares (in the form of shares and GDRs wherein each GDR represents one share). The shares were sold for NIS 33.50 for each share and the GDRs for US$ 7.63 for each GDR (the "Offering Price"). The Company received proceeds of approximately US$ 76.3 million for the Offering. The net proceeds (deducting commission to the underwriters and other expenses related to the Offering, totaling US$ 4.9 million) received by the Company totaled US$ 71.4 million.

3.4. As part of the offering stated in section 3.3, ICC Handels AG of the ICC Group, which is the controlling party in the Company, sold 2,000,000 shares in the Company at the Offering Price.

3.5. On February 16, 2005, UBS, on behalf of the underwriters, notified the Company and ICC Handels AG of the full exercise of the over-allotment option given by the Company and by ICC Handels AG to purchase up to 1,200,000 additional shares in the Company at the Offering Price. Upon exercise of the option, the Company issued 600,000 additional shares and 600,000 existing shares were sold by ICC Handels AG.

3.6. Once the option was exercised, the total size of the Offering was 13,200,000 shares of the Company of which 10,600,000 were sold by the Company and 2,600,000 by ICC Handels AG. Upon exercise of the option, the proceeds from the offering totaled to US$ 4.6 million. The net proceeds (minus commission to the underwriters and other expenses related to the Offering totaled US$ 0.2 million) that the company received increased by US$ 4.4 million and totaled US$ 75.8 million.

3.7. In a significant private placement and non significant private offering made by the Company in January 2006, the Company allotted 725,000 non-transferable options to four senior officers of the Company, among them the Company's president, Mr. Ori Yehudai. The options were allocated to the officers without remuneration in accordance with the instructions of Section 102(b)(3) of the Internal Revenue Ordinance. Each option is exercisable into one share in the Company, and in total for 725,000 ordinary shares in the Company. For details on the stated private offering refer to the immediate report of the Company regarding a private offering that is not significant, dated January 3, 2006 as published on January 3, 2006 and amended to the immediate report dated January 4, 2006 and published on the same date.

4. Distribution of Dividends

4.1. The Company's policy regarding distributing dividends, including the amount of the distribution, depends on several factors, including the level of the Company's profitability and its investment plans.

In recent years the Company has declared and distributed dividends to its shareholders as detailed in the following table (in NIS thousands):

Year	Price Per Share	Total Sum NIS 000	Total Sum US$ 000
2006	0.16	9,228	1.978
2007	0.18	10,382	2.572

The stated dividend does not require the approval of a court of law.

4.2. Upon approval of the financial reports for the period ended December 31, 2007, the Board of Directors of the Company decided to distribute a cash dividend in the amount of NIS 0.18 per share for an overall total of NIS 10,387 thousands.

4.3. The Company intends to continue distributing dividends to its shareholders in the future. At the same time, there is no certainty that the stated dividend will be declared and distributed in the future, and it is also uncertain that if a future dividend were to be distributed, it would be in accordance with that described above.

CHAPTER 2 – OTHER INFORMATION

5. Financial Data Regarding the Company's Fields of Activity

5.1. Following are financial data for the Group broken down by fields of activity for the years 2005 through 2007 (in US$ 000):

2007		Field of activity		Adjustment to consolidated	Consoli-dated
		Flavors	Fine Ingredients		
Income	From external	247,672	110,088	10,501	368,261
	From other fields of activity		4,863	(4,863)	--
Total Income		247,672	114,951	5,638	368,261
Expenses	Expenses that are income of other fields of activity	4,863	--	(4,863)	--
	Expenses that are not income of other fields of activity	215,986	107,047	10,702	333,735
Total Expenses		**220,849**	**107,047**	**5,839**	**333,735**
Operating Profit		**26,823**	**7,904**	**(201)**	**34,526**
Total Assets		**320,808**	**77,642**	**150,261**	**548,711**

2006		Field of activity		Adjustment to consolidated	Consoli-dated
		Flavors	Fine Ingredients		
Income	From external	187,030	93,468	6,749	287,247
	From other fields of activity	--	4,896	(4,896)	--
Total Income		187,030	98,364	1,853	287,247
Expenses	Expenses that are income of other fields of activity	4,896	--	(4,896)	--
	Expenses that are not income of other fields of activity	152,286	91,078	6,828	250,192
Total Expenses		**157,182**	**91,078**	**1,932**	**250,192**
Operating Profit		**29,848**	**7,285**	**(79)**	**37,055**
Total Assets		**130,726**	**49,595**	**136,376**	**316,697**

2005		Field of activity		Adjustment to consolidated	Consoli-dated
		Flavors	Fine Ingredients		
Income	From external	150,437	87,040	6,326	243,803
	From other fields of activity	--	2,728	(2,728)	--
Total Income		150,437	89,768	3,598	243,803
Expenses	Expenses that are income of other fields of activity	2,728	--	(2,728)	--
	Expenses that are not income of other fields of activity	123,440	80,308	6,317	210,065
Total Expenses		**126,168**	**80,308**	**3,589**	**210,065**
Operating Profit		**24,269**	**9,460**	**9**	**33,738**
Total Assets		**93,558**	**44,507**	**95,801**	**233,866**

5.2. Significance of Adjustment to Consolidated – Trade and marketing activity and sales and purchases between divisions are cancelled in the framework of the adjustment to the consolidated.

5.3. Explanation of Developments – For an explanation of developments that occurred in the data shown above refer to the explanation in the Directors Report for the year ended December 31, 2007.

6. Market Environment and Influence of External Factors on the Company's Activity

Market Environment – Global Flavor and Fragrance Industry

6.1. Frutarom operates in the global flavors and fine ingredients markets. The segments of the flavors market in which Frutarom operates are flavor compounds and food systems. The segments of the fine ingredients market in which Frutarom principally operates include natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, citrus products and aroma chemicals.

6.2. Research company SRI Consultants[3] estimates that the global market for flavors, fragrances and fine ingredients amounts to approximately US$ 18 billion. In SRI Consultants' estimation, from 2003-2006 the flavor, fragrance and fine ingredients market grew at an annual average rate of 4.5%. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for natural functional food ingredients (which are not included in the above estimate) and therefore estimates that the global market in which it operates had sales of approximately US$ 15 billion.

6.3. SRI Consultants estimate that global sales in the industrialized nations (the USA, Western Europe and Japan) in the flavor and fine ingredients markets in which Frutarom operates will grow at an annual rate of

[3] SRI Consulting 2007

between 2% and 4% from 2006 to 2011. The growth rate is expected to be significantly higher in certain emerging markets, in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America, both as a result of expected increases in GNP and changes in consumer preferences in these markets and could reach annual average levels of between 6% and 8% between 2006 and 2011. The Company estimates that the market for functional food ingredients in Europe and the USA is expected to grow at an even higher average annual rate.

6.4. The flavor, fragrance and fine ingredients industry can be divided into main groups: (i) large multinational companies, (ii) mid-sized companies and (iii) local and small companies.

Large multinational companies generally operate globally and have revenues in excess of US$ 500 million. In 2006, there were seven such companies, and according to SRI Consultants they represented approximately 56% of the flavor, fragrance and fine ingredients market as measured by sales (excluding sales of natural functional food ingredients and pharma/nutraceutical extracts). These companies generally focus primarily on customers who are large multinational food and beverage producers.

Local and small companies generally have revenues of less than US$ 100 million (most of them are much smaller and sell only several million dollars). In 2006 there were 300-400 such companies and SRI Consultants estimates that these companies represented approximately 32% of the flavor, fragrance and fine ingredients market as measured by sales (excluding sales of natural functional food ingredients and pharma/nutraceutical extracts). These companies generally focus on smaller local customers and have limited service and research and development capabilities.

Mid-sized companies generally have revenues of between US$ 100 million and US$ 500 million. In 2006, there were only nine such mid-sized companies, and SRI Consultants estimates these companies represented approximately 12% of the flavor, fragrance and fine ingredients market as measured by sales (excluding sales of natural functional food ingredients and pharma/nutraceutical extracts). The mid-sized company segment includes companies ranging from those with a regional geographic focus to those with a global reach and comprehensive product offering.

6.5. The flavors and fine ingredients market in which the Company is active is characterized by high entry barriers:

- Long term relationships – The market is characterized by long term relationships between manufacturers and their customers, which include mostly the food and beverage, flavor and fragrance and pharma/nutra industries. These industries impart great importance to reliability, quality of service and the manufacturers' knowledge and understanding of the customers' needs.
- Research and development – Since the preferences of the end users are constantly changing and the customers' markets (mainly food and beverage) are dynamic and competitive, the market is characterized by a large number of new and innovative products. Accordingly, manufacturers are required to invest in research and

development and to offer a wide range of new innovative products, some of them at the manufacturer's own initiative and some in cooperation with the customer.

- Compliance with quality and regulatory standards – The flavors and fine ingredients are principally intended for the food and beverage and pharma/nutra industries, which are subject to strict quality and regulatory standards, as a result of which manufacturers are required to meet the same strict standards.
- The importance of flavors in the final product – Since the flavors play a major role in determining the flavor of the end-product, they are often a vital element in determining its success. Since the flavors can not be precisely matched and as they represent a comparatively small percentage of the final product's overall cost, the food and beverage manufacture will usually avoid replacing the flavors manufacturer.
- Investments in production in the field of fine ingredients – In the fine ingredients field, considerable capital investment is required to build manufacturing facility and/or increase production capacity. These investments comprise a significant entry barrier to new manufacturers in the field.

In view of the entry barriers described above, the market is characterized by an absence of new manufacturers, other than through mergers and acquisitions. In general, the market is characterized by a trend of consolidation and a decrease in the number of manufacturers.

CHAPTER 3 – DESCRIPTION OF THE COMPANY'S BUSINESS BY FIELDS OF ACTIVITY

6.6. Frutarom is a global company that develops, manufactures, markets and sells flavors and fine ingredients used in the production of food and beverage, flavors and fragrances, pharma/nutraceutical, personal care and other products. The Company's operates principally in two divisions, each of which constitutes a main field of activity.[4]

6.7. The activity of the Company's two divisions is complementary and synergetic to a great extent. This synergy finds expression in a number of areas:

- Sales and marketing – Frutarom's sales and marketing policy is that a single dedicated sales person works with a certain customer to sell all the Frutarom products produced by the two Divisions. The products of the Fine Ingredients Division that are intended for the food and beverage industry are sold through the Flavors Division's sales personnel.

- Research and development – The knowhow and knowledge of the Flavors Division's sales people with the needs of the food and beverage industry enable the Fine Ingredients Division to develop and produce new and innovative products that meet their needs.

- Operations – A significant number of Frutarom's production sites are shared by the Flavors and Fine Ingredients Divisions, thereby sharing the same resources.

- Fine ingredients – Most of the fine ingredients produced by the Fine Ingredients Division are sold to third parties. At the same time, a small portion of the fine ingredients are used solely by the Flavors Division in its production of unique flavors that give Frutarom a unique competitive advantage.

In view of the considerable synergy that exists between the two divisions and their complementary activity, it is not always possible to separate the fields of activity according to the various characteristics.

Flavors Market

7. Overview of the Flavors Market

General

7.1. Flavor compounds are the key building blocks that impart taste in food and beverage products and, as such, play a material role in determining the consumer acceptance of the end products in which they are used.

[4] In addition to its flavors and fine ingredients activities, Frutarom also imports and markets various raw materials, not produced by it, to customers in Israel. This activity is not considered a core activity and in 2007 totaled approximately US$ 10.5 million, being 2.9% of Frutarom activity. In view of the fact that this activity is not significant for Frutarom, it has not been dealt with separately in this report, although it is reported as a separate business segment in the financial reports.

7.2. The Company estimates that global sales of flavor compounds in 2007 amounted to US$ 9 billion. Flavors products are sold principally to producers of prepared foods, beverage, dairy, bakery, meat and fish, confectionery and pharmaceutical products.

Examples of end user products using flavors are:

- Beverages – carbonated, noncarbonated, sport and functional, alcoholic and juices
- Dairy – yogurt, drinking yogurt, ice cream, cheese and chilled desserts
- Bakery – cakes and cookies, crackers and cereals
- Confectionery – candy, chocolate, jam and chewing gum
- Savory and convenience food – ready meals, instant soup, ready sauces and instant noodles
- Snacks – potato chips and other savory snacks
- Meat – sausages and frankfurters
- Oral hygiene and pharmaceuticals – toothpaste, mouthwash, vitamins and medicines
- Others – tobacco, animal feed and pet food

7.3. The global market for flavors has expanded rapidly over the last 60 years, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer end products containing flavors. The demand for consumer goods containing flavor products has increased as a result of rapid population growth and consumer preferences resulting from various factors such as increases in personal income, leisure time, health concerns and urbanization. These factors have led to an overall increase in food and beverage products containing flavors and to rapid growth in demand for convenience food and foods with healthier and/or natural content.

7.4. The following table sets forth the sales of flavors compounds by region in 2006 and the projected annual growth rate in these geographic regions[5]:

	Estimated world consumption in 20063 (US$ million)	**Average growth expected in 2006-20011**
United States	2,602	3.0-4.0%
Western Europe	2,886	2.0-3.0%
Japan	1,345	1.0-2.0%
China	1,120	9.0-10.0%
Asia	522	4.0-5.0%
Other	450	4.0-5.0%
Total	**8,925**	**----**

[5] Estimate based on SRI Consultants.

7.5. In 2006, the United States, Western Europe and Japan together accounted for approximately 74% of flavors compounds sales worldwide, although they accounted for only approximately 10% of the world's population. Demand for flavor compounds in developed countries is expected to grow moderately, with more rapid growth expected in emerging markets such as Eastern Europe, Russia, China and India. Frutarom believes that the growth rates are even higher in many of the emerging markets in which it operates. Sales in these regions are expected to grow as a result of projected growth in GNP in these regions.

7.6. An important segment of the flavors market is the food systems business, consisting of ripples, fillings and other preparations made from fruit, vegetables and other natural ingredients used in a wide range of food products, such as dairy and ice cream, sweet and savory baked products, convenience food and other prepared food products.

Characteristics of the Flavors Market

7.7. Reliable and high levels of service – Food and beverage producers, the principal customers of flavors manufacturers, expect reliable and high levels of service that meet their needs in terms of support and lead time, while maintaining high quality, regulatory and safety standards. This in turn encourages long term relationships between flavor producers and their customers. As a result, large multinational customers, and increasingly, mid sized customers, have limited the number of their flavor suppliers, placing those that remain on "core lists," creating a barrier to entry for small flavor manufacturers.

7.8. Research and development – The development of new flavor products is a complex, artistic and technological process calling upon the many combined knowledge and skills of a flavor manufacturer's research and development personnel. Effective research and development is important to ensure a continuous stream of innovative products and to maintain the profitability and growth of a flavor manufacturer. The initiative for the development of new flavor products either comes from the flavor manufacturer itself or from the customer for use in a specific newly developed end product. As such, in order to anticipate market demands, a flavor manufacturer's research and development personnel are required to be familiar with the different taste requirements of the different end product types and target markets. In addition, as most flavors are tailor made for a specific customer, a close collaborative relationship with customers is required. These flavor product formulas are generally treated as trade secrets and remain proprietary to the flavor manufacturer. As most flavor products are tailor -made specifically for use in a given end product, customers are less likely to change suppliers for such flavor products during the course of such end products' life cycle.

7.9. Low price sensitivity – Flavor products play a major role in determining the flavor of the end product to which they are added, and are often a vital element in such product's success. At the same time, flavor products represent a comparatively small percentage of an end product's total cost. Demand for flavor products is generally less sensitive to changes in price, as customers generally place a greater emphasis on a flavor product's performance, quality and consistency than on its price when selecting a supplier.

7.10. Production processes – Flavor products typically contain a large number of ingredients (typically over 30), which are blended using formulas created by a manufacturer's flavorists. The production processes involved in the manufacture of flavors products are less complex and capital intensive compared to fine ingredients. However, the production process for flavor products requires skill and knowhow to achieve the required consistency and quality.

7.11. High and relatively stable profitability – As the flavors market tends to be characterized by long term relationships and customer loyalty, combined with relatively low price sensitivity and simple production processes, the flavors market generally benefits from high and stable margins (including in comparison to the fine ingredients industry).

End User Market Characteristics

7.12. As flavors are primarily sold to food and beverage producers, the flavors market is generally driven by trends in the food and beverage end user market. According to Euromonitor, global sales in the food and beverage market amounted to approximately US$ 1,400 billion in 2003. Frutarom believes that over 50% of such total global sales are generated by mid sized and local and small food and beverage producers. Although there has been a general trend towards consolidation in the food and beverage industry, Frutarom believes that mid sized (annual revenues of between US$ 100 million and US$ 3 billion) and local and small (annual revenues of below US$ 100 million) food and beverage producers will continue to play a significant role in the market, and that new mid sized, local and small producers will continue to emerge.

7.13. The large multinational flavors manufacturers tend to focus primarily on the large multinational food and beverage producers, offering their customers a high degree of service and tailor made product development. Frutarom believe that these flavors producers focus to a lesser extent on mid sized customers, offering limited service and tailor made product offering to these customers. However, the Company believes that mid sized and local food and beverage producers generally require the same degree of service and tailor made products as the large multinational food and beverage producers, and also require short lead times and manufacturing flexibility. The local, small flavors manufacturers generally do not have the product breadth and service capabilities to support the mid sized and local food and beverage producers' needs, creating a market opportunity for mid sized flavors manufacturer to service this segment.

7.14. The following are the main trends in the consumer market for food and beverage which drive the flavor market:

- Strong trend towards natural products – There has been a general increase in consumer demand for food and beverage products that contain natural ingredients and have dietary values (reducing fat, salt, cholesterol, etc.). Natural products are generally perceived by consumers as being of higher quality, healthier and more environmentally friendly. Similarly, there is a growing demand for organic products and so-called ‘clean label’ products. As a result, natural food and beverage products are generally viewed as

specialty, premium products with higher prices. This trend has created new opportunities for flavors manufacturers to develop new and innovative natural flavor products.

- Emerging markets – In recent years, certain developing markets, such as the CIS, Eastern Europe, China and India, have experienced above market average growth in demand for flavors products. Further, these markets have been characterized by a trend towards increased consumption of processed foods, which in turn has driven the emergence of mid sized, local and small food companies, which creates new market opportunities for flavors manufacturers.

- Local and global tastes – Since tastes vary in different geographic locations and among difference cultures, flavor manufacturers are required to have a thorough knowledge of local tastes in each of the countries in which they are active. Accordingly, it is important for a global flavors manufacturer to have a physical presence in its key target markets and to have direct contact with customers in order to better understand local tastes and to be able to respond quickly and efficiently to changes in consumer preferences. There has also been a trend towards globalization in the flavors industry, as multinational food and beverage customers are now launching global brands in many different markets simultaneously.

- Private label – Private label goods manufacturers, which tend to be mid sized and local and small food manufacturers, have been a growing and increasingly important customer segment for the flavors industry. Over the last decade, consumers of food products have become increasingly price conscious. As a result, supermarket chains and other retailers have generally been increasing their private label product offerings to cater to this price conscious segment. In addition, many retailers have been placing greater importance on supporting their own brand image by expanding their premium private label product offerings. The price label segment has provided the flavors industry with new opportunities, as requests are made to create private label products which closely resemble popular products on the market or which have certain other brand image enhancing characteristics.

- Growing market for convenience food – There has been a general increase in demand for processed foods with greater convenience (consumed both in and outside the home). This increase in demand for convenience foods has been spurred by new packaging and cooking technologies as well as changing social habits and consumer preferences. Examples of convenience foods include "ready to eat" meals, fresh pasta; ready-to-cook, fresh seasoned or marinated meat or poultry; salads; and sauces in liquid form. This has created new opportunities for flavor manufacturers in the savory flavors field to develop and market flavors products for this segment.

Key Success Factors in the Flavors Segment

7.15. The Company's management estimates that the key success factors in the flavors segment are:

- Long term relationships – Long term relationships with customers and collaboration in the development of new products.

- Global and local presence in target markets – Knowledge of the various flavor preferences in the different markets and the ability to provide global and local support to customers.

- Superior and reliable service – The ability to provide a high level of service and the reliability of a flavors manufacturer in giving service are critical both for mid sized and local customers and for multinational customers.

- Presence in emerging markets – Emerging markets grow at considerably higher rates compared with developed markets and a presence in these markets, knowledge and understanding of their unique needs and the ability to provide support to manufacturers in these markets are a critical success factor.

- Strong research and development and innovation – The ability to develop new innovative products both at the initiative of the flavors manufacturer and in collaboration with customers is of extreme importance in determining a flavors manufacturer's success.

- Compliance with strict quality, regulatory and safety standards – Since the flavors are intended principally for the food and beverage and pharmaceutical markets, they must comply with strict quality, regulatory and safety standards.

8. Products and Services in the Flavors Segment

8.1. The Flavors Division develops, manufacturers, markets and sells flavor compounds (sweet and savory) and food systems, an activity that was significantly expanded through the acquisition of the European food systems business of IFF during the second half of 2004. The Flavors Division is the most profitable of Frutarom's activities and has undergone accelerated growth since 2001. The Flavors Division's sales grew from US$ 39.1 million in 2001 to US$ 247.7 million in 2007. The growth in the Flavors Division's sales is principally the result of its growth strategy focusing on both developed and emerging markets and on multinational, mid sized and local customers and the successful execution of strategic acquisitions in recent years. The relative portion of the Flavors Division in Frutarom's overall activity grew from 38.7% in 2001 to 67.3% in 2007.

8.2. The Company produces thousands of different flavors for its customers and continuously develops new flavors in order to meet changing consumer preferences and customer needs. Frutarom maintains collaborative relationships with its customers and many of its products are tailor made. Frutarom's flavor production meets strict quality, safety and regulatory standards, which are required by food and beverage producers.

The combination of long term customer relationships and customer loyalty, with relatively low price sensitivity and simple production processes, provide the Flavors Division with generally higher and more stable margin compared to the Fine Ingredients Division.

8.3. As the success of many of the flavors developed by Frutarom depends on knowledge of local tastes, Frutarom maintains local research and development laboratories and sales and marketing operations in close proximity to its customers. In addition, Frutarom's global presence enables it to introduce new tastes to local markets. Frutarom's global reach also provides it with the means to service the needs of food and beverage producers who launch global brands in many markets simultaneously.

8.4. Frutarom's Flavors Division is also responding to the growing trend for private label products. Private label goods manufacturers tend to be mid sized and local food and beverage producers, which is a customer segment Frutarom is well positioned to support. Frutarom offers these customers a comprehensive product offering, personalized service and flexibility in terms of minimum quantities and supply times. The acquisition during 2007 of Belmay and Jupiter in England; Raychan and Adumim's and Rad's activity in Israel; and the Gewurzmuller Group in Germany considerably expanded Frutarom's product offering to private label manufacturers.

8.5. Frutarom has also positioned itself to respond to growing consumer demand for natural products, as most of the Flavors Division's products are based on natural ingredients. In addition, in response to growing demand for convenience foods, Frutarom also positioned itself to respond to these growing needs and currently offers a variety of sweet and savory flavor compounds and food systems based on vegetables, fruits and other natural ingredients used in convenience foods by food manufacturers. Frutarom significantly strengthened its product offering in savory flavors and specialty functional products for convenience foods with its acquisition of Nesse, Raychan, Rad and the Gewurzmuller Group.

As stated, Frutarom divides the activities of the Flavors Division into two main categories: (i) flavor compounds and (ii) food systems.

8.6. **Flavor Compounds** – The Flavors Division offers a wide variety of flavor compounds designed to enhance or create new tastes or to mask certain tastes in processed foods and beverages to which they are added. The flavor compounds produced by the Company are used primarily as ingredients in consumables manufactured by food and beverage producers, such as soft drinks and juices, dairy and ice cream products, baked goods, confectionery, chewing gum, and a variety of savory foods including snacks, soups and salad dressings, as well as meat, meat substitutes and fish.

8.7. Most flavor compounds consist of numerous fine ingredients (typically more than 30) combined according to formulas developed in the Company's laboratories by its research and development team. The development of flavor compounds is undertaken either at Frutarom's own initiative or according to the unique requirements of its various customers.

8.8. Frutarom offers natural, organic, nature identical and artificial flavor compounds. Natural flavor compounds are manufactured from natural ingredients, such as natural extracts and essential oils. Nature identical and artificial compounds are produced using synthetic ingredients. Some of Frutarom's flavor products use fine ingredients

manufactured by the Fine Ingredients Division for exclusive in house use.

8.9. Frutarom produces savory flavor compounds for flavored potato chips, crackers and other savory snacks. Flavor products for dried prepared food products manufacturer by Frutarom include savory flavor compounds containing seasonings for instant soups, dried pasta sauces and other dry prepared food products. Further, Frutarom produces savory flavors, seasonings and specialty functional ingredients for meat, poultry and fish processors, as well as a line of flavor compounds for products utilizing meat substitutes, designed to help impart meat flavor to vegetarian preparations.

8.10. Frutarom sells its flavor compounds in stable liquid, paste, powder, emulsion and granulated form and sometimes bundled with stabilizers and emulsifiers (ingredients which alter texture and other properties of the products to which they are added).

8.11. **Food Systems** – The Flavors Division produces a wide variety of food systems. These food systems include sauces, ripples, fillings and other preparations made from fruit, vegetables and other natural ingredients used in a wide range of food products, such as dairy (yogurts, ice cream, chilled desserts, butter and cheese), sweet and savory baked products, "ready to eat" meals and other convenience food products. Frutarom's food systems business allows it to combine several fields of its core expertise, as the food systems often are produced using flavor compounds, natural flavor extracts and increasingly, natural functional food ingredients manufactured by Frutarom, allowing it to provide customers with food systems which are comprehensive, tailor made food production solutions.

8.12. Frutarom designs food systems with special characteristics, such as specific flavor and/or functional food qualities, high speed filling capabilities (allowing the food system to be integrated into the end product more quickly and efficiently), freeze-thaw stability (allowing a product to be frozen and defrosted without affecting its consistency, structure or palatability) and high volume fruit integrity (containing a high percentage of fruit). Frutarom offers a variety of savory vegetable based preparations for applications such as pizza toppings, filled breads, pasta fillings and other prepared meal products. Frutarom also offers a variety of sweet fruit, vanilla, chocolate and toffee preparations and sauces, low calorie sauces and fruit preparations, which can include functional food ingredients in order to help impart well-being benefits to the food products to which they are added.

9. Segmentation of the Income and Profitability of Products and Services

9.1. Following are the Company's sales (in US$ millions) for the years 2005 through 2007 deriving from the Flavors Division, their portion of the Company's total income, the amount of gross and operating profit for the flavors field and their rate:

	2007	2006	2005
Company's total income	368,261	287,247	243,803
Income from flavors segment	247,672	187,030	150,437
% of Company's total income	67.3%	65.1%	61.7%
Gross profit	89,656	71,831	60,771
% of Gross profit	36.2%	38.4%	40.4%
Operating profit	26,823	29,848	24,269
% of Operating profit	10.8%	16.0%	16.1%

10. New Products

10.1. The Flavors Division develops many new products as part of its ongoing activity. Many of the new products are developed in cooperation with a specific customer or are tailor made to the needs of a specific customer. No one new product developed by the Flavors Division is significant in terms of expected sales turnover and/or development costs.

11. Customers

11.1. The Flavors Division has an extensive customer base comprising hundreds of large multinational, mid-sized, local and small customers. The Flavors Division's customers are primarily food and beverage manufacturers. The Flavors Division's customers are located in about 120 different countries worldwide.

11.2. The Flavors Division does not have any customers whose purchasing turnover constitutes over 10% of the Company's sales turnover. The management of the Company estimates that it has no dependency on any of its customers.

11.3. Most of the sales are to regular customers since, as described above, the flavors segment is characterized by long term relationships and customer loyalty. As is accepted in the flavors market, there are no long term supply contracts.

12. Orders Backlog

12.1. As is accepted in the flavors market, orders are received on an ongoing basis, close to the supply date and therefore "orders backlog" has no significance.

13. Competition

13.1. In the market for flavors products, Frutarom's competitors consist mainly of large global manufacturers, mid sized companies and smaller, local manufacturers. Competition is based to a large extent on product quality, the ability to establish and maintain long term customer

relationships, value added service, reliability and tailor made product development. As the cost of flavors products used in the end products for which they are designed is comparatively small, this market tends to be comparatively less price sensitive. Flavors manufacturers are required to differentiate themselves by maintaining close collaborative relationships with customers, thorough knowledge and understanding of target markets, effective research and development and an established reputation for consistent, reliable and effective service, product supply and quality, and the ability to supply product on short notice and with short lead time.

13.2. The large multinational flavors manufacturers are established, experienced companies with a global presence and established technical and commercial capabilities, focusing primarily on large multinationals customers. The large multinational flavors producers with whom Frutarom competes include Givaudan; IFF, Inc.; Firmenich; Symrise GmbH & Co. KG; and Takasago International Corporation.

13.3. The mid sized flavors manufacturers with whom Frutarom competes tend to focus on both large multinational food and beverage producers as well as mid-sized and smaller food and beverage producers who tend to operate on a regional basis. Mid-sized flavor manufacturers with whom Frutarom competes include Robertet; Wild Flavors, Inc.; Mane; and Kerry Ingredients.

13.4. There are in excess of 300-400 small and local flavors manufacturers with more limited research and development capabilities who focus on narrow market segments and local customers. In recent years there has been a trend towards consolidation in the flavors manufacturing industry, resulting in increasing market concentration.

14. Production Capacity

14.1. Since production processes in the flavors segment are simple and do not require significant capital investment, production capacity is not a significant factor or a limitation to the Company's ability to meet demands by its customers or its ability to grow in the flavors segment. For more production capacity information refer to section 27 to this report.

Fine Ingredients Market

15. Overview of the Fine Ingredients Market

General

15.1. Frutarom's Fine Ingredients Division is focused mainly on developing, producing and marketing natural fine ingredients for the food and beverage, flavor and fragrance, pharma/nutraceutical and personal care industries. Fine ingredients are often sold directly to food and beverage manufacturers, who use them in the manufacture of consumer end products. Flavor and fragrance manufacturers use fine ingredients products as the building blocks for the flavor and fragrance compounds they manufacture.

15.2. Frutarom operates in the following segments of the fine ingredients market: natural flavor extracts, natural functional food ingredients,

natural pharma/nutraceutical extracts, specialty essential oils and citrus products, aroma chemicals, and natural gums.

15.3. According to SRI Consultants, global sales in 2006 for natural extracts/essential oils and aroma chemicals are estimated at US$ 4.4 billion. Sales of functional food ingredients (excluding sales of functional food ingredients outside of the United States and Europe and excluding sales of pharma/nutraceutical extracts) in 2003 were estimated at US$ 2.8 billion. The global fine ingredients markets in which the Company operates had estimated sales of approximately US$ 7.7 billion in 2003, of which 37% were for functional food ingredients, 36% for sales of natural extracts/essential oils, and 27% for sales of aroma chemicals.

15.4. In the Company's estimation, sales of functional food ingredients in the United States and Europe are expected to grow approximately 9% annually between 2003 and 2008. The Company estimates that global sales of natural extracts/essential oils will grow at an annual rate of 3-4% and that the market for natural extracts may grow at a higher rate. Global sales of aroma chemicals are expected to grow 1.5-2.5% annually between 2006 and 2011 in Western Europe and the USA. Sales of natural extracts/essential oils and aroma chemicals in certain developing markets, such as Eastern Europe, Russia, and India, are projected to grow at significantly higher rates than in West European, North American and Japanese markets.

Characteristics of the Fine Ingredients Market

15.5. Research and development – Innovation is a key success factor in the fine ingredients market. Research and development of new fine ingredients products is a sophisticated process that requires a high level of expertise, experience and investment. In many cases, the development of new fine ingredients products takes longer than flavor products. Some of the natural fine ingredients are tailor made to customer needs and require long term relationships with the customers and collaborative development efforts.

15.6. Production – Fine ingredients production tends to be more sophisticated and complicated than flavors production, requiring extensive knowhow. In addition, fine ingredients production requires greater capital investment in the construction of manufacturing facilities, as well as in increasing production capacity when required. The production of fine ingredients must also comply with stricter environmental and regulatory standards.

15.7. Supply chain – Customers are increasingly seeking to optimize their inventory by reducing stocks, therefore requiring fine ingredients manufacturers to meet shorter lead times and to keep local stocks in main markets. In addition, mid sized and local customers purchase hundreds of fine ingredients in varying relatively small quantities. The large multinational fine ingredients manufacturer generally have strict policies of minimum quantity and standardized packaging, while small fine ingredients manufacturers generally do not have the operational flexibility and the required global supply chain to meet the needs of many mid sized customers. This has created a market opportunity for mid sized fine ingredients producers to cater to this market segment.

15.8. High entry barriers – An established reputation and brand recognition, which can only be developed over time, are key success factors for manufacturers in the fine ingredients market. Food and beverage producers require a high degree of reliability and consistency, and once a flavor is incorporated into a product, producers rarely risk replacing a flavor supplier. In addition, building a competitive multinational fine ingredient business generally requires strong research and development, production and global supply chain capabilities. These factors create significant barriers to entry.

15.9. Increased demand for natural products – The increase in consumer demand for natural products has in turn increased demand for a variety of fine ingredients, such as natural flavor extracts and natural specialty essential oils, to be used in such products. Natural fine ingredients tend to be more unique and less interchangeable, resulting in greater customer loyalty. Many of the natural extracts and specialty essential oils are tailor made to customer needs.

15.10. High growth in functional food ingredients – Changes in consumer preferences favoring foods with health and well-being benefits have led to rapidly growing demand for functional foods. Functional foods are foods with certain ingredients added which provide, or are perceived as providing, health and well-being benefits, such as juices or yogurts with health additives. The end use segments of the functional food industry exhibiting the highest growth are the dairy and beverage segments. Many of the active ingredients used in functional foods are derived from plants and herbs using similar production processes as used in the production of flavor extracts. Functional food ingredients manufacturers are often required by food and beverage producers to provide a scientific basis for the health claims attached to such functional food ingredients, such as clinical studies.

15.11. Regulatory, health safety and certification – The fine ingredients used in the food and beverage and pharma/nutraceutical industries are increasingly subject to strict health and safety regulations and standards. This trend has been compounded by the general trend for increased regulation of the food and beverage and pharma/nutraceutical industries. Customers are increasingly requiring fine ingredients manufacturers to provide certification that their products meet strict regulatory standards. In addition, there is increasing demand for products with certain certified qualities, such as genetically modified organism ("GMO") free and pesticide free. Kosher and halal certified products are also increasingly in demand and by a wider demographic customer base. As a result, fine ingredients manufacturers are increasingly required to document their manufacturing processes and to adhere to strict standards in order to ensure compliance with such certification requirements. Lastly, fine ingredients manufacturers are expected to be approved by various manufacturing certifications, such as ISO 9001, Swiss GMP and BRC (British Retail Consortium) Global Standard – food.

15.12. Raw materials sourcing – In order to maintain a high level of product quality and consistency and to ensure raw materials are available as and when needed for production, long term relationships with suppliers, growers and/or producers of raw materials are of crucial importance to fine ingredients manufacturers. This is particularly the case for natural

raw materials, which are mostly crop-related goods and are often subject to seasonality in supply.

15.13. Shift of high volume/low margin production – Recently, there has been an increase in the production of certain fine ingredients, mainly aroma chemicals, in certain countries such as China and India, where the cost structure tends to be less expensive for the manufacturers. These low cost manufacturers tends to have less technical sophistication and research and development capabilities, focusing on higher volume and lower margin fine ingredients products. In addition, they usually tend not to have global sales and marketing capabilities, brand recognition or approved supplier status. This has led certain fine ingredients manufacturers to differentiate themselves from these low cost/high volume manufacturers by developing close, collaborative relationships with customers, providing higher added-value products and services, and investing in research and development in order to develop higher margin, specialty fine ingredients products.

Key Success Factors in the Fine Ingredients Segment

15.14. The Company's management estimates that the key success factors in the fine ingredients segment are:

- Positioning and reputation as a reliable supplier – Great importance is attributed to the reliability of service and to building a relationship and reputation as a supplier in the market.

- New, innovative and comprehensive product portfolio – The fine ingredients market attributes considerable importance to new, innovative, added value products that satisfy customer demand.

- Research and development and innovation – Suppliers are required to have strong research and development and innovation competencies and to supply innovative products, such as functional food ingredients, and adapt products, principally natural, to the customers' needs.

- Compliance with quality, regulatory and safety standards – Since the fine ingredients are intended for the food and beverage and pharma/nutraceutical markets, they must comply with strict quality, regulatory and safety standards.

- Raw materials reliability and supply chain leverage – The ability to purchase high quality raw materials and supply fine ingredients upon short notice and in varying quantities is significant.

16. Products and Services in the Fine Ingredients Segment

16.1. The Fine Ingredients Division develops, manufactures, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils and citrus products, aroma chemicals, and natural gums.

The Fine Ingredients Division's sales grew substantially from US$ 57.5 million in 2001 to US$ 115 million in 2007. The growth in the Fine Ingredients Division's sales results from the development of new and innovative high-added-value products, higher than average margin,

focus on natural product portfolio and focus on both multinational and mid sized customers and the successful execution of strategic acquisitions. The portion of the Fine Ingredients Division's sales out of Frutarom's total sales totaled 31.2% in 2007.

16.2. The products of the Fine Ingredients Division are sold principally to the food and beverage, flavor and fragrance, pharma/nutraceutical and personal care industries. Frutarom has an established reputation in the market for fine ingredients, with a broad customer base of both multinational and mid sized customers supported by Frutarom's large sales and marketing team and efficient global supply chain. Although the majority of the fine ingredients produced by the Company are sold to third parties (including competing flavor manufacturers), a portion of Frutarom's fine ingredients production is used by the Flavors Division in the manufacture of flavor compounds. Further, certain fine ingredients manufactured by Frutarom are reserved solely for the Company's own use and are not sold to third party flavor producers, providing the Company with a competitive advantage in producing certain flavors such as citrus flavors, a field in which Frutarom believes it is a global leader.

16.3. Frutarom's Fine Ingredients Division meets strict health, safety and quality standards, such as Swiss GMP, British BRC and ISO 9001 standards. In addition, Frutarom's fine ingredients are generally GMO free and pesticide free, and satisfy a variety of kosher and halal certifications. Kosher and halal foods are in increasing demand by different demographic groups.

16.4. Frutarom has extensive experience in the production of natural ingredients and standardized botanical extracts and is devoting significant resources to the development of products that cater to the growing market for natural products. The Company's management believes it is one of the leaders in this market due to its over 75 years of experience in the production and supply of natural fine ingredients, proprietary extraction techniques, broad product portfolio and research and development capabilities.

16.5. Frutarom believes its relationship with and understanding of food and beverage producers provide it with a competitive advantage in the functional food ingredients market. This is complemented by the Company's research and development capabilities, proprietary production technologies and clinical study capabilities which have been enhanced through the acquisition of Flachsmann in 2003 and Acatris in 2006 .

16.6. Frutarom maintains close relationships with supplier, growers and/or producers of raw materials in order to ensure effective raw material sources. Raw material sourcing is crucial to maintaining high product quality and consistency and to ensure raw materials are available as and when needed for production. This is particularly the case for natural raw materials, which are mostly based on crop related goods and are often subject to seasonality in supply. In addition, Frutarom has an efficient global supply chain for fine ingredients, enabling it to rapidly respond to varying customer lead time requirements.

16.7. The acquisition of Flachsmann in June 2003, Acatris in October 2006 and Abaco in July 2007 significantly bolstered Frutarom's fine

ingredients business, particularly in natural products. Flachsmann and Acatris are established manufacturers of natural extracts, including pharma-grade botanical extracts. The Acatris Lifeline product line includes, among others, unique natural botanical extracts possessing scientifically proven health values supported by clinical research and protected by patents. The Flachsmann, Acatris, and Abaco acquisitions contributed to the Company's knowhow and product portfolio, as well as expanding Frutarom's customer base and sales and marketing network. In addition, the acquisitions expended the Company's customer base and sales and market infrastructure.

16.8. During 2007, Frutarom's Fine Ingredients Division completed the establishment of the Frutarom Health business unit in the framework of a reorganization process whose main purpose is optimal realization of the synergy potential resulting from the combination of all of the activities of Frutarom's Fine Ingredients Division's global system in the field of unique natural botanical extracts, which mainly includes the activity of Frutarom Switzerland (formerly Flachsmann), Frutarom USA and Acatris, which was acquired in October 2006. The establishment of Frutarom Health provides Frutarom's customers in the fields of natural and healthy extracts with a range of solutions and allows the research and development activity for new products in the field to be concentrated under one dedicated framework. Frutarom Health also manages Frutarom's labeled product activity in the fields of natural and healthy extracts, including, among others, SoyLife, Benolea, Neuravena, FenuLife, and LinumLife.

As stated, the Fine Ingredients Division's activity is divided into several main categories:

16.9. **Natural Flavor Extracts** – Frutarom is a leading manufacturer of a wide variety of natural flavor extracts which are extracted from fruit, plants and other botanical materials. Examples of natural flavor extracts manufactured by Frutarom include extracts derived from vanilla, cocoa, tea, licorice and ginseng. The main customers of Frutarom's natural flavor extracts are food and beverage producers, flavor and fragrance companies (including the Company's Flavors Division) and, to a lesser extent, tobacco companies. The Division's natural flavor extracts are generally tailor made products as Frutarom is required to work in close collaboration with customers to create the exact flavor required.

16.10. **Natural Functional Food Ingredients** – The Company offers a variety of standardized natural extracts used as ingredients in the manufacture of functional foods. Functional foods are foods with certain ingredients added to provide health and well-being benefits, and include such everyday products as fortified breakfast cereals and dairy, yogurt and soft drink products containing added nutrients such as echinacea, aloe vera and ginseng. Functional food ingredients are subject to different but fewer certification requirements than pharma/nutraceuticals. Natural functional food ingredients manufactured by Frutarom include green tea, ginseng, mate (a South American plant), guarana and pine bud extracts. The main customers of the Company's functional food ingredients are food and beverage producers.

16.11. **Natural Pharma/Nutraceutical Extracts** – Frutarom manufacturers a variety of standardized natural extracts with certain medicinal and

health benefits used in the manufacture of prescription drugs, over the counter pharmaceutical products and natural dietary supplements. Pharma/nutraceutical extracts manufactured by the Company include vine leaf, pumpkin seed, echinacea, willow bark, chamomile, asparagus, olive leaf, ginseng and guarana extracts. The main customers of the pharma/nutraceutical extracts are pharmaceutical companies, nutraceutical and dietary supplement producers.

16.12. **Specialty Essential Oils and Citrus Products** – The Company produces a wide range of specialty essential oils and is a leading producer of specialty citrus products. Specialty essential oils produced by Frutarom include citrus (such as orange, grapefruit and lemon), mint (peppermint and spearmint), floral, spice, herb and woody oils. These products are used in food and beverages, flavor and fragrance applications, pharmaceutical products, cosmetics and other well-being and personal care applications.

16.13. The Company believes that it is the global leader in specialty citrus products, which are used to impart citrus flavors into food, beverages, fragrances and other personal care products. Frutarom has been active in the production of citrus specialties since 1933. The Company continuously invests in innovative and unique technologies in the processing, extraction and distillation of specialty citrus products. The Group is an approved supplier of citrus specialty products to large multinational and mid sized flavor manufacturers. Specialty citrus products manufactured by Frutarom include orange, grapefruit, sweetie (a citrus variety derived from hybridization of pomelo and white grapefruit), lemon, lime and mandarin ingredients. A number of Frutarom's citrus specialty products are reserved solely for the Company's use and are not sold to third party flavor manufacturers, providing the Company with a competitive advantage in producing citrus flavors. Frutarom also specializes in a variety of natural mint oils used mainly in the manufacture of chewing gum, candies and personal care products.

16.14. **Aroma Chemicals** – Frutarom produces over 150 different types of aroma chemicals used in the manufacture of flavor and fragrance compounds, food, animal feed, cosmetics, oral hygiene products and other applications. Frutarom focuses on research and development, manufacturing and selling of value added specialty aroma chemicals, with a continuous shift in product mix towards low volume, high margin products. Frutarom's range of aroma chemicals used in flavor and fragrance applications includes diketones and pyrazines, which are used to create roasted and toasted aromas. In addition, Frutarom manufactures unsaturated aldehydes, which are cooling agents designed to impart a cool sensation when orally consumed or applied to the skin, used in the manufacture of candies, chewing gum, skin care products and oral hygiene products, among others.

16.15. **Natural Gums** – Frutarom offers a range of natural water soluble gums and stabilizers derived from a variety of botanical sources, including certain types of gum trees, seeds, seaweed and beet sugar. The natural water soluble gums and stabilizers are used in the production of food, beverages, pharmaceuticals and cosmetics. Natural gums produced by the Company include emulsifying agents, agglomeration aids, encapsulation agents and coating agents. The main customers

are producers of food, beverages and flavors, and pharmaceutical companies.

17. Segmentation of the Income and Profitability of Products and Services

17.1. Following are the Company's sales (in US$ millions) for the years 2005 through 2007 deriving from the Fine Ingredients Division, its portion of the Company's total income, the amount of gross and operating profit for the Fine Ingredients Division and their rate:

	2007	2006	2005
Company's total income	368,261	287,247	243,803
Income from Fine Ingredients segment	114,951	98,364	89,768
% of Company's total income	31.2%	34.2%	36.8%
Gross profit	40,401	33,721	32,816
% of Gross profit	35.1%	34.3%	36.6%
Operating profit	7,904	7,286	9,460
% of Operating profit	6.9%	7.4%	10.5%

18. New Products

18.1. The Fine Ingredients Division develops new products as part of its daily activity in order to improve the Division's product mix by replacing low margin products with new innovative, added-value products with high margin. None of the new products developed by the Fine Ingredients Division is significant from the aspect of forecasted sales turnover and/or development expenses.

18.2. In May 2007, through its subsidiary, Frutarom Ltd., Frutarom signed an exclusive agreement with CapsiVit Biotechnology Ltd., which is a subsidiary of Ilex Medical Ltd., to commercialize unique knowhow developed by the Volcani Institute, with funding from CapsiVit, to produce a natural extract from the capsicum plant as a highly bio-available source of carotenoids and particularly capsanthin. This unique, patent-protected technology enables industrial use of enzymes found naturally in the human digestive system to process capsanthin and allow significant bio-availability. The agreement with CapsiVit gives Frutarom an exclusive global license to manufacture and market the unique natural extract, based on patented knowhow, in Israel and worldwide. During the fourth quarter of 2007, the Company began the enzymatic development procedure of this natural extract. For further details regarding the agreement with CapsiVit, refer to the Immediate Report published by the Company on May 2, 2007.

18.3. In June 2007, Frutarom signed an exclusive agreement with Ramot at Tel Aviv University Ltd. to commercialize unique knowhow (patent pending) developed by Professor Michael Ovadia of Tel Aviv University, to produce an innovative extract from cinnamon with anti viral properties. The comprehensive research performed in Professor Ovadia's laboratory demonstrated the extract's ability to rapidly neutralize a broad range of viruses that cause infectious diseases in both humans and animal, such as human and avian influenza, herpes (HSV-1) and human immunodeficiency virus (HIV-1). Another unique

activity of this innovative extract is its ability to boost the immune system against viruses, demonstrated by the ability to serve as a vaccination agent in chicken embryos infected with Newcastle disease virus (NDV).

18.4. The agreement with Ramot gave Frutarom an exclusive global license to commercialize the knowhow in order to manufacture and market the unique natural extract, based on knowhow currently being patented. Frutarom intends to market this unique product to the nutraceutical, functional food, health food and animal feed industries as part of the Company's unique natural product offering. Frutarom will invest in further research and development of this unique product and additional applications within Frutarom's fields of activity. Professor Michael Ovadia will lead the research. During the fourth quarter of 2007, the rate of the product's research was accelerated and preparations began for clinical testing. For further details regarding the agreement with Ramot, refer to the Immediate Report published by the Company on July 11, 2007.

19. Customers

19.1. The Fine Ingredients Division sells its products to many large multinational, mid sized, local and small customers in the food and beverage, pharma/nutraceutical, flavor, fragrance and personal care industries.

19.2. No particular customer of the Fine Ingredients Division has a purchasing turnover exceeding 10% of the Company's sales turnover. The Company's management believes that it is not dependent on any one of its customers.

19.3. Excluding a number of supply contracts for periods not exceeding one year and whose scope is not substantial, most sales are on the basis of specific orders by customers and based on the Company's forecast. The sales are mainly to permanent customers with whom there is a long term relationship.

20. Order Backlog

20.1. As accepted in the fine ingredients market, orders are received on an ongoing basis close to the supply date and therefore the term, "order backlog" has no significance. There are a number of supply agreements for periods not exceeding one year, none of which are significant relative to the Company's overall activity.

21. Competition

21.1. In the market for fine ingredients, competition varies by product category.

21.2. In the natural flavor extracts category, the Company's competitors consist of large multinational and mid sized flavor manufacturers that produce natural flavor extract principally for internal use. These competitors include IFF, Inc. and Givaudan. Competitors in this category also include specialized manufacturers who focus only on natural flavor extracts, such as Chart Corporation Inc. and Naturex, as

well as pharma/nutraceutical manufacturers with limited natural flavor extract production.

21.3. In the functional food ingredients and pharma/nutraceutical extracts category, Frutarom's competitors consist mainly of specialized pharma/nutraceutical companies such as Indena S.p.A., Martin Bauer GmbH & Co. KG, Naturex, and Botanicals International, as well as a number of smaller, innovative, start-up companies that concentrate on unique products or technologies.

21.4. In the essential oils category, Frutarom's competitors include companies such as Treatt plc that focus on the manufacture of essential oils, including specialty essential oils as one of their product offerings. In addition, large multinational and mid sized flavor manufacturers produce specialty essential oils primarily for internal use. There are also growers and processors of essential oils mainly in developed countries, as well as traders and distributors of essential oils, although these entities generally do not compete in the market for specialty essential oils.

21.5. In the aroma chemicals category, the Company competes with large multinational flavor manufacturers who produce specialty aroma chemicals primarily for internal use. Additional competitors in this field are specialized aroma chemicals manufacturers such as Oxford chemicals Ltd., Aromor Flavors & Fragrances Ltd. and Bedoukian Research. Other manufacturers of aroma chemicals include high volume, low cost producers located mainly in Asia. These manufacturers have limited sales and marketing activities, research and development activities, technological expertise and customer support. There are also large chemical companies that manufacturer high volume aroma chemicals as part of their wider product offering but in most cases do not offer specialty aroma chemicals. For the most part, Frutarom does not compete with these low cost producers as it is focused on higher margin specialty aroma chemicals.

22. Production Capacity

22.1. Fine ingredients production requires capital investment in building production facilities and expanding production capacity if and when the need arises. In addition, the production process for fine ingredients and production facilities demand compliance with strict quality, health and environmental regulations and the production capacity therefore presents an entry barrier to the fine ingredients market. For more on production capacity refer to section 27 in this report.

23. Frutarom's Trade & Marketing Activity

23.1. As stated, the Company has additional activity in the field of importing and marketing of certain raw materials produced by third parties to the food, pharmaceutical, chemicals, cosmetic, and detergent industries in Israel.

23.2. The raw materials sold and marketed by the Trade & Marketing activity comprise mainly raw materials that Frutarom imports and purchases for the manufacturing activities of its Flavors and Fine Ingredients Divisions. As Frutarom imports and purchases these materials in bulk,

it is able to source these materials at lower prices and sell them at a premium to third party companies.

23.3. The Trade & Marketing activities are not considered core by management and account for only a small portion of the Company's sales and profit. In 2007 this activity totaled US$ 10.5 million and its portion of Frutarom's overall activity was 2.9%. In view of the fact that this activity is not significant to Frutarom, it is not given separate expression in this report.

CHAPTER 4 – DESCRIPTION OF THE COMPANY'S BUSINESS: MATTERS RELATING TO THE GROUP'S OVERALL ACTIVITY

24. Marketing, Sales and Customer Support

24.1. Frutarom maintains a global marketing, sales and customer support network, with established local sales and marketing personnel in all of its key target markets. Frutarom believes that its global network provides it with a competitive advantage and is a key factor in the success of its growth strategy. On December 31, 2007, Frutarom had 289 sales and marketing personnel and maintained 45 sales offices in close proximity to its customers, including in the United States, Canada, Mexico, Brazil, the United Kingdom, Switzerland, Germany, France, Italy, Spain, Israel, Romania, Russia, Ukraine, Kazakhstan, Belarus, China, Hong Kong, Indonesia and India. The Company markets and sells its products primarily through its own sales personnel. In certain countries, Frutarom uses third party agents and distributors to sell its products.

24.2. Frutarom's global sales and marketing network is a key component of the Company's strategy to provide tailor made specialized products and services and high quality customer support to both large multinational and mid sized and local customers.

24.3. In the mid sized customer segment, Frutarom differentiates itself from its major competitors by offering its mid sized and local customers the same quality of service and tailor made product specialization as normally reserved only for large multinational companies. Each of Frutarom's sales and marketing team and research and development laboratories work equally closely with both large multinational and mid sized and local companies to offer them timely and responsive personalized development services, including custom flavors and specialty ingredients tailor made to the specific needs of Frutarom's customers. Management believes that the mid sized and local customer segment represents more than 50% of the world's food and beverage market.

24.4. The Flavors and Fine Ingredients Divisions each have their own separate sales, marketing and customer support personnel. However, Frutarom assigns a single sales person to be dedicated to any customers of the Company that purchase the products of both Divisions. This single-sales person interface allows Frutarom to better respond to its customers' needs and to identify and realize cross selling opportunities.

24.5. The Flavors Division's sales, marketing and customer support activities focus primarily on Frutarom's customers in the food and beverage industries, while the Fine Ingredients Division's sales, marketing and customer support activities focus primarily on Frutarom's customers in the flavor, fragrance, pharma/nutraceutical and personal care industries. The sales representatives of the Flavors Division also sell products of the Fine Ingredients Division to their customers in the food industry.

24.6. Frutarom's marketing and sales team form an important link between Frutarom's customers and its research and development team by

working closely with customers to understand their special needs and then passing this information on to the research and development team, which in turn develops tailor made products for such customers' specific needs.

24.7. In certain cases, Frutarom offers its customers, particularly in emerging markets, certain technical and marketing advice in order to help them to improve their product offering and manufacturing processes. Frutarom believes that this approach further strengthens its relationships with these customers and helps stimulate demand for its products.

25. Research and Development

25.1. Frutarom believes that its research and development capabilities are one of its key competencies and as at December 31, 2007, employs about 236 employees in its highly focused research and development efforts for new, innovative products for the company. Frutarom has over 75 years of experience in research and development in the field of flavors and fine ingredients, particularly natural flavors and natural fine ingredients. Frutarom's research and development activities are crucial to its success as many of its products, and particularly natural products, are tailor made to customers' specific needs. As part of Frutarom's research and development activities and in order to broaden its offering of natural, innovative and unique products, Frutarom works to create collaborations with leading academic institutions, research institutes and start-ups in Israel and throughout the world. Frutarom has created a number of such collaborations that strengthen and broaden the pipeline of new and innovative products it intends to launch in the coming years.

25.2. The development of fine ingredients is in many cases done on Frutarom's own initiative based on its assessment of market trends and needs and with a view to developing products with higher margins in order to improve the Company's product mix and optimize production capabilities and capacity.

25.3. The development of new and customized flavor products is a complex process calling upon the combined knowledge of the Company's scientists and flavorists. Scientists from various disciplines work in project teams that include flavorists to develop flavors with consumer preferred performance characteristics. The development of new flavor compounds is as much an "art" as it is a science, requiring in depth knowledge of the flavor characteristics of the various ingredients used and a high degree of trial and error during the development process.

25.4. The Flavors Division has 18 research and development laboratories located in the United Kingdom, Switzerland (2), France, Germany (4 following the Nesse and Gewurzmuller Group acquisitions), the United States, Russia, Kazakhstan, Ukraine, Israel (4), Turkey, and China. The Fine Ingredients Division has 7 research and development facilities located in Israel (2), Switzerland, the United States, Holland, Belgium, and Britain.

25.5. In September 2007, Frutarom opened a central European creation and development center at the Company’s site in Wadenswil, Switzerland. At the center, both the Flavors and Fine Ingredients Divisions develop

innovative products that join the Company's range of capabilities in flavors, fine ingredients and functional food while creating synergy between them. The creation center boosts Frutarom's research and development capabilities and aids the Company in strengthening its position as a leading global supplier in the field of taste and health.

26. Seasonality of Demand

26.1. The Company's business is subject to seasonal fluctuations, generally with higher sales and profitability (due to product mix) in the first half of a given year and lower sales in the second half of a given year (in particular, in the fourth quarter).Many of the Company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yoghurts, for which demand generally increases markedly during the summer months. As a result, sales of certain flavors and fine ingredients produced by Frutarom rise in the first half of the year, as manufacturers of beverages and dairy products re-stock their inventories and increase production in advance of rising demand during the summer months.

26.2. Sales of the Company's products generally decrease in the third quarter as the summer ends and further in the fourth quarter as the weather cools, and many of Frutarom's customer's reduce production and inventory levels in advance of the year end and the holiday season.

26.3. The impact of seasonality on the Company's results has steadily decreased in recent years as the Company has increased its sales of products such as savory flavors, functional food ingredients and natural botanical extracts intended for the pharma/nutraceutical industry, which generally have lower seasonality in demand. A substantial proportion of the sales of Nesse, Raychan, Rad, and the Gewurzmuller Group, which Frutarom acquired during the last two years, is to the savory sector, which also modifies the influence of seasonality.

27. Fixed Assets, Facilities and Production Capacity

27.1. Frutarom has more than 15 production facilities around the world. The following table sets forth Frutarom's major production facilities and the activity at each:

Country	Location	Field of Activity	Size (m^2)
Israel	Haifa	Flavors and fine ingredients	35,490
Israel	Acco	Flavors	9,273
Switzerland	Wadenswil	Flavors and fine ingredients	13,464
Switzerland	Reinach	Food systems	15,532
Germany	Emmerich	Food systems	19,000
Germany	Nesse-Loxstedt	Flavors	10,812
Germany	Sittensen	Flavors	10,001
Germany	Stuttgart (Gewurzmuller)	Flavors	13,600
Germany	Stuttgart (Blessing)	Flavors	1,650
UK	Teesside	Fine ingredients	21,500
UK	Wellingborough	Flavors	8,090
UK	Kettering	Food systems	3,888
USA	North Bergen (NJ)	Flavors and fine ingredients	32,000
China	Kunshan	Flavors	15,000

In addition, the Company has additional production facilities that are not significant compared to the Company's scope of activity. Following is a description of the Company's significant plants:

- **Haifa, Israel** –The Company's Flavors Division produces flavors and the Fine Ingredients Division produces fine ingredients (specialty essential oils, specialty citrus products, and aroma chemicals).

  Production Capacity and Shifts – The flavors production is carried out over five days a week in one shift. At times there may be halts in production for the purpose of maintenance work (during the intermediate days of Succoth and Passover). The plant has additional potential production capacity, assuming that two shifts were to be worked each day.

  The fine ingredients production is carried out over five days a week in three shifts, excluding halts in production for the purpose of maintenance work (during the intermediate days of Succoth and Passover). The plant has additional potential production capacity of around 10%.

  The land on which the plant is located is owned by the Company or subject to long term lease agreements with the Israel Lands Authority (excluding an area of 7,031m^2 that is rented by the Company).

  During the fourth quarter, part of Adumim's activity was transferred to the Company's site in Haifa.

- **Acco, Israel** – The Company's Flavors Division produces savory flavors and seasonings at the plant in Acco. During the fourth quarter

of 2007, Raychan's production activity was transferred to the plant in Acco.

Production Capacity and Shifts – The plant's production is carried out over five days a week in two shifts, excluding halts in production for maintenance work for about a week during the intermediate days of Passover. The plant has additional potential production capacity of 60% to 70% assuming that three shifts were to be worked per day.

The land on which the plant is located is subject to long term lease agreements with the Israel Lands Authority.

- **Wadenswil, Switzerland** – At this plant the Company's Flavors Division produces flavors **and** the Fine Ingredients Division produces botanical extracts.

  Production Capacity and Shifts –The plant's production is carried out over five days a week in two shifts, excluding occasional halts for maintenance work. The plant has additional potential production capacity of about 30-40% assuming that the work week was to be seven days a week.

  The land on which the plant is located is owned by the Company.

- **Reinach, Switzerland** – At this plant the Company's Flavors Division produces food systems.

  Production Capacity and Shifts –The plant's production is carried out over five days a week in one and a half shifts each day (14 hours of each 24 hours), excluding a four hour halt for maintenance work each Friday. The plant has additional potential production capacity of about 25%-20% assuming that it shifted to continuous production in three shifts.

  The land on which the plant is located is owned by the Company.

- **Emmerich, Germany** – At this plant the Company's Flavors Division produces food systems.

  Production Capacity and Shifts – The plant's production is carried out over five days a week in two shifts, excluding a four hour halt for maintenance work on each Friday. The plant has additional potential production capacity of about 30%-35% assuming that it shifted to continuous production in three shifts.

  The land on which the plant is located is owned by the Company.

- **Nesse-Loxstedt, Germany (Nesse)** – At this plant the Company's Flavors Division produces savory flavors.

  Production Capacity and Shifts – The plant's production is carried out over five days a week in one shift. The plant has additional potential production capacity of about 30% to 35% assuming that it shifted to continuous production in three shifts.

  Part of the land on which the plant is located is owned by the Company, and part is leased by the Company.

- **Sittensen, Germany (Nesse)** – At this plant the Company's Flavors Division produces savory flavors and seasonings.

  Production Capacity and Shifts – The plant's production is carried out over five days a week in two shifts (excluding Friday, when there is one shift). The plant has additional potential production capacity of about 30%-35% assuming that it shifted to continuous production in three shifts.

  The land on which the plant is located is owned by the Company.

- **Sittensen, Germany (Nesse)** – At this plant the Company's Flavors Division produces savory flavors and seasonings.

  Production Capacity and Shifts – The plant's production is carried out over five days a week in two shifts (except for Friday, when there is only one shift). The plant has additional potential production capacity of about 30% to 35% assuming that it produced continuously in three shifts.

  The land on which the plant is located is rented by the Company.

- **Stuttgart, Germany (Gewurzmuller)** – At this plant the Company's Flavors Division produces savory flavors and seasonings.

  Production Capacity and Shifts – The plant's production is carried out over five days a week in one shift. Maintenance work is carried out from time to time, according to need. The plant has additional potential production capacity of 100% assuming that it produced continuously in three shifts.

  The land on which the plant is located is rented by the Company.

- **Stuttgart, Germany (Blessing)** – At this plant, Blessing, under the Company's Flavors Division, produces starter cultures (for details regarding starter culture products, refer to section 1.23 of this report).

  Production Capacity and Shifts – The plant's production is carried out over five days a week in one shift. Maintenance work is carried out from time to time, according to need. The plant has additional potential production capacity of about 40% to 50% assuming that it produced continuously in two shifts.

  The land on which the plant is located is rented by the Company.

- **Kettering, UK** – At this plant the Company produces food systems and utilizes it as a temporary storage site.

  Production Capacity and Shifts – The plant's production is carried out over five days a week with a 10 hour shift for food systems production. Maintenance work is performed on weekends by additional manpower. The plant has additional potential production capacity of 100% assuming that it switched to three shifts.

  The land on which the plant is located is rented by the Company.

- **Wellingborough, UK** (Belmay) – At this plant the Company's Flavors Division produces flavors.

  Production Capacity and Shifts – The plant's production is carried out over five days a week with a 9 hour shift for flavors production. Maintenance work is performed on an ongoing basis. The plant has additional potential production capacity of 100% assuming that it switched to multiple shifts.

  The land on which the plant is located is owned by the Company.

- **Teesside, UK** – At this plant the Company's Fine Ingredients Division produces natural plant extracts for essential oils and aroma chemicals.

  Production Capacity and Shifts – The plant's production is carried out over five days a week, in three shifts (24 hours a day), excluding halts for maintenance work (up to two weeks, generally in December). The plant has additional potential production capacity of 20% to 25% assuming that it shifted to three shifts (7 days a week).

  The land on which the plant is located is owned by the Company.

- **North Bergen, New Jersey, USA** – At this plant the Company's Flavors Division produces flavors and the Fine Ingredients Division produces natural plant extracts and natural gums.

  Production Capacity and Shifts – The plant production is carried out over five to six days a week (in accordance with orders from customers), in two shifts, excluding a halt for maintenance work. When production is halted for maintenance work (up to two weeks), sales are made from inventory. The plant has additional potential production capacity of 30% to 40% assuming that it produced continuously (three shifts, seven days a week).

  The land on which the plant is located is owned by the Company.

- **Kunshan, China** – At this plant the Company's Flavors Division produces flavors.

  Production Capacity and Shifts – The plant production is carried out over six days a week in one shift. Maintenance is performed from time to time.

  The land on which the plant is located is leased by the Company.

27.2. In addition to these production facilities, Azur S.A., a subsidiary of Frutarom's controlling shareholder, ICC Industries, provides Frutarom with toll manufacturing services from its facility in Azur, Romania, for the production of specialty aroma chemicals.

28. Intangible Assets

28.1. The Company's business depends on intellectual property, which consists mainly of the formulas used to create its flavors and production processes for the production of fine ingredients. These formulas are not patented but are highly confidential proprietary business information, available to a limited number of people within the

Company. It is generally industry practice not to patent the formulas used in the production of flavors, as doing so would make the formulas publicly known and the patent protection would only be available to a given flavor producer for a limited time. The Company also relies, in part, on confidentiality and non competition agreements with employees and consultants and to a lesser extent, patents (in the case of certain production processes developed by the Company) to protect its intellectual property. Frutarom does not believe that it depends materially on any single intellectual property right, proprietary formula, patent or license.

28.2. The Company has not registered the "Frutarom" trademark in all of the jurisdictions in which it currently operates. In certain such jurisdictions, a trademark substantially similar to "Frutarom" has already been registered by third parties. The Company's management believes that not registering the "Frutarom" trademark in all the jurisdictions in which it operates does not constitute a significant risk to the Company and its activities.

29. Human Resources

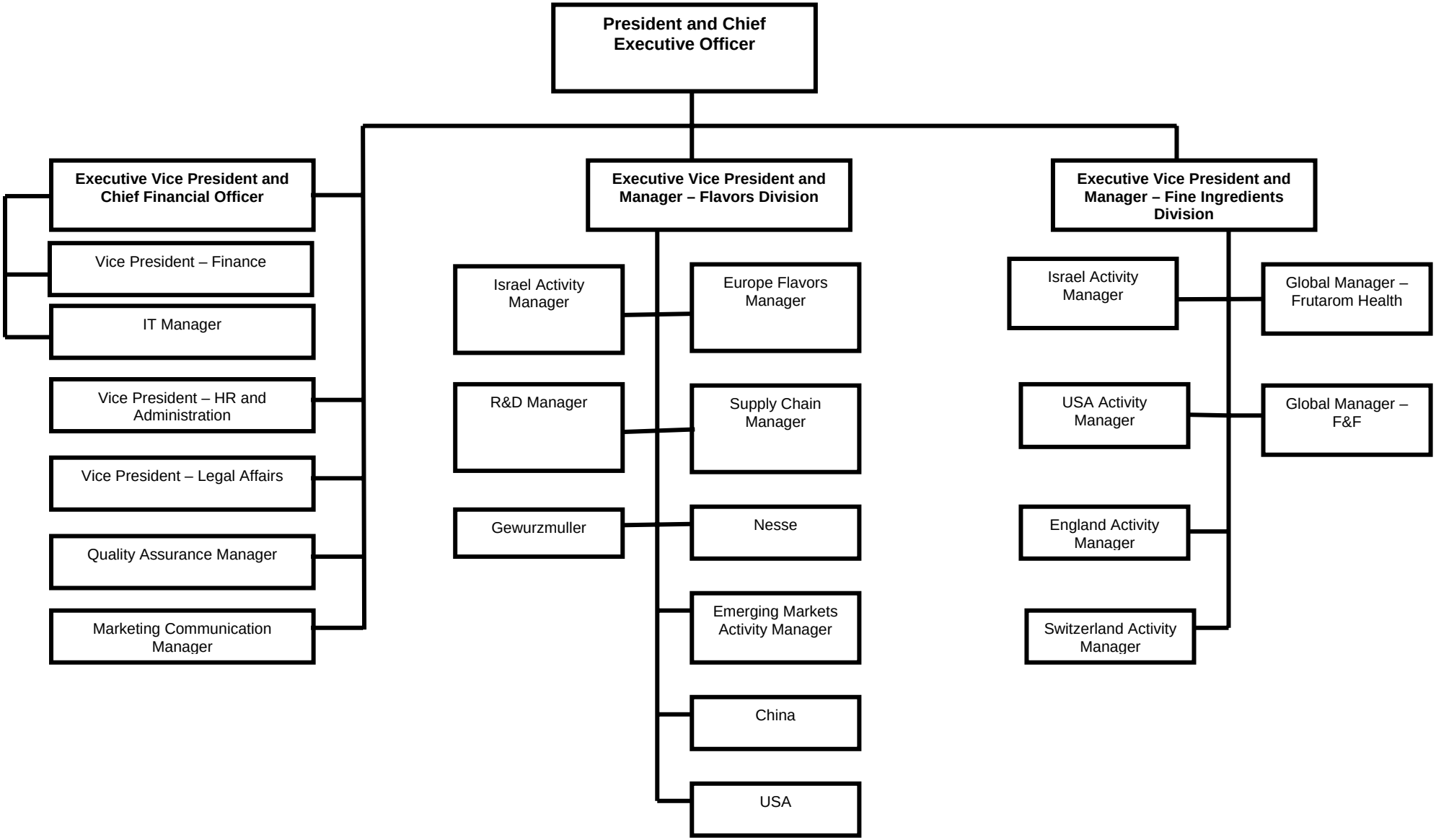
29.1. Frutarom had 1,499 employees as at December 31, 2007. The following table sets forth the number of employees employed by the Company by geographic region in the last three years:

Country	**December 31,**		
	2007	**2006**	**2005**
Israel	404	306	301
Switzerland	264	257	226
Germany	391	200	93
UK	180	146	132
USA	134	125	124
China	33	32	32
Russia	29	24	30
Ukraine	14	13	21
Kazakhstan	11	11	17
France	17	15	16
Turkey	15	15	14
Romania	1	5	5
Brazil	2	3	3
Belarus	4	2	2
Total	**1,499**	**1,154**	**1,016**

29.2. The following table shows the breakdown of Company employees by fields of activity in the last two years:

Field	**December 31,**	
	2007	**2006**
Sales and marketing	289	238
Research and development	236	181
Operations	739	561
Management	235	174
Total	**1,499**	**1,154**

29.3. Following is Frutarom's organizational chart:


President and Chief Executive Officer
Executive Vice President and Chief Financial Officer
Vice President – Finance
IT Manager
Vice President – HR and Administration
Vice President – Legal Affairs
Quality Assurance Manager
Marketing Communication Manager
Executive Vice President and Manager – Flavors Division
Israel Activity Manager
Europe Flavors Manager
R&D Manager
Supply Chain Manager
Gewurzmuller
Nesse
Emerging Markets Activity Manager
China
USA
Executive Vice President and Manager – Fine Ingredients Division
Israel Activity Manager
Global Manager – Frutarom Health
USA Activity Manager
Global Manager – F&F
England Activity Manager
Switzerland Activity Manager

29.4. The majority of Frutarom's employees at its sites located in Germany, Switzerland (Reinach), the United States and Israel are covered by collective bargaining agreements. These agreements vary from country to country and deal principally with conditions of employment, salaries, promotion, pension schemes, certain benefit programs, procedures for hiring and dismissing employees and procedures for settling labor disputes. More than 40% of the Company's employees worldwide are covered by such collective bargaining agreements.

Employees that are not covered by the collective bargaining agreement have personal employment agreements, that vary from country to country based on the local regulation in each country.

29.5. The Company believes that it generally has good labor relations.

29.6. **Directors and Senior Management in the Company**

29.7. As at December 31, 2007, the Company's senior management was composed of 10 employees. The Company has personal employment contracts with the members of the senior management. These contracts include standard clauses regarding non competition, confidentiality, and transfer of intellectual rights to the Company, as is customary in the industry in which the Company operates.

29.8. A number of members of the Company's senior management are entitled in the case of their employment in the Company being terminated within a period of 12 months from the date on which the holding of ICC Handels AG decreases below 26% of the Company's share capital, to continue receiving their salaries and benefits from the Company for periods ranging between six and twelve months. Furthermore, upon the occurrence of such a change of control, all options and/or ordinary shares previously granted to these members of the senior management (and which are subject to a lock up period) will become immediately exercisable.

For further details regarding employment details of officers in the Company refer to Regulation number 21, chapter D of this report and notes 11 and 24 to the financial reports.

29.9. Officers in the Company are insured by directors and officers insurance. In addition, the Company granted the officers a commitment for advance indemnification for actions they take by virtue of their being officers in the Company. The indemnification is limited to an amount not to exceed 25% of the Company's equity at the time the indemnification is given to the officer, as appears in the Company's last financial reports (reviewed or audited).

For further details regarding directors and officers insurance and the indemnification (including a list of the occasions and amounts for which it was decided to grant advance indemnification) refer to the Immediate Report on the calling of a general meeting dated December 2, 2004 and which was published on December 2, 2004 and the complementary report to the stated report dated December 21, 2004 and which was published on December 21, 2004, the Immediate Report on the call for a general meeting dated December 21, 2004 which was published on December 21, 2004 and sections 4 through 6

of the document appended to the Immediate Report on the results of the general meeting dated December 29, 2004 which was published on December 29, 2004.

29.10. Employee Equity Incentive Plans

The Company currently has three equity incentive plans in effect, which are discussed individually below.

1996 Share Option Plan

The Company's 1996 Share Option Plan allowed the Company to grant certain of its board members and senior management options exercisable into Shares. In January 2003, the Plan was replaced by the 2003 Share Option Plan, and no further options will be issued under the 1996 Share Option Plan.

Commencing at 1996, every six months, the board of directors decided the amount of funds allocated to the 1996 Share Option Plan, based on the recommendations of the compensation committee. These funds were then used to buy Shares on the TASE, which are held in trust by Frutarom's wholly-owned subsidiary, Frutarom Trust Ltd., until the options to which they relate are exercised. Options granted under the 1996 Share Option Plan become exercisable over a three-year period from the date on which they are granted, with a third of the options granted on a given date becoming exercisable at the end of each of the three years following their grant. However, the board of directors of the Company has the exclusive right to declare options exercisable as from an earlier date.

The exercise price was set by the board of directors at one third of the average share price paid by the Company for the Shares underlying such options and is due upon exercise of the option by the employee. Options granted under the 1996 Share Option Plan expire on the sixth anniversary of the date of grant. Any tax consequences arising from the grant or exercise of any options under the plan are the responsibility of the employee.

The number of Shares covered by each option granted under the 1996 Share Option Plan, as well as the exercise price, are proportionally increased or decreased by changes in the Company's outstanding share capital resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Shares. Aside from few exceptions, in the event that the employment of an employee holding options granted under the 1996 Share Option Plan is terminated without cause, such employee has the right to exercise all exercisable options within 90 days from the date of termination. The remaining options granted but not exercisable are terminated immediately. If the employment of an employee is terminated for cause, all unexercised options terminate immediately.

As of December 31, 2007, the Company had options outstanding under the 1996 Share Option Plan for a total of 3,510 Shares.

Due to changes in the Israeli tax regulations effective as of January 1, 2003, the Company ceased granting options under the 1996 Share Option Plan and adopted the 2003 Share Option Plan. Options were

last issued under the 1996 Share Option Plan in April 2002, and options for the second half of 2002 were issued under the 2003 Share Option Plan.

2003 Share Option Plan

The 2003 Share Option Plan is substantially similar to the 1996 Share Option Plan. Commencing in 2003, every six months, the board of directors decides the amount of funds allocated to the 2003 Share Option Plan, based on the recommendations of the compensation committee. These funds are then used to buy Shares on the TASE, which are held in trust by Frutarom's wholly owned subsidiary, Frutarom Trust Ltd., until the options to which they relate are exercised. Options granted under the 2003 Share Option Plan become exercisable over a three year period from the date on which they are granted, with a third of the options granted on a given date becoming exercisable at the end of each of the three years following their grant. However, the board of directors of the Company has the exclusive right to declare options exercisable as from an earlier date.

The exercise price for the options has currently been set by the board of directors at one third of the average share price paid by the Company for the Shares underlying such options and is due upon exercise of the option by the employee. Options granted under the 2003 Share Option Plan expire on the sixth anniversary of the date of grant. Any tax consequences arising from the grant or exercise of any options under the plan are the responsibility of the employee.

The number of Shares covered by each option granted under the 2003 Share Option Plan, as well as the exercise price, are proportionally increased or decreased by the changes in the Company's outstanding share capital resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of Shares. A side from few exceptions, in the event that the employment of an employee holding options granted under the 2003 Share Option Plan is terminated without cause, such employee has the right to exercise all exercisable options within 90 days from the date of termination. The remaining options which were granted but unexercised are terminated immediately. If the employment of an employee is terminated for cause, all unexercised options terminate immediately.

As of December 31, 2007, the Company had options outstanding under the 2003 Share Option Plan for a total of 604,765 Shares.

Senior Executive Share Plan

On December 2003, the Company adopted the Senior Executive Share Plan as an incentive share plan for certain members of its senior management. The Company has authorized the issuance of up to 1.2 million Shares for the Senior Executive Share Plan. The amount of Shares, issue, exercise price and method of issuance under the Senior Executive Share Plan is determined by the board of directors based on the recommendation of the compensation committee. The Company has allotted 900,000 Shares and allotted options for a further 150,000 Shares to members of senior management under the Senior Executive Share Plan as described in greater detail below. Any tax liabilities under the Executive Share Plan are the responsibility of the employee.

In connection with the Senior Executive Share Plan, the Company has entered into an agreement with the Israeli tax authorities pursuant to which the Company has agreed that it will not be entitled to deduct the costs of the Senior Executive Share Plan from its revenues.

Under the Senior Executive Share Plan, the Company has issued 900,000 Shares (the 'Allotted Shares') placed in trust on behalf of the beneficiaries. The lock-up period with respect to the Allotted Shares expired on January 1, 2007. Should an employee under the Senior Executive Share Plan terminate his employment prior to January 1, 2007, the Company has the right to repurchase any Allotted Shares which still remain subject to the lock-up. With the departure of one of the Company's senior employees on June 30, 2005, the Company purchased from him 125,000 shares that still remain subject to the lock up. The balance of Shares held by the trustee as at December 31, 2007 is 375,000.

The purchase price for the Allotted Shares was NIS 5.0 per Share. The Company granted each beneficiary with an interest free loan covering the full purchase price for the Allotted Shares in the aggregate amount of NIS 4.5 million.

Under the Senior Executive Share Plan, the Company has granted options for an additional 150,000 Shares (the ''Senior Executive Option Shares''). With respect to the Senior Executive Option Shares, options with respect to 25% of the Shares became exercisable on 9 October 2004, with a further 25% becoming exercisable on 9 October of each of the three subsequent years. The exercise price for the Shares is NIS 10.87 per Share. The options with respect to the Senior Executive Option Shares will expire on 17 May 2010. For further details regarding the allotment of 150,000 options as stated refer to the Immediate Report on a private offering which is not material dated May 18, 2004 and which was published on the same date. In June 2007, an officeholder realized 30,000 options for which the Company allocated 30,000 shares for a consideration of NIS 326,100.

On January 2006, the Company allotted 725,000 non-transferable options to four senior officers of the Company. 600,000 of the shares can be exercisable in three equal portions on January 1, 2008, January 1, 2009 and January 1, 2010. The additional 125,000 shares can be exercised in four equal portions on January 1, 2007, January 1, 2008, January 1, 2009, and January 1, 2010. The exercise price is NIS 31.068 per option. The option shares will expire on February 1, 2012. For details on the stated private offering, refer to the Immediate Report of the Company regarding a private offering that is not significant dated January 3, 2006 as published on January 4, 2006, and the amendment to the immediate report dated January 4, 2006 and published on the same date.

Options granted to Israeli employees are held by a trustee in accordance with section 102(b)(3) of the Income Tax Ordinance.

30. Raw Materials and Suppliers

30.1. Frutarom purchases thousands of raw materials from a wide range of suppliers, with more than one supplier for most products. The principal raw materials purchased by the Company include plants, leaves and

roots from which the Company produces natural flavor extracts, functional food ingredients and pharma/nutraceutical extracts. In addition the Company purchases essential oils from which it manufactures specialty essential oils such as citrus oils and mint oils. Other raw materials purchased by the Company include natural and synthetic chemicals, alcohols, esters and acids and oleoresins. During 2006 and 2007 the raw materials market has been characterized by price rises in most raw materials used by Frutarom for its production with a more substantial increase in many natural materials, which are the majority of materials used by Frutarom. This is part of a general worldwide trend of sharp increases in the prices of various goods in the world.

30.2. In recent years, none of Frutarom's purchases from any one supplier exceeded 10% of its total purchases. There is a small number of raw materials for which Frutarom has exclusive suppliers; however, since these raw materials are used in only a limited number of Frutarom's more than 20,000 products, and since the materials having only one supplier are used in a limited number of Frutarom's products (none of which is substantial), management does not believe that its dependence on these exclusive suppliers is material.

30.3. Frutarom seeks to reduce costs and secure supplies by purchasing raw materials directly from the source rather than from dealers or distributors. Frutarom has a centralized supply chain and raw materials purchasing team supporting its two core division, which enables it to leverage its scale by purchasing raw materials in bulk and therefore at lower prices.

30.4. The Company carefully manages its global supply chain to ensure availability of raw materials at its production facilities. Frutarom maintains comparatively high stocks of certain raw materials, as most of the natural ingredients used by Frutarom in its production are crop related goods. In addition, raw materials delivery times are generally longer than the delivery times to customers by Frutarom of its end products, requiring Frutarom to maintain stocks of raw materials sufficient to enable it to supply its products to customers as ordered with short lead times. However, Frutarom generally maintains comparatively low stocks of finished goods. Further, the availability and the prices of many of the principal raw materials used by Frutarom, and in particular the natural ingredients, are subject to fluctuations as a result of international supply and demand.

31. Working Capital

31.1. The Company keeps close track of the items of working capital. The follow up is conducted at the level of the subsidiaries, under close supervision by the Company's headquarters and the management. The average rate of working capital as a percentage of the Company's sales for 2007 stands at 29.9% compared with an average of 29.7% in 2006. The Company is active in working to reduce working capital requirements in all their parameters. Following are the details of the Company's policy regarding the items of working capital:

31.2. Inventory – The Company's activity is characterized by seasonality of demand (refer to section 26 of this report). The Company manufactures at a number of production sites worldwide (refer to

section 27 of this report). In view of the fact that the Company's production sites are located throughout the world and the considerable importance that the Company attributes to customer service, the Company maintains a flexible inventory policy that ensures availability of inventory at the various production sites and with cooperation between them. This inventory policy enables the Company to meet short supply times to its customers. Frutarom maintains comparatively high stocks of natural raw materials whose availability may be irregular due to their seasonal nature. The Company orders raw materials from its suppliers taking into account past experience, volume and the rate of sales, production limitations and seasonality. Since most of the production is done according to specific orders from customers, Frutarom generally maintains limited stocks of finished products.

The average number of inventory days for 2007 stands at 155 days compared with 164 days in 2006.

The balance of inventory as at December 31, 2007 was US$ 90.5 million compared with US$ 59.8 million as at December 31, 2006 (refer to note 17 to the financial reports attached to this report). The growth in inventory in 2007 derives from the growth in the Company's activity during 2007 which mainly result from the acquisitions made by the Company during the year.

31.3. Customer Credit – The Company implements procedures that determine the conditions for granting its customers a credit framework. The Company follows up on an ongoing basis on deviations from the credit framework granted to its customers and the collection process. Due to the global nature of the Company's customer base and the lack of dependency on any particular customers, the Company does not insure its credit to customers.

In 2007 the average credit days was 66 days compared with 68 days in 2006.

The balance of credit to customers as at December 31, 2007 was approximately US$ 78 million compared with US$ 54 million as at December 31, 2006 (refer to note 16 to the financial reports). The growth in credit to customers in 2007 derives from the acquisitions made by the Company and the growth in the Company's activity during 2007.

31.4. Supplier Credit – The Company has a global supply chain and purchase unit at headquarters that manages the supply and purchase of strategic materials from suppliers and which serves the two Divisions of the Company. The average period and scope of supplier credit in the report period stood at 67 days and US$ 31.4 million, respectively.

The balance of the Company's debt to suppliers as at December 31, 2007 was approximately US$ 38.8 million compared with US$ 27.5 million as at December 31, 2006 (refer to note 20 to the financial reports attached to this report). The growth in debt to suppliers in 2007 derives from the acquisitions made and the growth in the Company's activity during 2007.

31.5. The turnover of goods returned to the Company is not material to its activity.

32. Capital Expenditure

32.1. The Company's capital expenditure is in principle the result of the enhancement and expansion of existing facilities, as well as investment in developing new manufacturing facilities, sales and marketing offices and research and development laboratories.

32.2. The Company's planned investments for the next three years are expected to average approximately US$ 15 million to US$ 20 million per annum. Most of the planned capital expenditures in the coming years are related to the construction of a new manufacturing facility, research and development laboratories and head offices in Israel; upgrades to the productions facilities of the food systems business; continued implementation of a new company-wide IT system; improvements and capacity increases to Frutarom's production facilities; and investment in ecology, energy conservation and environment.

32.3. The balance of the depreciated cost of the fixed assets in the Company's balance sheet as at December 31, 2007 following deduction of investment grants is US$ 135.6 million. For further information on the Company's investment in fixed assets refer to note 8 of the financial reports attached to this report.

32.4. The Company believes that the cash flow from current operating activities will be sufficient to meet the Company's anticipated capital expenditure and working capital required to support the Company's internal growth in the next several years.

33. Capital Resources

33.1. The Company's activity is financed through external financing.

33.2. During 2007, the Company used long term loans from banks for the purpose of financing acquisition made during the year. At December 31, 2007, the Company's debt balance to banks stood at US$ 126,800 thousands.

33.3. As part of a revision to the credit framework at the Company's disposal, during 2007 the Company committed to a financing banking institute to meet the following standards:

- The Company's equity shall not at any time be less than US$ 180,000 thousands.
- The Company's equity shall not at any time be less than an amount equal to 30% of the Company's balance sheet.
- The ratio from the division of the balance of the Company's financial liabilities in operating profit to service debt (operating profit to service debt meaning the accumulated sum of operating profit from current activities before finance expenses and taxes and with the addition of depreciation and amortization expenses) will be not more than 6.

As of the date on which this report was published, the Company meets these financial standards.

33.4. The company and its Israeli, US, UK and Swiss subsidiaries have agreements with banks whereby the banks will extend revolving credit facilities. As of December 31, 2007, the unutilized credit balance of the Company and the consolidated companies in Israel were $ 17,519 thousands.

33.5. For further details on the Company's loans refer to note 10 to the financial reports that are attached to this report.

34. Taxation

34.1. For details of tax regulations applicable to the Company refer to note 14 in the financial reports.

34.2. The Company has final tax returns until 2001, inclusive.

34.3. The Company operates through subsidiaries throughout the world, where the tax rates vary from 22% to 41%.

34.4. The effective tax rate (on the consolidated) in 2007 is 23.4% compared with 18.9% for 2006. For details on the changes between the Company's statutory tax rate and the effective tax rates refer to note 14 to the financial reports.

35. Environment

35.1. The Frutarom Group has and continues to act in an ongoing manner to prevent environmental hazards and to preserve the environment. The Company is authorized within the framework of the Responsible Care program. The Company's management maintains a constant watch on the subject of environment and in the last year has even appointed a global manager for environment, who acts to reduce the environmental risks at all of the Group's sites.

As part of the implementation of the Company's strategic program for environmental protection, environmental trustees have been appointed at the Group's key production sites in the world. The trustees will undergo validation and training in order to heighten the involvement and awareness of the employees at all the Group's sites to the subject of protecting the environment.

All of the Company's sites hold the licenses relevant to the legislative system in their country and, in the Company's estimation, act in accordance with the law. The sites in Israel hold business licenses in accordance with the Law for Licensing Businesses, 5728-1968, and valid poisons permits in accordance with the Law for Hazardous Materials, 5753-1993.

Following is a list of the Frutarom Group's key activities in matters of environment during the year 2007:

- At the site in Haifa, Israel, a TNV facility, which is the best available technology for reducing and neutralizing odors, was purchased and installed. Preparations for the site to switch from oil heating to LPG (liquified petroleum gas) heating, a step that has positive ramifications in all that relates to reducing polluting emissions into

the air were also completed. In addition, a charcoal filter was installed in the Flavors Division's production facilities in such a manner as to result in significant improvement in neutralizing odors from the Division's facilities.

- At the Company's sites in Stuttgart and Reinach all types of solid waste (organic, from the packing stage, plastic, carton and wood) for recycling and reuse.

- At the Company's site in the USA, a multi year program for handling the sites waste water is in place in cooperation and with the approval of the relevant authorities in the USA. As part of the program, a closed waste water transport system has been built, waste water collection facilities have been upgraded, and investments made in the plant's infrastructure so as to prevent contact between rainwater and the plant's waste water.

- The Company's site in Switzerland (Wadenswil) has an innovative biogas plant, which utilizes the special characteristics of the plant's waste water to produce methane gas. The gas is used to power the plant's facilities and thereby provides 40% of the site's consumed energy. The use of methane gas for the site's energy requirements substantially reduces hothouse gas emissions, such as CO_2.

35.2. In February 2007 and following a local patrol performed in the Haifa Bay, the Ministry for Environmental Protection advised that it intends to change and tighten its requirements in all matters relating to air emissions. Frutarom approached the Ministry through the Manufacturers' Association in order to hold a process of discussion and agreement between industry and the Ministry. At the time the discussions have not yet started and therefore, in the estimation of the Company's management, the level severity of the requirements for the Haifa site and final timetable to be agreed cannot be known.

35.3. On October 30, 2007, the IPPC directive (96/61/EC) went into effect in the European Union. This regulation sets stringent standards in all matters relating to preventing environmental hazards and is expected to be enforced at the Group's sites in Europe. In Israel, a number of laws have been proposed that will likely tighten the requirements on the Company's sites in Israel.

35.4. Refer to section 38 of this report regarding lawsuits and legal procedures relating to environment.

36. Limitations and Supervision of the Company's Business

36.1. The Company develops, produces and markets its products in a number of jurisdictions throughout the world and is subject to the legislation, regulations and control in effect on its activities in each of the various countries. These laws and regulations include, among others, the U.S. Food and Drug Administration's (FDA) regulations regarding activity in the United States; EU directives implemented into local law in the European jurisdictions in which the Company operates; and regulations determined by the Ministry of Health in Israel. These laws and regulations determine standards relating to food production,

production facilities, equipment and the personnel required to produce products required for human consumption.

36.2. In addition, the Company is subject to various rules relating to health, work safety and environment at the local and international levels in the various jurisdictions where it operates. The Company's production facilities in the United States, Israel, the United Kingdom, Switzerland, Germany and China are subject to environmental standards in each of these countries relating to air emissions, waste water discharges, the use of hazardous materials, waste disposal practices and clean up of existing environmental contamination. In recent years, there has been a significant increase in the stringency of environmental regulation and enforcement of environmental standards in each of these countries and in the world, and the cost of compliance has risen significantly.

36.3. Frutarom believes that it currently operates its facilities in material compliance with relevant laws and regulations related to food manufacturing, work safety, health and the environment. In addition, compliance with existing governmental regulations has not materially affected Frutarom's operations, earnings or competitive position in its markets.

36.4. For additional information on regulation, health, safety and permits refer to section 15.11 of this report.

37. Significant Agreements

37.1. For details regarding the Flachsmann acquisition agreement refer to section 1.14.

37.2. For details regarding the IFF European food systems acquisition agreements refer to section 1.15.

37.3. For details regarding the Nesse acquisition’s agreements refer to section 1.16.

37.4. For details regarding the Acatris acquisition’s agreements refer to section 1.17.

37.5. For details regarding the Belmay acquisition agreement refer to section 1.18.

37.6. For details regarding the Jupiter acquisition agreement refer to section 1.19.

37.7. For details regarding the Raychan acquisition agreement refer to section 1.20.

37.8. For details regarding the Adumim activity acquisition agreement refer to section 1.21.

37.9. For details regarding the Abaco acquisition agreement refer to section 1.22.

37.10. For details regarding the Gewurzmuller Group acquisition agreement refer to section 1.23.

37.11. For details regarding the Rad activity acquisition agreement refer to section 1.24.

37.12. As part of the capital raising (refer to sections 3.4 through 3.7), the Company concluded a number of agreements, including an underwriting agreement with the offering underwriters, Morgan Stanley, UBS and HSBC, and a depositary agreement with The Bank of New York. These agreements include the standard clauses for this type of agreement.

37.13. For details regarding the Company's commitment to a financing banking institute to meet financial standards refer to section 33.3.

37.14. The Company is not a party to strategic cooperation agreements.

38. Litigation

38.1. A number of claims and third party notices have been filed against the Company for bodily injury, property damages and for breach of environmental laws relating to the pollution of the Kishon River in Haifa (hereinafter: the "River"). According to the plaintiffs, the Company was among those responsible for the pollution. The Company's management believes, based on the opinion of its legal counsel, that the chances that the plaintiffs will prevail in the claims are remote. Based on the opinion of its legal counsel, the Company's management also believes that even if it were to be found liable, the potential damage resulting to the Company is immaterial (at the same time, if the Company were to be found liable for the claims, the Company's insurance coverage does not cover the stated claim). The Company estimates that the very small quantity of effluents discharged by the company during the relevant years (less than 0.01% of total effluents discharged by the other defendants); the Company estimates that the effluents discharged by the company cannot cause the damages allegedly caused and the period during which effluents were discharged by the company compared with the other defendants. In addition, the discharge of effluents to the River was permitted by the authorities. Commencing in 2000, the company discontinued discharge of all effluents to the Kishon River.

38.2. On March 6, 2008, an indictment was submitted in the Magistrates Court – Krayot-Haifa against Frutarom Ltd., a subsidiary of the Company, and officeholders in it (hereinafter: the "Indictment"). The Indictment was submitted for the alleged violations of running a business in contradiction of the license conditions (violation according to the Law for Licensing Businesses, 5728-1968) and causing odor disturbances whose source was the Company's plant in Haifa Bay (a violation according to the Law for the Prevention of Hazards, 5761-1961). The Company's estimates that the Indictment will not have a significant effect on the Company's results or operations.

38.3. In September 2001, Pikanti Meat Industries (1982) Ltd. and Hevrat Nitsolat Hacartel Ltd. (hereafter: the "Plaintiffs"), lodged a claim for damages against Osem Food Industries Ltd. of the Nestle group and 16 other leading companies in the Israeli food industry (including Frutarom Trade & Marketing (1990), a wholly owned subsidiary of the Company) that the Company's management, based on the opinion of its legal advisors, believes is frivolous and lacks a factual basis. The

plaintiffs claim that the defendants have created a cartel to destroy the activity of the plaintiffs; they also claim that at a certain date the defendants ceased to supply them goods. The total amount claimed was US$ 116 million; the amounts claimed from each defendant were not specified. Since the plaintiffs did not pay the court fees, in 2003, the claim was cancelled.

In January 2004, the plaintiffs filed a new claim for a total of US$ 232 million with a similar cause of action against 28 companies and Frutarom Trade & Marketing (1990) Ltd. The plaintiffs also filed an application for remission from payment of court fees. This application has also been dismissed by the register of the Haifa District Court and recently an appeal for this dismissal was dismissed. Following rejection of the appeal and nonpayment of the fee, the claim was cancelled. The plaintiffs filed an appeal on the claim's cancellation due to nonpayment of the fee, which was also rejected. The Company's management, based on its legal counsel's opinion, believes that the claim is in any event a vexatious and frivolous claim, has no factual basis, and that the facts included therein concerning Frutarom Trade & Marketing (1990) Ltd. are, in themselves, erroneous and that in any case, the chances that the application will be allowed and that the claimants will prevail in the claim are remote.

38.4. On August 28, 2007, a claim was submitted against the Company in the Haifa District Court for an odor hazard that the plaintiffs claim was caused by the Company's plant in Haifa. A request to approve a class action suit was submitted at the same time. The plaintiffs claim that the odor hazards created by the plant caused them damage to the individual autonomy and to their right to breath clean air to the point of real damage to their quality of life. The group for whom the plaintiffs request to act as class plaintiffs are residents who lived within a radius of 3.5 km. and/or who place of work is within a radius of 2 km. from the Frutarom plant and/or who made regular use of public transportation on the Acco-Haifa road in the section close to the Kiryat Ata intersection during the seven years preceding the day on which the claim was submitted. The compensation requested for the benefit of the group as stated in the request for approval of a class action is NIS 225 million (about US$ 58.5 million).

On December 9, 2007, the Company submitted a reply to the request for approval of a class action. The plaintiff's counter-reply to the reply was submitted on February 12, 2008. The Haifa District Court decided to discuss the request on May 15, 2008.

In the estimation of the Company's legal advisors, the Company has good arguments against the request to approve the claim as a class action and against the claim from both legal and factual points of view.

38.5. For further information on the claims in which the Company is involved refer to note 12 to the financial reports attached to this report.

38.6. Excluding the above, the Company is not involved in any significant litigation in which the amount claimed (without interest and expenses) exceeds 10% of the current assets based on the consolidated financial reports.

39. Key Strengths and Strategy

Key Strengths

Frutarom believes that it has a number of key strengths that enable it to compete effectively and achieve above-average industry growth and continued margin expansion:

39.1. Established global flavors and fine ingredients company with a differentiated, value-added product portfolio

Frutarom is an established global company with a strong local presence in its key target markets. Frutarom's broad product portfolio comprises over 20,000 products, focusing on flavors and natural fine ingredients, including natural extracts, specialty essential oils and citrus products. The majority of the Company's sales derive from its extensive natural products offering in the fields of flavors, functional food and pharma/nutraceuticals. Frutarom markets and sells its products to over 10,000 customers in more than 120 countries, operating production facilities in Europe, North America, Israel and Asia. Frutarom has 25 research and development laboratories. Frutarom sells and markets its products principally through its 45 sales and marketing offices.

39.2. Strong focus on delivering superior service and comprehensive offering to both large multinational and mid-sized and local customers

Frutarom differentiates itself from its major competitors by focusing not only on the large multinational customer base, but also on mid-sized and local customers. Frutarom offers the same level of high-quality service and product specialization to mid-sized and local food and beverage producers as is normally reserved only for large multinational companies. Frutarom's sales and marketing team and research and development laboratories work closely with both types of customers to offer them timely and responsive personalized development services, including custom flavors and specialty fine ingredients tailored to their specific needs. In addition, Frutarom offers mid-sized and local food and beverage producers a high degree of flexibility with respect to minimum order requirements and lead times. Management believes that the mid-sized and local customer segment represents a large and attractive growth market, and that this focus enables Frutarom to achieve broader product sales and deeper market penetration.

39.3. Well positioned in developed countries

Frutarom believes it has a well-established position and recognized brand name in developed countries, with research and development and manufacturing facilities, as well as a large, dedicated and experienced sales team. In addition, Frutarom's recent acquisitions have strengthened its presence in West European and other selected markets, enlarging its customer base and geographic reach and providing Frutarom with significant cross-selling opportunities.

39.4. Strong presence in, and focus on, more rapidly growing emerging markets

Frutarom has a strong presence in emerging markets in which demand for flavors and fine ingredients is forecasted to grow more rapidly than developed markets. The Company has an established presence in Russia, Ukraine, Kazakhstan, Romania, Turkey, China, India, Brazil and Mexico. Frutarom is continuously strengthening its position in emerging markets, by building local sales and marketing and research and development capabilities, providing it with knowledge and understanding of local consumer tastes and customer requirements. Frutarom also offers technical and marketing advice to emerging food and beverage producers in these markets, helping them improve their product offerings and operations, which in turn strengthens its relationships with existing and potential customers.

39.5. Focus on functional food ingredients

Changes in consumer preferences together with an ageing population have led to rapidly growing demand for functional foods which have, or are perceived to have, health and well-being benefits. Frutarom's functional food ingredient product offering and research and development competencies have been significantly enhanced by its acquisition of Flachsmann, Acatris, Adumim and Rad (refer to sections 1.14, 1.17, 1.21 and 1.24 in this report). The market for functional foods is a relatively new, evolving and innovative market requiring close collaboration between functional food ingredients manufacturers and food and beverage producers. Frutarom believes its relationship with, and understanding of, food and beverage producers provide it with a competitive advantage. Frutarom is also able to provide a scientific basis for the health benefits of its functional food ingredients, such as clinical studies, that are often required by food and beverage producers. As part of its research and development activity and in order to broaden its portfolio of natural, innovative and unique products, Frutarom acts to create cooperation with academic institutions, research institutes and start-up companies in Israel and throughout the world. In the last year, Frutarom has created a number of such collaborations that strengthen and expand the pipeline of new and innovative products that Frutarom intends to launch in the coming years, for instance the cooperation with CapsiVit and with Ramot (refer to sections 18.2 and 18.2 of this report). Furthermore, Frutarom's functional food ingredients production meets strict health and safety standards, such as the Swiss GMP and British BRC standards.

39.6. Strong technological base and innovation

Frutarom believes that one of its core strengths is its emphasis on technology and innovation. Frutarom has consistently invested in its research and development capabilities and in acquiring new technologies. Frutarom has established 25 research and development laboratories throughout the world in close proximity to its customers and developed new tailor-made products in close collaboration with them, further strengthening its customer relationships. In addition, Frutarom has proprietary botanical extraction capabilities which have been bolstered through the Flachsmann acquisition. Frutarom also cooperates with universities and research institutions internationally in the development of new innovative products. As a result, Frutarom believes it is a leader in the development of unique, natural ingredients for flavors, functional foods and pharma/nutraceutical applications.

39.7. Proven track record of acquisition-led profitable growth

Frutarom has a proven track record of identifying, executing and integrating acquisitions. Since 1990, Frutarom has acquired 21 businesses, most recently the CPL business in 2001; Flachsmann in 2003 and the IFF business in 2004; the flavors extracts business of A.M. Todd Botanical Therapeutics in June 2005; the acquisition of 70% of the share equity of Nesse in January 2006; the acquisition of Acatris in October 2006; the acquisition of Belmay in England in March 2007; the acquisition of Jupiter in England in April 2007, the acquisition of Abaco in the USA in July 2007; the acquisition of the Adumim activity and the acquisition of Raychan, which were completed in August 2007; the acquisition of the Gewurzmuller Group in Germany in October 2007; and the acquisition of the Rad activity in November 2007 (refer to sections 1.13 through 1.24 in this report). These acquisitions have significantly strengthened Frutarom's position as a leading global player in the field of flavors, fragrances and specialty ingredients, its geographic reach, mainly in Western and Eastern Europe, and enabled it to enter new markets. These acquisitions have also significantly increased the Company's product portfolio in both sweet and savory solutions and in the field of natural extracts with dietary attributes and its large multinational and mid-sized and local customer bases, creating significant new cross-selling opportunities of newly-acquired products to its existing customers and vice versa. In addition, the technological know-how and management expertise acquired through these acquisitions have enhanced the Company's strengths in product innovation and operational efficiencies.

39.8. Experienced management team

The Company has a highly qualified global senior management team with extensive experience in the flavors and ingredients business, including in research and development, operations, sales and marketing, and the acquisition and integration of new businesses.

Strategy

Frutarom's strategic objective is to increase shareholder value over time by becoming one of the leading global flavor and fine ingredients manufacturers and achieving above-average industry growth and profitability. The key elements of Frutarom's strategy are as follows:

39.9. Focus on two core businesses and leveraging synergies between them

The Company intends to continue focusing on its two core businesses, flavors and specialty fine ingredients, and leveraging the synergies between them. Since fine ingredients are the key components used in the production of flavors, the Company's expertise in natural fine ingredients enables it to produce high quality, tailor-made specialty flavors. Similarly, the Company's fine ingredients business benefits from the expertise of its flavors business, allowing it to better understand the needs of its customers including third party flavor manufacturers. In addition, as certain of the Company's fine ingredients are sold directly to food and beverage producers, the Company's strategy is to use a single sales person to sell both flavor and fine

ingredients products to such customers, thereby achieving operational efficiencies.

Frutarom acts strategically to expand its activity and product portfolio in the savory field, which is growing more quickly than the average for the industry. Following the acquisition of Nesse, Raychan, Rad, and the Gewurzmuller Group, Frutarom believes that it has a comprehensive solutions product range to offer manufacturers of meat and fish products, snacks, and convenience food which will also support continued growth.

The acquisitions of Acatris expanded the offering of natural, unique products that Frutarom offers its customers, mainly in the functional foods and nutraceuticals markets.

39.10. Continue to focus on superior customer service and product development for both large multinational and mid sized and local customers

Frutarom intends to enhance its customer service and expand its product portfolio for both large multinational as well as mid sized and local customers. In the large multinational food and beverage customer segment, Frutarom will seek to improve its niche, specialized product offering and increase its offering of comprehensive natural solutions. In the mid sized and local customer segment, Frutarom intends to continue to offer this customer segment the same level of service and customized product development as normally reserved for large multinational companies, as well as the short lead times and manufacturing flexibility they require.

39.11. Expand market position in developed markets

Frutarom believes there are additional opportunities to expand in Western Europe, principally by leveraging cross-selling opportunities resulting from its recent acquisitions. In addition, the Company is focusing on potential expansion in the United States through internal growth and acquisitions.

39.12. Continue penetrating and strengthening Frutarom's market position in more rapidly growing emerging markets

Frutarom believes that there are significant growth opportunities in certain fast growing emerging markets with growing demand for flavors and fine ingredients products. Frutarom intends to strengthen its position in and further penetrate the emerging markets where it already operates, including the CIS, Eastern Europe, Turkey, Brazil, Mexico, China, India and other countries in Asia, as well as to expand into other developing countries to take advantage of growth opportunities in these markets. Frutarom believes that a strong local presence in these emerging markets will provide it with a significant competitive advantage as these markets continue to expand and develop. Frutarom therefore intends to allocate additional resources to establishing new production sites and research and development laboratories, hiring new sales and marketing personnel and expanding its technical and marketing advice to emerging food and beverage producers in select emerging markets. Frutarom believes that the Nesse and Gewurzmuller Group acquisitions will assist it considerably

in strengthening the Company's penetration of countries in which it is active and in entering new markets.

39.13. Achieve leadership position in the growing market for natural and healthy products

Frutarom believes it is well positioned to take advantage of the growing trend for food and beverage manufacturers to utilize more natural and healthy ingredients in their products. The acquisition of Flachsmann, Acatris and Rad strengthened Frutarom's position as a market leader by leveraging its existing expertise in natural flavor extracts, functional food ingredients and natural pharma/nutraceutical extracts, as well as allocating more of its research and development and sales and marketing resources to the development and marketing of healthy and natural products. Within the framework of the Frutarom Health business unit (for additional information on Frutarom Health refer to section 16.8 of this report) Frutarom is working to continue building on the reputation and strength of its "EFLA" (Flachsmann) branded pharma-grade botanical extracts, which are produced in its Swiss facilities. In parallel, Frutarom integrated the Lifeline leading product line that was added to the Company's product offering upon completing the Acatris acquisition. Frutarom works to create cooperation with academic institutions, research institutes and start-ups in Israel and worldwide in order to expand its pipeline of healthy and tasty products that it intends to launch in coming years. During 2007, Frutarom created a number of such collaborations (for details regarding the agreement with Capsivit and with Ramot refer to sections 18.2 and 18.3 of this report).

39.14. Provide comprehensive natural solutions to the food and beverage industry

Frutarom offers comprehensive, integrated solutions, combining natural flavors and functional food ingredients and with its food systems product offering. With the recent acquisition of the IFF Business, the Company has significantly bolstered its food systems capabilities, which, when combined with its existing expertise in the fields of natural flavor extracts, functional food ingredients and natural flavors, enable it to offer these solutions to food and beverage producers. Frutarom uses its newly expanded food systems capabilities and seek new ways of bundling its new and innovative products into a tailor made offering suited to its customers' needs.

39.15. Expand investments in research and development

Frutarom believes that technology and innovation are key to its success. Therefore, the Company intends to continue to invest in research and development both in the Flavors and Fine Ingredients Divisions.

39.16. Enhancing profitability

Frutarom intends to act to expand its margins by: (i) raising the selling prices of its products in view of the ongoing trend of price rises in the raw materials, mostly natural, used by Frutarom to produce its products; (ii) continuing to focus on operational efficiencies, including maximization of facilities utilization and inventory management while

focusing on efficiently merging the acquisitions of recent years. As part of the aforementioned acquisition merger process, the production sites in Israel and in England were each consolidated while achieving substantial operational savings; (iii) continuing to exploit synergies within and between the divisions; (iv) taking advantage of scale by leveraging fixed costs over a larger product and customer base; and (v) continuing to improve its product mix by increasing the proportion of sales derived from the Flavors Division out of the Company's total activity, and to develop and market unique new, higher margin value-added products by the Fine Ingredients Division.

39.17. Continue rapid growth through strategic acquisitions

Acquisitions have also contributed to Frutarom' rapid growth and Frutarom will continue to evaluate acquisition opportunities that meet its strict investment criteria and enhance shareholder value as part of its ongoing growth strategy. Frutarom will seek acquisition opportunities that expand its portfolio of products, targeted geographic reach and customer base, and which provide Frutarom with further product bundling and cross-selling opportunities. In addition, Frutarom will work to further integrate its recent acquisitions with its own operations in order to optimize cross selling opportunities and to realize additional synergies and cost savings. For example, Frutarom intends to use the recently acquired IFF business as a platform for expanding its food systems business into additional countries such as Italy and Spain and certain emerging markets. In addition, Frutarom will invest in research and development of innovative and added value food systems products, and intends to leverage the diverse product portfolio of the IFF Business to increase the Company's product offering in the bakery and convenience food segments.

40. Breakdown of Sales by Geographic Regions

40.1. Frutarom manufacturers, markets and sells its products throughout the world. The following table set forth the Company's sales in the last three years broken down by geographic regions.

	2005	2006	2007	Change % 2006 vs 2007
Europe	143.3	174.6	239.7	37.3%
North America	30.3	34.4	38.8	12.5%
Israel	31.0	33.1	40.5	22.4%
Asia and Far East	24.8	25.4	27.8	9.4%
Other	14.4	19.7	21.5	8.6%
Total	243.8	287.2	368.3	28.2%

40.2. For further information on the geographic regions refer to section 7 in the financial reports attached to this report.

41. Risk Factors

41.1. Below are the main risk factors:

Risks Related to the Macro Economy Environment

- **The Company's operations in emerging markets may be adversely affected by political, economic and legal developments in these countries.**

  The Company operates in a number of countries outside of Western Europe and the United States, such as Russia, Turkey, Kazakhstan, Ukraine and China, and therefore is generally susceptible to the political, economic and legal systems and conditions in these countries which are generally less predictable than in countries with more developed institutional structures. The Company's facilities in these countries could be subject to disruption as a result of economic or political instability or the expropriation or nationalization of its assets situated there. The more significant risks of operating in emerging market countries arise from the establishment or enforcement of foreign exchange restrictions, which could effectively prevent Frutarom from receiving profits from, or selling its interests in, companies located in these countries. While none of the countries in which Frutarom's subsidiaries are located currently has foreign exchange controls that affect it significantly, many of these countries have had such controls in the recent past and the Company cannot give any assurances that they will not reinstitute such controls in the future.

- **Currency fluctuations may affect the accurate interpretation of financial statements and trends are unpredictable.**

  The Company reports its financial results in US dollars. Frutarom has sales, expenses, assets and liabilities denominated in currencies other than the U.S. dollar (in particular, Euro, Swiss francs, British pounds and NIS) due to its global operations. Fluctuations in the exchange rates of these foreign currencies could have an impact on the Company's results of operations. Although the Company generally tries to match its sales and costs, as well as monetary assets and liabilities, in the same foreign currencies, there can be no assurance that such activities will be adequate to counter the effects of changes in foreign exchange rates on Frutarom's results of operations.

  In addition, even where revenues and expenses are matched, the Company must translate the results of operations, assets and liabilities of its subsidiaries with a functional currency other than the US dollar into US dollars in its consolidated financial statements. To do so, the Company translates balance sheet items into US dollars using fiscal year end exchange rates as well as income statement and cash flow items by using average exchange rates during the relevant period. Consequently, increases and decreases in the value of the US dollar versus other currencies could affect the Company's reported results of operations and the value of its assets and liabilities in its consolidated balance sheet, even if its results of operations or the value of those assets and liabilities has not changed in their original currency. These translations could

significantly affect the comparability of the Company's results between financial periods and/or result in significant changes to the carrying value of its assets, liabilities and shareholders' equity.

The Company currently does not hedge its currency exposure through financial instruments. Although the Company actively manages its foreign currency denominated assets and liabilities in an effort to reduce its exposure to fluctuations in the exchange rate between the US dollar and other currencies, there can be no assurance that fluctuations in foreign exchange rates will not have a material adverse effect on the Company's results of operations or financial condition.

- **The Company may suffer economic harm as a result of increases in interest rates.**

  The Company's sources of finance, as needed, for short and long term, are linked to the US dollar, the pound Sterling, the Swiss franc and the Euro (according to the activity currency of the subsidiary), and bear Libor interest at variable rates. According to its policy, the Company does not use financial instruments to protect against possible rises in interest rates. As at the date of the balance sheet, the Company does not hold derivative securities. These rates are not generally subject to any caps. If interest rates increase, the Company may not be able to refinance its credit agreements, or any other indebtedness, on attractive terms. Increases in interest rates will impact the company's cash flow.

Risks Related to the Industry

- **Frutarom faces competition in the markets in which it operates, which could have a material adverse effect on its business and ability to maintain and grow its market position.**

  The Company faces increased competition from large multinational and mid-sized companies as well as smaller regional companies in many of the markets in which it operates. Certain of the Company's competitors have greater financial and technological resources, larger sales and marketing organizations and greater name recognition than the Company, and may therefore be better able to adapt to changes and trends in the industry.

  The global market for flavors is characterized by close, collaborative relationships between flavor manufacturers and their customers, particularly in the large multinational customer segment. Further, large multinational customers, and increasingly, mid-sized customers, limit the number of their suppliers, placing those that remain on ''core lists''. To compete successfully in this environment, the Company must make greater investments in customer relationships and tailored product research and development in order to anticipate customers' needs and to provide effective service. A failure by the Company to maintain positive relations with its existing customers, establish good relations with new customers, or secure inclusion on certain of the core lists, could have a material adverse effect on the Company's business, results of operations or financial condition.

As compared to the market for flavor compounds, the market for fine ingredients is more price sensitive and is characterized by comparatively lower margins. Further, many of the fine ingredients products manufactured by the Company are less specialized and more interchangeable with those of its competitors. In particular, overcapacity in the global production of certain types of fine ingredients may have a negative impact on Frutarom's sales and profitability. Although Frutarom has pursued a strategy of focusing on those fine ingredients products exhibiting higher margins and specialization, as well as on lowering costs of production, there can be no guarantee that operating margins for its fine ingredients products will not decrease in the future, which could in turn have a material adverse effect on the Company's business, results of operations or financial condition.

- **Changes in regulations could have a material adverse effect on the Company and its ability to market and sell new products.**

  The Company is subject to a variety of health, safety and environmental rules at national, state and local levels in the various jurisdictions in which it operates. Generally, there is a trend towards increased regulation in the industry in which the Company operates. This has generally been a result of increased public sensitivity toward the composition and use of flavor products. For example, the market for nutraceuticals and functional foods is currently subject to increased regulation, particularly in the United States. Nutraceuticals are dietary food supplements which provide, or are perceived as providing, certain medical or health benefits. Functional foods are foods with certain ingredients added which provide, or are perceived as providing, health and well-being benefits, such as juices or yogurts with health additives. As a result of their medicinal qualities and claimed health benefits, nutraceuticals and functional food products are being increasingly viewed by regulators as having similar characteristics to pharmaceutical products, which has led to a general public debate in many jurisdictions, and in particular in the United States, as to whether nutraceuticals and functional food products should be subject to a more stringent regulatory framework similar to that governing the market for pharmaceutical products. Management has identified nutraceuticals and functional food ingredients as an important market for the future growth of the Company. The implementation of new governmental regulations governing nutraceuticals and functional foods could result in substantially greater ongoing compliance costs, which, in turn, could have a material adverse effect on the Company's business, results of operations or financial condition.

  In addition, necessary regulatory approvals may not be obtained in a timely manner, if at all, for the Company's products currently under development, if and when fully developed and tested. Delays in any part of the process or an inability to obtain regulatory approval for products could restrict the Company's ability to introduce new products, which, in turn, could have a material adverse effect on the Company's business, results of operations, financial condition or potential for growth.

- **The costs of compliance with environmental, health and safety laws and regulations may adversely affect the Company's business, results of operations or financial condition.**

  Companies in the flavor and fine ingredients industry such as Frutarom use, manufacture, sell and distribute a number of environmentally hazardous materials, and therefore are subject to extensive regulation regarding the storage, handling, manufacture, transportation, use and disposal of their products, ingredients and byproducts. In particular, the Company's production and research and development activities in the United Kingdom, Switzerland, Germany, the United States, Israel, China and other countries are subject to environmental standards relating to air emissions, waste water discharges, the use and handling of hazardous materials, waste disposal practices and clean-up of existing environmental contamination. Any increase in the stringency of applicable environmental regulations could have a material adverse effect on the Company's business, results of operations or financial condition.

  In addition to ongoing environmental compliance costs, the Company might, from time to time, be required to incur extraordinary expenditures to meet applicable environmental standards and may be liable for costs associated with any remedial actions that are required in locations in which the Company's facilities are located. As the Company cannot predict environmental matters with certainty, the amounts the Company has budgeted or will budget in the future for environmental improvement projects and any reserves it may establish for environmental clean-up liabilities may not be adequate. Both the ongoing costs of environmental compliance and non recurring expenditures may have a material adverse effect on the Company's business, results of operations or financial condition.

  The Company is also required to maintain and hold various environmental permits for operations at its facilities and is required to conduct its operations in accordance with conditions specified in these permits. Plant expansions are also subject to the securing of new or additional permits which may in some circumstances be difficult to obtain. All such permits may be revoked or modified by the relevant regulator acting unilaterally, and certain permits are time-limited and require periodic renewal. Any such revocation, modification or failure to renew could have a material adverse effect on the Company's business, results of operations or financial condition.

- **The Company's sensitivity to price increases in the raw materials it requires for its production.**

  In recent years the world has been subject to an ongoing trend of increased demand for raw materials in general and particularly raw materials for the food industry. The source of the increased demand is mainly the Third World countries, whose population is rapidly changing its consumption habits and increasingly consumes consumer goods (including convenience food). In addition, the raw materials market for the food industry has in recent years also been

characterized by reduced supply due to crop damage in various countries caused by extreme climate change that result in lengthy droughts and flooding in various areas in the USA, Eastern Europe and Australia. The phenomenon of reduced supply is worsening due to the increasing abandonment of crops such as wheat and soy in favor of corn and other crops that are sources of sugar, which today are used to produce ethanol and additional raw materials for 'green fuel' (bio diesel). There can be no guarantee that Frutarom will be able to suit the prices of its products to raw material price fluctuations, which in turn could have a material adverse impact on its business, results of operations or financial condition. Similarly, the price, quality and availability of the main raw materials used by the Company, especially in the realm of natural products, are subject to fluctuations due to world supply and demand, as stated.

- **Dependency on third parties to supply the raw materials required for production.**

  The Company is dependent on the supply of raw materials from third parties. Although the Company purchases raw materials from a very wide range of suppliers, with no single supplier representing more than 10% of its total raw material purchases. Although most raw materials purchased by the Company have more than one supplier and are for the most part widely available, there can be no guarantee that this will continue to be the case.

- **The Company may be subject to significant civil and criminal liabilities in connection with any failure to comply with the environmental, health and safety laws and regulations applicable to the Company as well as for the release of hazardous substances or for environmental contamination at its facilities.**

  As a result of environmental, health and safety laws and regulations, the Company may be subject to significant civil and criminal liabilities for environmental pollution and contamination as well as for non-compliance with applicable laws, regulations and standards applicable to the potentially hazardous substances it uses and produces globally. Environmental and health and safety laws may provide for criminal sanctions (including substantial fines) for violations. Some environmental laws also provide for strict liability for releases of hazardous substances, which could result in the Company being liable for remedying environmental damage without regard to its negligence or fault. Other environmental laws impose joint and several liability for the clean-up of pollution and contamination and could therefore expose the Company to liability arising out of the conduct of others. A number of claims and third party notices have been filed against the Company for bodily injury, economic/property damages and for breach of environmental laws, which the plaintiffs allege resulted from the pollution of the Kishon River located in Haifa, Israel and allegedly causing an odor hazard whose source is the Company's plant in Haifa. No assurance can be given as to the outcome of these claims or, if decided adversely to the Company, the scope of responsibility assigned by the court to the Company. For details refer to section 38 of this report. In addition, some environmental, health and safety laws may operate

retroactively, imposing liability for past operations even though those operations may have been carried out in compliance with all applicable laws at the relevant time. Any civil or criminal liability under these laws may adversely affect the Company's business, results of operations or financial condition.

Additionally, the Company may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. The laws in the principal countries in which the Company operates allow for legal proceedings to be taken against it if its production facilities are alleged to have caused environmental contamination or personal injury. These proceedings may be taken both by individuals and non-governmental organizations.

Risks Unique to the Company's Business

- **Frutarom's growth strategy relies significantly on its ability to identify, acquire and integrate suitable businesses in the future**.

  A key element of Frutarom's strategy is growth through organic expansion of its core activities and through acquisitions of flavor and fine ingredients manufacturers. In line with this growth strategy, the Company has recently undertaken several strategic acquisitions, including its acquisition of Rad's activity in November 2007; of the Gewurzmuller Group in October 2007; of Adumim's activity and of Raychan, which were completed in August 2007; of Abaco in July 2007; of Jupiter in April 2007; of Belmay in March 2007; of Acatris in October 2006; of Nesse in January 2006; of the IFF business in the second half of 2004; of Flachsmann in June 2003; and the flavors and fine ingredients activity of CPL Aromas Ltd. in February 2001. However, there can be no assurance that the Company will be able to continue to identify suitable acquisitions, acquire businesses on satisfactory terms or obtain the financing necessary to complete and support such acquisitions. Any failure to identify and execute future acquisitions successfully could adversely impact the Company's growth strategy.

  Integrating acquired businesses involves a number of risks, including possible adverse effects on the Company's operating results, loss of customers, diversion of management's attention, failure to retain key personnel, risks associated with unanticipated events or liabilities or difficulties in the integration of the operations, technologies, systems, services and products of the acquired businesses. In addition, the Company may be unable to achieve the anticipated synergies (including cost savings) from such acquisitions. Any failure to successfully integrate past or future acquisitions (including the IFF business) could have a material adverse effect on the Company's business, results of operations or financial condition.

- **The Company may not be able to successfully adapt to its rapid growth in recent years.**

  The rapid and substantial growth in both operations and geographical coverage envisaged by the Company's current

strategy need to be managed effectively to ensure that the expected financial benefits through synergies and economies of scale are realized. A failure to adapt effectively to the rapid growth, including strains on management and logistics, could result in losses or acquisition costs that are not recovered as quickly as anticipated, if at all. Such problems could have a material adverse effect on the Company's business, results of operations or financial condition.

- **Frutarom may be required to pay substantial damages as a result of product liability claims for which insurance coverage is not available.**

  The Company's business exposes it to a risk of product liability, particularly as it is involved in the supply of flavors and fine ingredients to the food and beverage, flavor and fragrance, functional food, pharma/nutraceutical and personal care industries, which ingredients may be harmful to both humans and the environment. If a large product liability claim were successfully brought against the Company, its insurance protection might not be adequate or sufficient to cover such a claim in terms of paying any awards or settlements or paying for the Company's defense costs or both. If a litigant were successful in a lawsuit against the Company, a lack of or inadequate insurance coverage could result in a material adverse effect on the Company's business, results of operations or financial condition. If product liability claims were brought against the Company, it would most likely damage the Company's reputation as well as requiring the Company to divert significant time and effort of its management, which could adversely affect the Company's business regardless of the outcome of the claim.

- **The Company's success depends on its ability to attract new and retain currently employed executives and skilled personnel.**

  The Company's continued success depends on its ability to attract and retain trained flavorists, laboratory technicians and other skilled personnel. The Company operates in a highly specialized marketplace where subtlety of flavor and quality of product are crucial and skilled personnel are critical to ensuring the delivery of a high quality end product. If a number of such employees were to leave permanently or on a temporary basis, the Company may have difficulty employing replacement personnel with the same experience and skill, in which case its research and development capabilities could suffer. Further, Frutarom's continued success depends to a large extent on its senior management team. The loss of the services of certain members of its senior management or other key employees could have a negative impact on Frutarom's results and its ability to implement its strategy. A failure to attract or retain trained flavorists, laboratory technicians and other skilled personnel or members of senior management could have a material adverse effect on the Company's business, results of operations or financial condition.

- **Significant confidential intellectual property is a vital element of the Company's business and it may be difficult to protect.**

  The Company's business depends on intellectual property, which consists of formulae used to create its flavors. The Company's formulae are not patented but constitute highly confidential proprietary business information, available to very few people even within the Company itself. Although the Company does not believe that it depends materially on any single proprietary formula, license or other intellectual property right, the loss of confidentiality with respect to proprietary formulae or loss of access to them and/or the future expiration of intellectual property rights or legal challenges to those rights could have an adverse impact on the Company's business, results of operations or financial condition.

  The Company also relies, in part, on confidentiality and non competition agreements with employees, manufacturers and third parties from which it has purchased product formulae to protect its intellectual property. It is possible that these agreements will be breached and the Company may not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, the Company's trade secrets and proprietary technology may otherwise become known or be independently developed by its competitors in which case the Company may not be able to enjoy exclusivity with respect to certain of its formulae or maintain the confidentiality of information relating to its products.

- **The Company may not have the right to use the ''Frutarom'' trademark in all of the jurisdictions in which it currently operates or where it may seek to expand its operations in the future.**

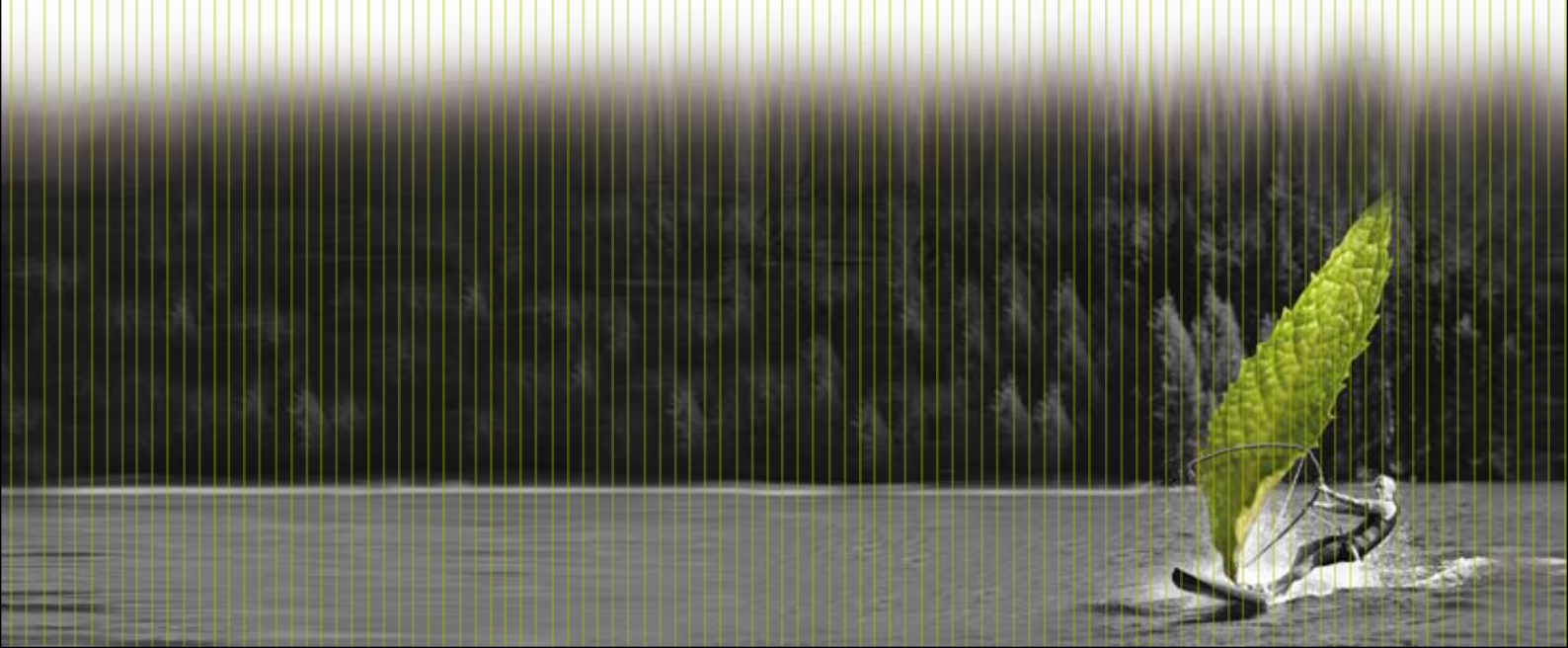
  The Company has not registered the ''Frutarom'' trademark in all of the jurisdictions in which it currently operates. In certain such jurisdictions, the ''Frutarom'' trademark, or a trademark substantially similar to ''Frutarom,'' has already been registered by third parties. For example, the ''Frutarom'' trademark has been registered by a German company throughout the European Community, in Germany and certain other European jurisdictions, in relation to classes of goods which are the same as or similar to those of Frutarom. There is therefore a risk that the Company could face claims for compensation for past use, and injunctions preventing future use of the name Frutarom. Accordingly, there can be no guarantee that the Company will have the right to use the ''Frutarom'' trademark in all the jurisdictions in which it operates or where it may seek to operate in the future.

Below is a table that summarizes the risk factors and their level of impact on the Company:

Risk Factor	Risk factor's level of impact on the Company		
	High	Medium	Low
Risks Related to the Macro Economic Environment			
Stability in emerging markets		✓	
Currency fluctuations			✓
Increases in interest rates		✓	
Risks Related to the Industry			
Competition in the different markets			✓
Changes in environmental, health and safety laws and regulations			✓
Meeting regulations and standards		✓	
Raw materials price rises		✓	✓
Dependency on suppliers			✓
Exposures to civil and criminal liabilities		✓	
Risks Unique to the Company's Business			
Identify future acquisitions		✓	
Adaptation to the rapid growth		✓	
Liabilities claims without insurance coverage		✓	
Attract and retain key employees			✓
Protection of the intellectual property			✓
Use of "Frutarom" trademark			✓

SECTION **B**

DIRECTORS REPORT



FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING DECEMBER 31, 2007[1]

General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were listed on the London Stock Exchange Official List. Frutarom develops, produces and markets flavors and fine ingredients used to produce food, beverages, flavors, fragrances, pharma/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia, and produces, markets and sells over 20,000 products to more than 10,000 customers in over 120 countries. Frutarom operates two divisions: the Flavors Division and the Fine Ingredients Division.

The trend of accelerated growth in sales that has characterized Frutarom's activity for the last seven years, continued this year when the Company made seven acquisitions and achieved in its core activities double-digit organic growth that is substantially higher than the growth rate for the market in which the Company operates. In accordance with Frutarom's strategic plan, sales in 2007 passed the US$ 300 million level, totaling US$ 368.3 million and achieving the ambitious goal it set some three years ago to become one of the ten large, leading global companies in the field of flavors and specialty ingredients. In proforma terms (assuming the acquired companies had been consolidated as of January 1, 2007), sales for the year 2007 would have totaled US$ 431.5 million, a growth of 50% compared with 2006.

In recent years Frutarom has implemented a strategy for achieving rapid growth, at above the industry average, through a combination of internal growth in core activities and strategic acquisitions in its field. These acquisitions substantially strengthen Frutarom's position as a leading producer of flavors and ingredients, and add new quality employees. Frutarom has extensive experience in successfully implementing mergers and is working to integrate the acquired activities with its existing activity and to extract the greatest synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling, cost savings and to improve margin. In accordance with this strategy, in 2007 Frutarom made the following seven acquisitions:

- **Gewurzmuller Group (Germany)** – On October 11, Frutarom acquired 100% of the German companies Gewurzmuller GmbH and Blessing Biotech GmbH (hereinafter together: the "Gewurzmuller Group"), for a cash consideration of US$ 67.0 million (Euro 47.3 million). The acquisition agreement includes a future payment mechanism such that the final consideration will reflect the Gewurzmuller Group's value based on an average of 7.1 times EBITDA that the Group achieves during the twelve months ending December

[1] Prepared in accordance with the consolidated financial reports of the Company for December 31, 2007, which were prepared in accordance with IFRS.

31, 2007. The Gewurzmuller Group's revenue for 2006 totaled US$ 65.0 million (about Euro 46 million). The acquisition is being financed by long term bank loans.

Gewurzmuller was established in 1896 and today is a leading international group in its field employing 160 people. Gewurzmuller develops, produces and markets unique and innovative savory solutions, including savory flavors, seasoning compounds and functional ingredients for the food industry, with special emphasis in the fields of processed meat and convenience food. Blessing Biotech develops, produces and markets starter cultures, which are natural products based on microbiological processes, mainly fermentation of microorganisms and enzymes, which are used to manufacture food, especially meat, dairy and baked goods. Starter cultures enable food manufacturers to control flavor, color, texture and shelf life.

The Gewurzmuller Group operates two production sites in Stuttgart, Germany. The main site, which was built two years ago, is modern and efficient and would allow a substantial increase in production capacity.

Gewurzmuller's activity is especially synergetic and will be integrated with the successful activity of the German company Nesse, which was acquired by Frutarom at the beginning of 2006, and with Frutarom's activity in Israel. The acquisition considerably boosts both Frutarom's technological capabilities and its product offering to customers worldwide in the field of savory flavors and functional products, as well as Frutarom's extensive global customer base.

Upon completing the acquisition, Frutarom began implementing a plan to merge the Gewurzmuller Group's activity with Frutarom's and to extract the maximum use of the cross selling opportunities and the synergy existing in Germany and other countries in order to attain optimal operational efficiency and savings. To date the sales, service and purchasing systems have been consolidated as planned, efficiently and successfully in accordance with the merger program while meeting the goals determined in advance.

- **RAD Natural Technologies Ltd. (Israel)** – On November 15, Frutarom acquired the activity of RAD Natural Technologies Ltd. ("RAD"). RAD researches, develops, produces, markets, distributes and sells unique natural plant extracts with anti-oxidant activity for use in food, dietary supplements and cosmetic products. RAD possesses unique knowhow, which is protected by patents, in this field. RAD's sales for 2006 totaled US$ 1.2 million (NIS 5.3 million).

  In accordance with the acquisition agreement, Frutarom acquired RAD's assets in consideration for a cash payment of US$ 4.1 million, which was financed with bank loans. The acquisition agreement also determines an earn out mechanism for a future payment, such that RAD will be entitled to an additional payment if accumulated sales for RAD's products in 2008 and 2009 are more than US$ 4.0 million. If the accumulated sales for RAD's products in 2008 and 2009 exceed US$ 11.1 million, the maximum additional payment to which RAD will be entitled will be US$ 4.9 million.

  RAD's activity is synergetic with and complements Frutarom's activity and expands the range of natural health and taste solutions that Frutarom offers its customers worldwide.

RAD has an impressive pipeline of projects together with its varied customers throughout the world, including large, multinational leaders in their fields. RAD's patented products were integrated with the product offering produced and marketed by Frutarom's Flavors Division.

- **Belmay Limited and Jupiter Flavours Limited (England)** - On April 1, Frutarom completed the acquisition of Belmay Limited ("Belmay") in consideration for US$ 17.1 million. Belmay is a leading flavors company in the English market that develops, produces and markets flavors for the food and beverage industry. In 2006, Belmay's sales totaled US$ 15.1 million. On April 19, 2007, Frutarom also acquired Jupiter Flavours Limited ("Jupiter"), which develops, produces and markets flavors. In consideration, Frutarom paid US$ 2.8 million. The acquisition agreement also includes a deferred future payment of about US$ 0.6 million based on the results Jupiter is expected to achieve in 2007.

  The Belmay and Jupiter acquisitions established Frutarom's position as the leading flavors producer in the British market. The process of integrating the acquired activities with Frutarom's existing activity in England and in the world is proceeding as planned. Unifying the three sites (Belmay, Jupiter and Frutarom) into one was completed during the fourth quarter of the year and is expected to yield annual operational savings of over US$ 3.0 million.

- **Raychan Be'erot Yitzhak Food Industries Ltd. and Adumim Food Additives Ltd. (Israel)** – Upon receiving the approval of the Israeli Anti Trust Commissioner on August 15, the acquisition of Raychan Be'erot Yitzhak Food Industries Ltd. ("Raychan") and Adumim Food Additives Ltd. ("Adumim") was completed.

  Raychan develops, produces and markets flavor compounds and markets ingredients for the food industry. In consideration for the acquisition Frutarom paid US$ 1.0 million and assumed Raychan's debt in the amount of approximately US$ 1.2 million. Raychan's activity is highly synergetic with Frutarom's activity and has expanded Frutarom's offering of savory products and solutions and functional ingredients in Israel and worldwide. The merger of Raychan's activity and its transfer to Frutarom Israel's existing sites, while achieving substantial operating savings, was completed during the fourth quarter of the year.

  Adumim has two main fields of activity: the development, production and marketing of ingredients and unique fine ingredients for the food and functional food industries, and the development and production of dietary additives containing medicinal plant extracts, vitamins and minerals. According to the terms of the agreement, Frutarom will purchase Adumim's assets (excluding its real estate, debtors and cash balances) in consideration of approximately US$ 4.3 million. Adumim's sales for 2006 totaled approximately US$ 5.5 million. The merger of Adumim's activity and its transfer to Frutarom Israel's existing sites, while achieving substantial operating savings, was mostly completed during the fourth quarter of the year. The final merger of the activity is expected to be completed during the first quarter of 2008.

- **Abaco (USA)** – On July 3, Frutarom acquired Abaco Manufacturing LLC and Abaco Incorporated ("Abaco"). Abaco is an American company that develops, produces and markets unique ingredients for the flavors and fragrances industry. Frutarom paid a consideration of US$ 4.0 million in cash and will also assume Abaco's debt in the amount of US$ 1.1 million. In 2006 Abaco had sales totaling US$ 3.2 million. The process of integrating Abaco's activity with Frutarom USA's activity was completed during the fourth quarter of 2007.

Frutarom's results and margin for 2007 and the fourth quarter in particular were considerably influenced by the acquisitions made this year. The acquisitions contributed to growth in sales but, as expected, temporarily harmed margin. The margin currently achieved by the acquired activities and companies is lower than Frutarom's margin and the margin that these activities and companies are expected to achieve upon completion of the unification and merger with Frutarom's existing activity. Completion of the merger of the three sites in England into one site following the acquisitions of Belmay and Jupiter; completion of the merger of Abaco's activity with that of the Fine Ingredients Division in the USA; and the merger of Rad, Raychan and Adumim's activity with that of the Flavors Division in Israel are expected to contribute to improving margin in 2008. In Frutarom's estimation, the acquisitions will contribute not only to the continuing growth trend in sales but also to growth in profit while improving margin.

The continuing trend of cost increases in raw materials used by Frutarom for production (with a more substantial rise in many of the natural materials that constitute most of the raw materials used by Frutarom) is an additional factor with considerable influence on Frutarom's results in 2007. Frutarom acted determinedly during the third—and especially the fourth—quarters to raise its selling prices in order to adjust them to the ongoing rise in raw materials prices, just as many of its customers in the food industry are doing.

Frutarom’s sales for the year 2007 totaled US$ 368.3 million, growing 28.2% compared with the same period in 2006. Excluding the influence of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar, sales growth totaled 23.7%. Gross profit for 2007 totaled US$ 130.8 million compared with US$ 105.9 million in 2006. Gross margin reached 35.5% compared with 36.9% in 2006. Operating profit totaled US$ 34.5 million compared with US$ 37.1 million in 2006 and operating margin reached 9.4%, compared with 12.9% in 2006. Profit before tax totaled US$ 31.6 million compared with US$ 36.6 million in 2006. Net profit was US$ 24.2 million compared with US$ 29.7 million in 2006 and net margin reached 6.6% compared with 10.3%.

Profit and margin for the year 2007 were influenced by: (i) the acquisitions whose merger, which progressed according to plan, was completed only at the end of the year and therefore the results for the year 2007 do not reflect the expected savings; (ii) the continued trend of rising raw materials costs in most of the raw materials used by Frutarom in production, with a more significant increase in many natural raw materials, which are the majority of raw materials used by Frutarom. Frutarom acted determinedly to raise its selling prices in order to adjust them to the ongoing rise in raw materials prices; and (iii) one-time expenses in the amount of US$ 2.0 million for the merger of the companies and activities acquired. In contrast, in 2006 profit and profitability were influenced by one-time income of US$ 2.7 million in accordance with the agreement and earn out mechanism for the acquisition of the Food Systems activity from IFF and a reduction in the liability for employees pension benefits in the

German subsidiary. In addition, in 2006 the Company recorded one-time tax benefits of US$ 2.5 million. Excluding these one-time influences, gross profit for 2007 totaled US$ 131.1 million compared with US$ 105.6 million in 2006, operating profit for 2007 totaled US$ 36.5 million compared with US$ 34.3 million in 2006, and net profit for 2007 reached US$ 24.9 million compared with US$ 25.2 million in 2006.

Profit per share for 2007 was US$ 0.42 compared with US$ 0.52 per share in 2006.

In the fourth quarter of 2007, Frutarom for the first time passed the US$ 100.0 million mark for sales in one quarter. Frutarom's sales for the quarter totaled US$ 108.4 million, growing 49.2% compared with the same quarter of 2006. (Excluding the influence of the strengthening European currencies, in which most of Frutarom's sales are made, against the US dollar, sales growth totaled 43.1%.) Gross profit for the quarter rose 42.6% to total US$ 36.6 million compared with US$ 25.7 million in the same quarter in 2006. Gross margin reached 33.8% compared with 35.3% for the same period of 2006. Operating profit totaled US$ 7.3 million, compared with US$ 7.8 million in the same period in 2006. Operating margin was 6.7% compared with 10.7% for the same quarter of 2006. Profit before tax totaled US$ 6.3 million compared with US$ 7.7 million in the same quarter of 2006 and net profit totaled US$ 4.8 million compared with US$ 5.3 million for the same quarter last year. Net margin reached 4.4% compared with 7.3% in the same quarter of 2006.

During the last quarter of the year, the Company's profit and margin were influenced by: (i) the acquisitions whose merger, which progressed according to plan, was completed only at the end of the year; (ii) the continued trend of rising raw materials costs in most of the raw materials used by Frutarom in production; and (iii) one-time expenses in the amount of US$ 0.5 million for the merger of the companies and activities acquired. In contrast, during the fourth quarter of 2006 the Company recorded one-time income in accordance with the agreement and earn out mechanism for the acquisition of Food Systems activity from IFF, and a reduction in the liability for employee retirement benefits in the German subsidiary, for an overall amount of US$ 1.7 million. Excluding one-time influences, gross profit for the fourth quarter of 2007 totaled US$ 36.7 million compared with US$ 24.9 million in the same quarter of 2006, operating profit rose to US$ 7.8 million compared with US$ 6.1 million in the same period in 2006 and net profit for the fourth quarter of 2007 rose to US$ 5.2 million compared with US$ 4.2 million in the same period in 2006.

Profit per share for the fourth quarter of 2006 was US$ 0.08, compared with US$ 0.09 in the same period in 2006.

Summary of the Company's Activity

Frutarom operates in the global flavors and fine ingredients markets. In the flavors market, Frutarom is active mainly in the segments of flavor compounds and food systems. In the fine ingredients market, Frutarom operates mainly in the segments of natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, unique citrus products and aroma chemicals.

SRI Consultants estimates that the global market for flavors, fragrances and fine ingredients amounts to approximately US$ 18 billion. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 15 billion. Based on Leffingwell & Associates' data, Frutarom is ranked globally as one of the top ten companies in the field of flavors and fragrances.

According to an estimate published in 2007 by SRI Consultants, global sales in industrialized nations (the USA, Western Europe and Japan) in the flavor and fine ingredients markets in which Frutarom operates will grow at an annual rate of between 2% and 4% from 2006 to 2011. The growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America is expected to reach average annual rates of between 6% and 8% from 2006 to 2011 due to the expected increases in GNP and changes in consumer preferences in these markets. According to SRI Consultants, the market for functional food ingredients in Europe and the United States is expected to grow at a higher annual rate of 9% in the next several years. Frutarom regards its activity in the functional food ingredients market as an important element in its rapid growth strategy.

The Company's activity is divided into two main divisions, each of which is a major field of activity:

- **The Flavors Division** develops, produces, markets and sells flavor compounds and food systems used mainly to manufacture food, beverages and other consumer products. Frutarom develops thousands of different flavors, most of which are tailor-made for specific customers, and continuously develops new flavors in order to meet changing consumer preferences and future customer needs. The Flavors Division (the more profitable of Frutarom's Divisions) has experienced accelerated growth in recent years as a result of both organic growth and the successful integration of a number of strategic acquisitions. The internal growth in the Flavors Division's sales is based mainly on the Division's focus on both developed and emerging markets, and on global multinationals as well as mid-sized, local customers.

- **The Fine Ingredients Division** develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, essential oils, unique citrus products, aroma chemicals, and natural gums and stabilizers. The Division's products are sold principally to the food, beverage, flavor, fragrance, pharma/nutraceutical and personal care industries. The Fine Ingredients Division has experienced growth in recent years as a result of both internal growth and several successful strategic acquisitions. The internal growth in the Fine Ingredients Division's

sales is mainly the result of the development of new, innovative value-added products with higher than average margin and its focus on multinational, mid-sized and local customers worldwide. Most of the Division's products are natural products, which enjoy a higher demand than non-natural products. Frutarom works to expand the natural product portfolio it offers its customers, with particular emphasis on the functional food area.

Frutarom focuses on large multinational customers as well as mid-size and local customers, offering each one the same superior service and tailor-made products. Frutarom concentrates on developed markets such as Western Europe and the United States, as well as fast growing emerging markets such as the CIS (former Soviet Union), Eastern Europe, Asia, and South and Central America, where growth rates are higher than the global average. Frutarom offers its customers a wide product portfolio comprised mostly of natural and innovative, value-added products, such as natural functional food ingredients, and continues to invest substantial resources in the Company's research and development activities. As part of these research and development activities and to expand its offering of natural, innovative and unique products, Frutarom is cooperating with universities, research institutes and start-ups in Israel and elsewhere in the world. During 2007, Frutarom has created a number of such collaborations, which strengthen and broaden the pipeline of new and innovative products that Frutarom intends to launch in the future.

Frutarom will continue to invest considerable efforts and resources in successfully implementing its rapid growth strategy in order to strengthen its positioning 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."

Results of Activity in 2007

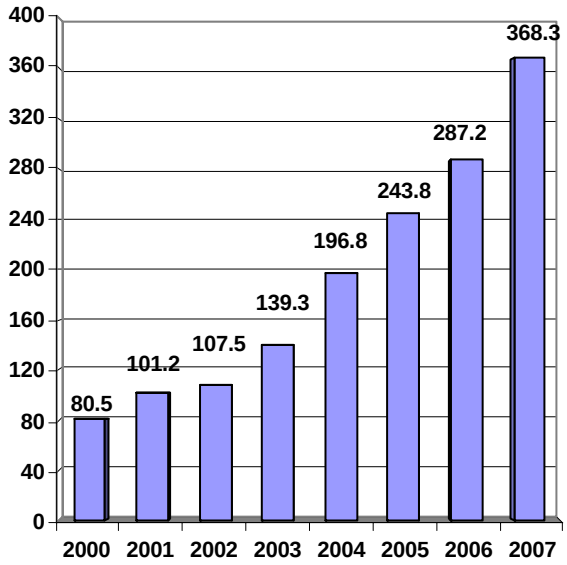
Following is a summary of the profit and loss report for the year 2007 (US$ millions):

	2007	2007	Change (%)
Sales	368.3	287.2	28.2%
Gross profit	130.8	105.9	23.5%
R&D, Selling, Administration, General and Other income	96.2	68.8	39.8%
Operating profit	34.5	37.1	-6.8%
EBITDA	48.5	48.6	-0.1%
Profit before tax	31.6	36.6	-13.7%
Net profit	24.2	29.7	-18.5%

Sales

Frutarom's sales during 2007 totaled US$ 368.3 million, showing growth of 28.2% compared with 2006. Excluding the influence of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar, sales growth totaled 23.7%.

Sales Development in 2000–2007 (US$ millions)



The following were the main factors contributing to the increase in sales:

A. Growth in the sales of flavors produced and sold by the Flavors Division.

B. The integration of Acatris's activity, which was acquired and consolidated as of October 2006 and of Abaco, which was acquired and consolidated as of July 2007 with the global activity of Frutarom's Fine Ingredients Division.

C. The merger of Belmay and Jupiter, which were acquired and consolidated as of April 2007 with the Flavors Division's activity in England.

D. The merger of Raychan's and Adumim's activities, which were acquired and consolidated as of September 2007, and of Rad, which was acquired and consolidated as of November 2007 with the Flavors Division's activity in Israel.

E. The merger of the Gewurzmuller Group's activity, which was acquired and consolidated as of October 2007 with the Flavors Division's activity in Germany.

F. Utilizing the synergy and cross selling opportunities between Frutarom's Divisions, existing customers and products and those added through the acquisitions made in recent years.

G. The strengthening of the European and Israeli currencies (in which most of Frutarom's sales are made) against the US dollar.

H. Growth in the Trade & Marketing activity of Frutarom Israel.

Breakdown of Sales by Geographic Region

Most of the Company's sales are in Europe, North America, Israel, Asia and the Far East. In 2007, 65.1% of the Company's sales were in Europe (growth of 37.3% compared with 2006), 10.5% in North America (growth of 12.7% compared with 2006), 11.0% in Israel (growth of 22.3% compared with 2006), and 7.6% in Asia and the Far East (growth of 9.5% compared with 2006).

The following table sets forth the Company's sales in 2005, 2006 and 2007, broken down by geographic regions (US$ millions):

	2005	**2006**	**2007**	**% of total sales 2007**
Europe	143.3	174.6	239.7	65.1%
North America	30.3	34.5	38.8	10.5%
Israel	31.0	33.1	40.5	11.0%
Asia and Far East	24.8	25.4	27.8	7.6%
Other	14.5	19.7	21.5	5.8%
Total	243.8	287.2	368.3	100.0%

The considerable growth in the Company's sales to Europe in recent years is mainly the result of Frutarom's strategic activities in these years together with organic growth in core activities. As part of its strategy, Frutarom intends to act to increase the proportion of sales to North America and Asia out of the Company's total sales through organic growth and through strategic acquisitions.

Sales Breakdown by Fields of Activity in 2000-2007 (in US$ millions and %)

		2000	2001	2002	2003	2004	2005	2006	2007
Flavors Division	**Sales**	26.5	39.1	45.3	68.2	110.9	150.4	187.0	247.7
	%	32.9%	38.7%	42.2%	49.0%	56.3%	61.7%	65.1%	67.3%
Fine Ingredients Division	**Sales**	49.0	57.5	57.7	67.0	81.7	89.8	98.4	115.0
	%	60.9%	56.9%	53.7%	48.0%	41.5%	36.8%	34.2%	31.2%
Trade & Marketing	**Sales**	6.3	5.6	6.2	6.5	6.8	6.3	6.7	10.5
	%	7.8%	5.6%	5.7%	4.7%	3.5%	2.6%	2.3%	2.9%
Inter Division	**Sales**	-1.3	-1.2	-1.7	-2.3	-2.6	-2.7	-4.9	-4.9
	%	-1.6%	-1.2%	-1.6%	-1.7%	-1.3%	-1.1%	-1.6%	-1.3%
Total Sales		**80.5**	**101.0**	**107.5**	**139.3**	**196.8**	**243.8**	**287.2**	**368.3**

Gross Profit

Gross profit during 2007 reached US$ 130.8 million compared with US$ 105.9 million in 2006, growth of 23.5%. Gross margin for the period was 35.5% compared with 36.9% during 2006. Profit and gross margin were influenced by the price rises in most raw materials used by Frutarom in its production (with a more significant increase in the prices of natural raw materials, which are the majority of raw materials used by Frutarom). Frutarom acted determinedly during the third and especially the fourth quarters to raise the selling prices of its products in order to adjust them to the ongoing rise in raw materials prices, just as many of its customers in the food industry are doing. Gross profit and margin for 2007 include one-time expenses for the merger of the acquisitions made during the year, including US$ 0.3 million for the merger of the three activities in England, and do not reflect the savings expected upon completing the mergers.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 96.2 million (26.0% of sales) in 2007, compared with US$ 68.8 million (24.0% of sales) during the same period in 2006. The increase in expenses results from the following factors:

1. The addition of the acquired activities (Acatris in October 2006, Belmay and Jupiter in April 2007, Abaco in July 2007, Raychan and Adumim in September 2007, Gewurzmuller in October 2007 and Rad in November 2007).

2. One-time reorganization expenses in Frutarom UK in the amount of US$ 1.7 M due to the merger of three sites—Belmay's, Jupiter's and Frutarom UK's—into one site.

3. Growth in core activities.

4. Expenses recorded for implementation of the ERP computerization system at the Company's sites in Israel and Switzerland. Implementation was completed during 2007.

In 2007, one-time expenses were recorded for the reorganization plan of the Company's activity in England in the amount of US$ 1.7 million compared with one-time income recorded in 2006 in the amount of US$ 2.5 million from IFF in accordance with the Food Systems acquisition agreement and its earn out mechanism and for a reduction in the liability for employee retirement benefits in the German subsidiary. Excluding these one-time influences, expenses total US$ 94.6 million (25.7% of sales) in 2007 compared with US$ 71.3 million (24.8% of sales) in 2006.

Operating Profit

During 2007, operating profit reached US$ 34.5 million compared with US$ 37.1 million in 2006. Operating margin for the period reached 9.4% compared with 12.9% during 2006. As stated above, operating and gross margin were influenced by the acquisitions and by the rise in raw materials prices. Excluding one-time reorganization expenses in the amount of US$ 2.0 million in Frutarom UK, and one-time income recorded in 2006 in the amount of US$ 2.7 million in accordance with the agreement for the acquisition of the Food Systems and its earn out mechanism (of which US$ 0.2 million were recorded under gross profit and the remainder in selling and marketing, research and development, administration, general and other expenses) and for a reduction in the liability for employee retirement benefits in the German subsidiary, operating profit rose to reach US$ 36.5 million in 2007 compared with US$ 34.3 million in 2006.

Finance Expenses and Income

Finance expenses for 2007 totaled US$ 2.9 million (0.7% of sales), compared to the finance expenses of US$ 0.4 million (0.1% of sales) in 2006. Finance expenses grew as a result of loans taken to finance the acquisitions performed in England (Belmay and Jupiter), Israel (Raychan, Adumim and Rad), the USA (Abaco), and Germany (Gewurzmuller Group), and to finance cash flow due to the growth in the Company's core activities.

Profit before Tax

Profit before tax for 2007 totaled US$ 31.6 million (8.6% of sales) compared with US$ 36.6 million (12.7% of sales) during 2006.

Taxes on Income

Taxes on income in 2007 totaled US$ 7.4 million (23.4% of profit before tax), compared with US$ 6.9 million (18.9% of profit before tax) during 2006, when a one-time benefit in the amount of US$ 1.0 million was received upon receiving approval as a plant characterized by high technological turnover and from the one-time reduction in the Company's tax expenses (in the amount of US$ 1.5 million) for tax arrangements made in Germany following the Nesse acquisition. On the other hand, in 2007 a one-time tax benefit in the amount of US$ 0.7 million was recorded for the reduction of deferred taxes in Germany due to the expected reduction in the company tax rate in Germany as of January 1, 2008. In addition, a tax reduction was recorded in Israel as a result of the strengthening of the New Israeli Shekel against the US dollar and the influence of the Income Tax Law (Adjustments for Inflation), 5745-1985.

Net Profit

Net profit for 2007 totaled US$ 24.2 million compared with US$ 29.7 million in 2006. Net margin was 6.6% compared with 10.3% in 2006. Excluding one time expenses and income as mentioned, net profit for the year 2007 reached US$ 24.9 million compared with US$ 25.2 million in 2006.

Results of Activity in the Fourth Quarter of 2006

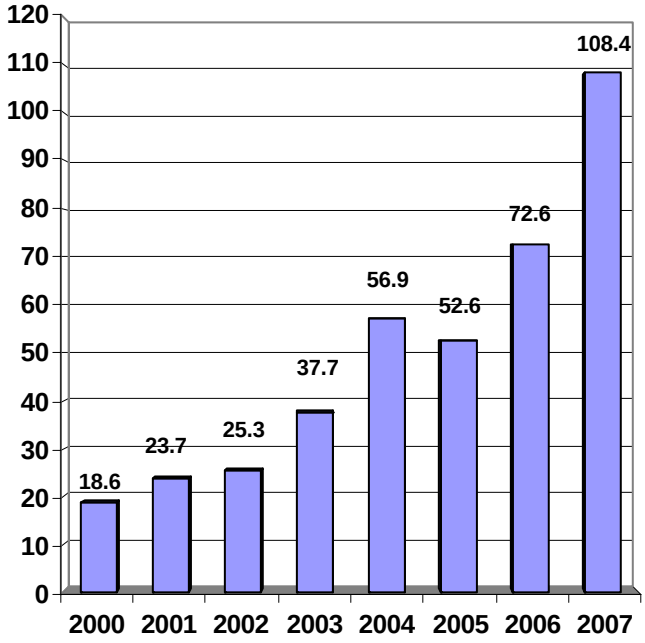
Following is a summary of the profit and loss report for the fourth quarter (US$ millions):

	2007	2006	Change (%)
Sales	108.4	72.6	49.2%
Gross profit	36.6	25.7	42.7%
R&D, Selling, Administration, General and Other income	29.3	17.9	63.8%
Operating profit	7.3	7.8	-5.9%
EBITDA	12.0	11.4	5.5%
Profit before tax	6.3	7.7	-18.1%
Net profit	4.8	5.3	-9.7%

Sales

Frutarom's sales during the fourth quarter of 2007 totaled US$ 108.4 million, showing growth of 49.2% compared with the same period in 2006. Excluding the influence of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar, sales growth totaled 43.1%.

Sales Development in the Fourth Quarter of 2000–2007 (US$ millions)



The increase in sales was influenced mainly by the following factors:

A. Growth in the sales of flavors produced and sold by the Flavors Division.

B. Organic growth in the Fine Ingredients Division's core activities.

C. The integration of Abaco's activity, which was acquired and consolidated as of July 2007 with the Fine Ingredients Division's global activity.

D. The merger of Belmay and Jupiter, which were acquired and consolidated as of April 2007 with the Flavors Division's activity in England.

E. The merger of Raychan's and Adumim's activities, which were acquired and consolidated as of September 2007, and of Rad's activity, which was acquired and consolidated as of November 2007, with the Flavors Division's activity in Israel.

F. The merger of the Gewurzmuller Group's activity, which was acquired and consolidated as of October 2007 with the Flavors Division's activity in Germany.

G. Utilizing the synergy and cross selling opportunities between Frutarom's Divisions, existing customers and products and those added through the acquisitions made in recent years.

H. The strengthening of the West European currencies and the New Israeli Shekel (in which most of Frutarom's sales are made) against the US dollar.

I. Growth in the Trade & Marketing activity of Frutarom Israel.

Sales Breakdown by Fields of Activity in the Fourth Quarters of 2000-2007 (in % and US$ millions)

		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Flavors Division	**Sales**	6.6	9.1	10.4	18.5	40.1	30.8	45.5	78.5
	%	35%	39%	44%	51%	70%	59%	63%	72%
Fine Ingredients Division	**Sales**	11.0	16.4	12.1	17.2	16.1	20.0	26.4	28.9
	%	59%	57%	51%	47%	28%	38%	36%	27%
Trade & Marketing	**Sales**	1.2	1.2	1.5	1.4	1.5	1.3	2.0	2.6
	%	6%	5%	6%	4%	3%	2%	3%	2%
Inter Division	**Sales**	-0.2	-0.2	-0.5	-0.6	-0.7	0.5	-1.4	-1.5
	%	-1%	-1%	-2%	-2%	-1%	1%	-2%	-1%
Total Sales		**18.6**	**23.5**	**23.5**	**36.5**	**57.0**	**52.6**	**72.5**	**108.5**

Frutarom's results for the fourth quarter were substantially influenced by the acquisitions made in 2007. The acquisitions contributed to the growth in sales but, as expected, temporarily harmed profitability. Frutarom has completed most of the merger and consolidation of the activities and companies acquired as planned. Upon completing the process there will be savings on numerous expenses and in the Company's estimation, Frutarom's profit margin will improve in 2008.

Gross Profit

Gross profit grew 42.7% during the fourth quarter of 2007 to reach US$ 36.6 million compared with US$ 25.7 million in the same period of 2006. Gross margin was 33.8% during the quarter compared with 35.3% during the same period in 2006. As stated above, gross profit and profitability were influenced by the acquisitions, whose merger is progressing as planned but is not yet complete, and the continued growth trend in the prices of most of the raw materials used in Frutarom's production, with a more significant price increase in many natural materials, which are the majority of raw materials used by Frutarom. During the third and particularly the fourth quarters Frutarom acted determinedly to raise the selling prices of its products in order to adjust them to the ongoing increase in raw materials prices.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 29.3 million (27.0% of sales) in the fourth quarter of 2007, compared with US$ 17.9 million (24.6% of sales) during the same period of 2006, when income of US$ 0.9 million was recorded in accordance with the agreement and earn out mechanism for the acquisition of Food Systems from IFF and due to the reduced liability for employee pension benefits in the German subsidiary. During the fourth quarter one-time expenses in the amount of US$ 0.4 million were recorded for the merger of the Company's sites in England. The increase in expenses derives in part from the addition of the activities acquired and from the fact that their merger with Frutarom's activity was only completed at the end of the year; accordingly, the expected savings have not yet been achieved. Also contributing to the rise in expenses is the growth in core activities and the costs recorded for the implementation of the ERP computerized system at the Company's sites in Israel and Switzerland, which was completed in 2007.

Operating Profit

During the fourth quarter of 2007, operating profit totaled US$ 7.3 million compared with US$ 7.8 million in the same period of 2006. Operating margin for the period reached 6.7% compared with 10.7% during the same period in 2006. Operating and gross margin were influenced, as stated above, by the acquisitions whose merger was not completed during the report period and upon whose completion the expected operational savings will be achieved, and by raw materials price rises. Excluding the one-time expenses mentioned, operating profit rose to total US$ 7.8 million during the fourth quarter of 2007 compared with US$ 6.1 million during the same period in 2006.

Finance Expenses

Finance expenses for the fourth quarter of 2007 totaled US$ 1.0 million (0.9% of sales) compared with US$ 0.1 million (0.1% of sales) in the same quarter of 2006. Finance expenses grew as a result of loans taken to finance the acquisitions performed in England (Belmay and Jupiter), Israel (Raychan, Adumim and Rad), the USA (Abaco), and Germany (Gewurzmuller), and to finance working capital due to the growth in the Company's activities.

Profit before Tax

Profit before tax for the fourth quarter of 2007 totaled US$ 6.3 million (5.8% of sales), compared with US$ 7.7 million (10.6% of sales) during the same period last year.

Taxes on Income

Taxes on income in the fourth quarter of 2007 totaled US$ 1.5 million (23.5% of profit before tax) compared with US$ 2.3 million (30.6% of profit before tax) during the same period in 2005.

Net Profit

Net profit for the fourth quarter of 2007 reached US$ 4.8 million compared with US$ 5.3 million in the same period of 2006. Net margin reached 4.4% compared with 7.3% in the first nine months of 2006. Excluding the one time influences as mentioned, net profit for the fourth quarter of 2007 rose to reach US$ 5.2 million compared with US$ 4.2 million in the same period in 2006.

Summary of profit and loss for the quarters (US$ million):

	Q1 2006	**Q2 2006**	**Q3 2006**	**Q4 2006**	**Q1 2007**	**Q2 2007**	**Q3 2007**	**Q4 2007**
Sales	71.0	72.3	71.3	72.6	80.5	91.7	87.7	108.4
Gross profit	27.0	26.3	26.9	25.7	29.8	32.8	31.5	36.6
Selling, Marketing, R&D, Administration, General and Other Expenses	16.7	16.6	17.7	17.9	19.4	24.3	23.2	29.3
Operating profit	10.4	9.7	9.2	7.8	10.4	8.5	8.3	7.3
EBITDA	13.1	12.5	11.8	11.4	13.3	11.9	11.5	12.0
Finance expenses	-0.3	0.6	0.1	0.1	0.3	-0.1	1.7	1.0
Profit before tax	10.7	9.1	9.2	7.7	10.1	8.6	6.6	6.3
Net profit	**8.8**	**8.6**	**7.0**	**5.3**	**7.6**	**5.9**	**5.9**	**4.8**

Frutarom's business is characterized by seasonal fluctuations, generally with higher sales and profitability (due to product mix) in the first half of a given year and lower sales and profitability during the second half of a given year. A substantial portion of the Company's products are used by its customers in the manufacture of beverages, ice cream and yogurt, for which demand generally increases markedly during the summer months. As a result, sales of certain flavors and fine ingredients produced by Frutarom rise 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 impact of seasonality on the Company's results has weakened in recent years as the Company has increased its sales of products such as savory flavors, natural functional food ingredients, and natural pharma/nutraceutical extracts, which are intended for the pharma/nutraceutical industries and generally have lower seasonality in demand. A major portion of Nesse's sales are intended for the savory field and also reduce the effect of seasonality. Acatris's products also contribute to modifying the seasonality of sales. The acquisition in October 2007 of the Gewurzmuller Group, which is also active in the savory field, is expected to contribute as well to reducing the influence of seasonality in Frutarom's sales.

Financial Status

Total assets on December 31, 2007 amounted to US$ 548.7 million compared with US$ 316.7 million at December 31, 2006.

The Company's current assets totaled US$ 217.3 million compared with US$ 149.1 million at December 31, 2006.

Fixed assets minus accumulated depreciation and net other assets totaled US$ 325.8 million on December 31, 2007, compared with US$ 161.8 million at December 31, 2006.

The growth in assets resulted mainly from the addition of the assets of Belmay and Jupiter, which were acquired in April 2007; of Abaco, which was acquired in July 2007; of Raychan and Adumim, which were acquired in September 2007; of Gewurzmuller, which was acquired in October 2007; of Rad, which was acquired in November 2007; and from the growth in the scope of the core activity.

Liquidity

The cash flow from current activities achieved by Frutarom during 2007 totaled US$ 16.0 million compared with US$ 31.4 million in 2006. The reduction in cash flow is due to the growth in sales and the scope of activity that led to growth in working capital, mainly in inventory. Cash flow was also influenced by tax payments for previous years and by payment for the transfer of the Gewurzmuller Group's former owners' pension liabilities, in accordance with the acquisition agreement. The number of inventory and suppliers' days remained at a level similar to that of 2006.

The cash flow from current activities achieved by Frutarom during the fourth quarter of 2007 totaled US$ 10.2 million compared with US$ 9.1 million in the same period of 2006. The increase in cash flow was offset by the growth in sales and in the scope of activity that led to growth in working capital, mainly in inventory. Cash flow was also influenced by tax payments for previous years and by payment for the transfer of the Gewurzmuller Group's former owners' pension liabilities, in accordance with the acquisition agreement. The number of inventory and suppliers' days remained at a level similar to that of the last quarter of 2006.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity at December 31, 2007 totaled US$ 251.1 million (45.8% of the balance sheet) compared with US$ 217.1 million (68.6% of the balance sheet) at December 31, 2006. Most of the increase in shareholders' equity resulted from the profit achieved during the period; the positive change in the equity fund from translation differences following the strengthening of the West European currencies against the US dollar; and the growth in the shareholders' equity balance. Shareholders' equity does not have any influence on profit and loss or on cash flow.

On June 21, 2007, 30,000 options that had been awarded to an officeholder in the Company were exercised. The consideration received by the Company totaled US$ 0.08 million.

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

Long term credit from banks for the year 2007 totaled US$ 21.5 million and US$ 85.9 million for the fourth quarter. The long term credit was used to finance the acquisitions made by the Company in 2007. During the same period in 2006 the Company did not require long term credit.

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

Short term credit from banks for the year 2007 totaled US$ 22.4 million (US$ 0.7 million in 2006) and US$ 30.3 million for the fourth quarter (US$ 0.7 million for the same period in 2006). The short term credit was used mainly to finance acquisitions and to increase the Company's cash flow.

Credit from Suppliers and to Customers (Average)

During 2007 the average scope of credit from suppliers and other creditors was US$ 74.3 million (compared with US$ 49.6 million during 2006). During 2007, the Company granted average credit of US$ 69.4 million to its customers (compared with US$ 53.3 million in 2006). Most of the growth in suppliers' and customers' credit results from the acquisitions and the sharp growth in the scope of activity. The number of inventory and suppliers' days remained similar to the level for the year 2006.

Disclosures about Market Risk

General

The Company's activity is characterized by significant dispersal. Through its two Divisions, the Company produces thousands of products intended for hundreds of customers throughout the world, using hundreds of raw materials purchased from a wide range of suppliers worldwide. The Company is not significantly dependent on any one of its customers, products or suppliers.

Responsibility for the Company's Market Risk Management

The Company's Chief Financial Officer is responsible for managing market risk as it relates to currency rates and interest. The Managers of the two Divisions are responsible for managing market risk as it relates to changes in raw material prices. The Company's management and Board of Directors are updated on material changes in the Company's exposure to various risks, and conduct discussions as needed.

Description of Market Risk

A. Raw Material Price Risks

The Company is dependent on the supply of raw materials from third parties. Although the Company purchases raw materials from a very wide range of suppliers, with no single supplier representing more than 5% of its total raw material purchases, and although most raw materials purchased by the Company have more than one supplier and are for the most part widely available, there can be no guarantee that this will continue to be the case. Furthermore, the price, quality and availability of the principal raw materials used by Frutarom mainly in the natural products field are subject to fluctuations as a result of international supply and demand. Certain natural raw materials used by the Company are crop related, and their price, quality and availability could be adversely affected by unfavorable weather conditions, among others. The Company does not normally make forward transactions and is exposed to price fluctuations in the raw materials it uses in accordance with global price trends. In the last year, sharp increases occurred in the prices of many raw materials, mainly natural, that are used by the Company in its production.

The Company's Purchasing Department maintains an ongoing follow up on material prices. Selling prices of the Company's products are adjusted, as needed and to the extent possible, to significant fluctuations in raw material prices.

B. Currency Risks

The Company's sales worldwide are conducted mainly in US dollars, Pounds Sterling, Swiss francs, Euros, and New Israeli Shekels. The fact that raw material purchases for Frutarom's production are also conducted in various currencies reduces currency exposure. Most of the non dollar monetary balances derive from the local activity of the subsidiaries in Europe. The functional currency of these companies is the local currency, and therefore the currency translations of these balances do not influence the Company's finance expenses and are directly attributed to a currency translation capital fund. Currency exposure is reviewed as needed, on at least a quarterly basis. The Company does not generally take external hedging actions or use other financial instruments for protection against currency fluctuations.

C. Interest Risks

To the extent they are required, the Company's sources of bank finance, short and long term, are linked to the US dollar, the Pound Sterling, the Swiss franc, the Euro and the New Israeli Shekel (according to the activity in which the subsidiary is active) and bear variable Libor interest. The Company's policy is to not take protective steps against possible interest rises. As of the date of the balance sheet the Company did not hold any financial instruments, the Company had long term loans in an overall amount of US$ 99.8 million and the scope of its short term debt was US$ 27.0 million.

The Company's Policy Regarding Risk Management

A. The Company attempts to reduce currency exposure, whether economic or accounting, by balancing liabilities and assets in each of the various currencies in which the Group operates.

B. The Chief Financial Officer is responsible for managing the Company's currency exposure. The Company's policy does not determine any limit in terms of quantity for the exposure described above. The exposure level is checked on a regular basis by the Company's Accounting Department. The managers of the Divisions are responsible for managing market risk as it relates to raw material prices. Ongoing follow up is conducted in this area and there is no limit in terms of quantity. Unusual occurrences, such as extreme devaluation trends in a target country or price change trends in important raw materials that may influence the Company's activity, are discussed by the Board of Directors.

In 2007 there were no changes to the risk management policy.

Supervision of Risk Management Policy and its Implementation

Discussions are conducted by the Company's management once each quarter on implementing the risk management policy as relates to currency exposure and interest. The Chief Financial Officer reports to the Board of Directors each year. Exposure to raw material prices is checked by the Purchasing Department and management of the Divisions on a regular basis, and the Board of Directors receives reports as the situation warrants. In 2007 there were no deviations from the planned policy. The Company does not use financial instruments for its protection.

Currency Exposure Report Based on Main Linkage Bases at December 31, 2006 (in US$ 000)

	US$	NIS	GBP	Euro	CHF	Others	Total
Assets							
Cash and Equivalents	7,613	422	382	22,817	664	1,323	33,221
Customers	21,233	10,662	10,544	27,118	6,592	1,857	78,006
Other Debtors	2,531	4,232	1,101	3,952	3,352	491	15,632
Inventory	42,713		9,653	20,370	17,716		90,452
Other long term debtors	4,841		649	153			5,643
Fixed assets, net	33,437		11,593	35,924	53,925	728	135,607
Other assets, net	19,633		24,302	139,160	7,055		190,150
Total Assets	**132,001**	**15,316**	**58,224**	**249,494**	**89,277**	**4,399**	**548,711**
Liabilities							
Bank loans	8,014	14,538	20,892	77,388	5,960	8	126,800
Suppliers	7,151	7,556	4,594	13,446	4,971	1,079	38,797
Other creditors	2,659	8,525	4,450	72,864	8,307	47	96,852
Other long term liabilities	1,420						1,420
Employee retirement rights liabilities	480			10,725	763		11,518
Deferred taxes	4,076		3,530	9,954	4,649		22,209
Total Liabilities	**23,800**	**30,619**	**33,466**	**183,927**	**24,650**	**1,134**	**297,596**
Shareholders' Equity							**251,115**
Net Assets (Liabilities)	**108,201**	**(15,303)**	**24,758**	**65,567**	**64,627**	**3,265**	

Sensitivity to Changes in the US Dollar-New Israeli Shekel Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**--**	**-5%**	**-10%**
Exchange rate	**4.231**	**4.038**	**3.846**	**3.654**	**3.461**
			US$ 000		
Cash and Equivalents	(42)	(21)	422	21	42
Customers	(1,066)	(533)	10,662	533	1,066
Other Debtors	(336)	(168)	3,356	168	336
	(1,444)	**(722)**	**14,440**	**722**	**1,444**
Bank Loans	1,454	727	14,538	(727)	(1,454)
Suppliers and Service providers	756	378	7,556	(378)	(756)
Other creditors	853	426	8,525	(426)	(853)
	3,062	**1,531**	**30,619**	**(1,531)**	**(3,062)**
Total exposure, net	**1,618**	**809**	**(16,179)**	**(809)**	**(1,618)**

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	**0.549**	**0.524**	**0.499**	**0.474**	**0.449**
			US$ 000		
Cash and Equivalents	(38)	(19)	382	19	38
Customers	(1,054)	(527)	10,544	527	1,054
Other Debtors	(57)	(29)	570	29	57
	(1,150)	**(575)**	**11,496**	**575**	**1,150**
Bank Loans	2,089	1,045	20,892	(1,045)	(2,089)
Suppliers and Service providers	459	230	4,594	(230)	(459)
Other creditors	445	223	4,450	(223)	(445)
	2,994	**1,497**	**29,936**	**(1,497)**	**(2,994)**
Total exposure, net	**1,844**	**922**	**(18,440)**	**(922)**	**(1,844)**

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	**0.748**	**0.714**	**0.680**	**0.646**	**0.612**
			US$ 000		
Cash and Equivalents	(2,154)	(1,077)	21,538	1,077	2,154
Short term investments	(128)	(64)	1,279	64	128
Customers	(2,712)	(1,356)	27,118	1,356	2,712
Other Debtors	(364)	(182)	3,637	182	364
	(5,357)	**(2,679)**	**53,572**	**2,679**	**5,357**
Credit from banks	7,739	3,869	77,388	(3,869)	(7,739)
Suppliers and Service providers	1,345	672	13,446	(672)	(1,345)
Other creditors	7,286	3,643	72,864	(3,643)	(7,286)
Employee retirement rights liabilities	1,028	514	10,275	(514)	(1,028)
	17,397	**8,699**	**173,973**	**(8,699)**	**(17,397)**
Total exposure, net	**12,040**	**6,020**	**(120,401)**	**(6,020)**	**(12,040)**

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	**1.237**	**1.181**	**1.125**	**1.068**	**1.012**
			US$ 000		
Cash and Equivalents	(66)	(33)	664	33	66
Customers	(659)	(330)	6,592	330	659
Other Debtors	(242)	(121)	2,421	121	242
	(968)	**(484)**	**9,677**	**484**	**968**
Credit from Banks	596	298	5,960	(298)	(596)
Suppliers and Service providers	497	249	4,971	(249)	(497)
Other creditors	831	415	8,307	(415)	(831)
Employee retirement rights liabilities	76	38	763	(38)	(76)
	2,000	**1,000**	**20,001**	**(1,000)**	**(2,000)**
Total exposure, net	**1,032**	**516**	**(10,324)**	**(516)**	**(1,032)**

Sensitivity to Changes in the US Dollar-Other Currencies Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**--**	**-5%**	**-10%**
			US$ 000		
Cash and Equivalents	(132)	(66)	1,323	66	132
Customers	(186)	(93)	1,857	93	186
Other Debtors	(24)	(12)	239	12	24
	(342)	**(171)**	**3,419**	**171**	**342**
Credit from Banks	1	0	8	(0)	(1)
Suppliers and Service providers	108	54	1,079	(54)	(108)
Other creditors	5	2	47	(2)	(5)
	113	**57**	**1,134**	**(57)**	**(113)**
Total exposure, net	**(229)**	**(114)**	**2,285**	**114**	**229**

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)	**67**	**34**	**6,763**	**(34)**	**(67)**
Long Term Loans (CHF)	**37**	**19**	**2,937**	**(19)**	**(37)**
Total exposure, net	**104**	**53**	**9,700**	**(53)**	**(104)**

The Internal Auditor's Activity

The Company's Internal Auditor

Mr. Yoav Barak, CPA, was appointed internal auditor of the Company and began his work as internal auditor on January 17, 2005. The internal auditor is not an employee of the Company.

Auditor's Compliance with Legal Requirements

The internal auditor meets the requirements of Section 146(b) of the Companies Law and of the instructions in Section 8 of the Internal Audit Law.

The Internal Auditor's Relations with the Company

At the time of this report, the internal auditor did not hold shares in the Company.

The internal auditor does not have significant business or other relations with the Company.

The internal auditor is not an employee of the Company and does not fill other positions in the Company or provide additional external services.

Appointment of the Internal Auditor

The appointment of the internal auditor was approved by the Board of Directors of the Company on January 17, 2005 based on the recommendation of the Audit Committee.

The internal auditor's appointment was approved by the Board of Directors of the Company after reviewing his education (CPA and economist) and his experience in the field of internal auditing and in various managerial posts including, among others, as internal auditor. The Board of Directors of the Company found the internal auditor to be suitable to fill this position in view of the Company's size, scope of activity and level of complication.

Identification of the Internal Auditor's Superior

The internal auditor reports to the Audit Committee of the Board of Directors of the Company and the president of the Company.

Audit Program

The audit program is an annual and multi-year program prepared by the internal auditor in coordination with the president of the Company and the executive vice presidents, and approved by the Audit Committee of the Board of Directors of the Company. The considerations directing the program's preparation are based on subjects perceived as worthy of thorough analysis, according to their risk level, with the aim of locating faults, achieving efficiencies, and ensuring that the Company's assets are protected and the Company's procedures and the local laws of the countries of operation are observed. The annual audit program also includes follow up on the implementation of recommendations by the internal auditor and the Audit Committee by the Company's management. The audit is carried out in

accordance with the annual and multi-year audit programs and is updated as needed and as indicated by the findings of the audit. The audit is carried out through questionnaires and physical audits at the sites of the Company and related companies in Israel and throughout the world. Some of the audit subjects are wide-ranging and checked throughout the Group, while others are specific subjects audited according to the annual program.

Auditing Outside of Israel or of Related Companies

The annual audit program also encompasses significant undertakings of the Company. The internal auditor conducts at least one audit each year in each significant subsidiary.

Scope of the Internal Auditor's Position

The scope of the internal auditor's position in the Company was expanded in accordance with the Company's rate of expansion and growth. The internal auditor is employed at a rate of 1,142 working hours per year (equal to two and a half working days per week).

	Number of hours invested in internal auditing in the Company itself	**Number of hours invested in internal auditing in related companies**
Activity in Israel	670	0
Activity outside of Israel	0	470

The scope and level of complication of the Company’s activity were taken into account in determining the internal auditor’s scope of employment.

The internal auditor’s scope of employment did not change in 2007 as compared with 2006.

Drafting the Audit

The work of internal auditing is conducted according to professional standards accepted in Israel and the world, including the professional standards of the Israel Internal Auditors Board, that ensure professional, reliable and independent control. The audit reports record the findings of the audit and the documented facts.

Free Access for the Internal Auditor

The internal auditor has free and independent access to the Company's information systems, including those of the related companies, whether ordinary or computerized, to all data bases and to all programs for automatic data processing of the Company and its related companies, including financial data. The internal auditor is entitled to enter any and all assets of the Company, including its related companies, and check them.

The Internal Auditor’s Accountability

Audit reports are prepared and submitted in writing by the internal auditor to the Audit Committee and to the members of the Company’s management.

During 2007, three meetings were held (March 19, July 1 and October 7), at which 10 audit reports were discussed. The president of the Company, the executive vice president – chief financial officer and the members of the Audit Committee received the audit reports and were present at all of the Audit Committee's meetings. The managers of the Division were present at the Committee's meetings when the audit reports related to their activity.

Assessment by the Board of Directors of the Company of the Internal Auditor's Activity

In the opinion of the Board of Directors of the Company, the scope, character and continuity of the internal auditor's activity and work program are reasonable under the circumstances and fulfill the internal audit goals of the Company.

The internal auditor's compensation in 2007 was NIS 336,000. The Company does not believe that this compensation would affect the professional considerations of the internal auditor.

Allotment of Shares and Distribution of Dividend

On March 19, 2007, the Board of Directors of the Company declared the distribution of a cash dividend of NIS 0.18 per share, totaling NIS 10.4 million. April 17, 2007 was set as the record date and the dividend was distributed on May 1, 2007.

Critical Accounting Estimations

Preparation of the financial reports of the Company in accordance with IFRS demands the use of critical accounting estimates, which obliges the management of the Company to use its judgment in the process of implementing the general accounting policies of the Company, to prepare estimates and make assumptions that influence the amounts presented in the attached financial reports.

Below are the critical accounting estimations used in preparing the financial reports of the Company; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its judgment to determine these estimates, the management of the Company based itself upon past experience, various facts and on reasonable assumptions in accordance with the suitable circumstances for each estimate. The actual results may be different from management's estimates. Regarding the material accounting estimates used in preparing the financial reports of the Company, refer also to note 4 to the attached financial reports.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise judgment in order to determine the overall provision in respect of taxes on income. The Company makes many transactions for which the final tax determination is uncertain. The Company records provisions in its books based on its estimates of whether additional taxes will be due on these transactions. Where the final tax outcome of these matters as determined by the tax authorities is different from the amounts

that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account tax purposes. The Company regularly reviews its deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

Severance Pay

The present value of the Company's liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include the long term yield rate on the related severance pay funds and the rate of discount. Changes in those assumptions will influence the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long term historical yields.

The assumption regarding the required rate of discount is determined by the Company at the end of each year. This rate of discount shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The market of high quality corporate bonds is not sufficiently liquid to serve as the basis for determining the discount rate. Therefore, in determining this rate the Company uses interest rates applicable to governmental bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability.

Other key assumptions relating to pension liabilities, such as future payroll raises, are based on existing rates of payroll inflation.

Provision for Contingent Liabilities

Contingent provisions for legal liabilities are recorded in the books in accordance with the judgment of the Company's management regarding the likelihood that the cash flows will be used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment in Respect of Goodwill and Intangibles

Once a year, the Company reviews the need to provide for impairment of goodwill and intangibles. The need to make such a provision is assessed in relation to the recoverable value of the cash generating units of the Company. The recoverable amount of a cash

generating unit is determined in accordance with the assumptions and calculations made by management.

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the character of the Company's activity, its complexity and size. The Board believes that this minimum number will enable it to meet its obligations according to law and the Company's Articles of Association, and especially relating to its responsibility to check the Company's financial status and to prepare and approve the financial reports.

The directors with accounting and financial expertise are:

Dr. John Farber – Dr. Farber has served as Chairman and as a member of the board of directors of Frutarom since 1996. He is also Chairman of ICC Industries Inc., the Company's principal shareholder, and a member of the boards of directors of various subsidiaries of ICC Industries Inc. Dr. Farber holds a Ph.D. from the Polytechnic Institute of Brooklyn, New York.

Mr. John Oram – Mr. Oram has served as a member of the board of directors of Frutarom since 1996. He is also President of ICC Industries Inc., the principal shareholder in the Company, and is a member of the boards of directors of various subsidiaries of ICC Industries Inc. Mr. Oram, a fellow of the Institute of Chartered Accountants in England and Wales, qualified in 1967.

Mr. Hans Abderhalden – Mr. Abderhalden has served as a director on the board of directors of Frutarom since December 2004. In addition, Mr. Abderhalden has also served as director on the board of directors of Frutarom Switzerland since 2002. Mr. Abderhalden possesses 25 years of experience in the flavor and fragrance industry. From 2000 through 2002 Mr. Abderhalden served as president and chief executive officer of Emil Flachsmann AG, which was acquired by Frutarom in 2003. Prior to that, Mr. Abderhalden worked for Givaudan for a period of 18 years, including as president of the global flavors division.

Mr. Yacov Elinav – Mr. Elinav has served as an external director on the board of directors of Frutarom since February 2008. Mr. Elinav has served since 2004 as chairman of the board of directors of Dash Securities and Investments Ltd. and until 2003 served as vice president of Bank HaPoalim Ltd. Mr. Elinav serves as a director in Elinav Consultation and Services Ltd.; New Kopel Ltd.; Middle East Pipes Ltd.; Office Textile Ltd.; Tefron Ltd.; Dash Securities and Investments Ltd.; Dash Provident Funds Ltd.; Dash Institutionals Ltd.; Sapiens Ltd.; B.G. Platinum Ltd.; The Phoenix Platinum C.A. Ltd.; and Global Box Ltd. Mr. Elinav holds a bachelor's degree in economics from the Hebrew University in Jerusalem.

Mr. Isaac Angel – Mr. Angel has served as an external director on the board of directors of Frutarom since February 2008. Until 2006, Mr. Angel served as general manager and president of Lipman Electronic Engineering Ltd and as a senior Vice President in Verifone Inc.

Mr. Yair Seroussi – Mr. Seroussi has served as a director on the board of directors of Frutarom since 2005. Until 1992 Mr. Seroussi served as the head of the Israeli Ministry of Finance's delegation to the United States and manager of the commodities delegation. Since 1993 he has represented investment banker Morgan Stanley in Israel and has served as Managing Director of Admiral Holdings Ltd. and as a financial advisor. Mr. Seroussi is an external director in the Israel Company Ltd., a director in DSPG and Wintegra, and the Chairman of the Board of Europort Ltd. Mr. Seroussi holds a degree in economics and social studies from the Hebrew University in Jerusalem and serves on its Board of Trustees.

Peer Review of the Auditors' Work

In accordance with the instructions of the Israeli Securities Authority of July 28, 2005, regarding the disclosure of consent to perform a peer review whose goal, according to the stated instructions, is to put in place a process of control on the audit work performed by the auditor, which will contribute to the existence of an advanced capital market, the Company agreed to the transfer of the information required to perform a sampling related to the peer review. The Company's consent was given subject to obtaining the auditor's commitment according to which before beginning a review of the material relating to the Company, the Company's auditor will certify that the accountants performing the review commit to maintaining all material transferred to them as part of the peer review procedure in confidence and to avoid any situation of conflict of interests.

Disclosure Regarding the Remuneration of the Auditor

In accordance with the instructions of the Securities Authority of January 29, 2006, the remuneration paid by the Company to its auditor is as detailed below:

A. Remuneration for audit services, for services related to the audit and for tax services for 2007 is US$ 750 thousands (compared with US$ 551 thousands in 2006) for Israel and the overseas subsidiaries (8,489 hours in 2007 compared with 6,293 hours in 2006). The amount paid for audit and tax services does not exceed 45% of the total remuneration in this section.

B. Other remuneration – The total remuneration for services provided by the auditor that are not included in Section A above for 2007 is US$ 192 thousands for Israel and the overseas subsidiaries (compared with US$ 49 thousands in 2006).

Disclosure Regarding the Approval Process for the Financial Reports

The Company's financial reports are submitted for approval by the Board of Directors, the organ in charge of the Company's ultimate supervision. The Board of the Company has seven members, of whom six have accounting and financial expertise. The members of the Board receive the draft financial reports, the directors' report and the managerial report of the Company's management several days before the date of the Board meeting at which the reports are brought for their approval. The Company's auditors and members of the Company's senior management, including the president and CEO and executive vice presidents and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president – CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the financial results of the Company, the Company's management answers questions and relates to the directors' comments. In addition, the executive vice presidents and managers of Frutarom's global divisions present the status of their business and developments that occurred during the relevant period. Following presentation of the Company's financial results and of the division managers, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors report and submit them to the securities authorities and stock exchanges. All of the members of the Board of Directors were present at the Board meeting held on March 17, 2008, when the reports were approved. All of the directors present voted in favor of approving the reports.

Events Following the Balance Sheet Date

There were no significant events following the balance sheet date.

Upon approving the Financial Report on March 17, 2008, the Board of Directors declared the distribution of a dividend in cash in the amount of NIS 0.18 per share, for an overall value of NIS 10.387 million (US$ 3.032 million).

The Board of Directors of the Company held eight meetings during 2007.

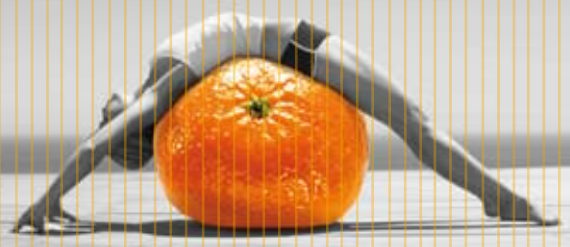
The Board of Directors thanks Frutarom’s employees and management for the Company’s achievements.

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

March 17, 2008

SECTION C

FINANCIAL REPORTS



FRUTAROM INDUSTRIES LTD.

2007 CONSOLIDATED FINANCIAL STATEMENTS

FRUTAROM INDUSTRIES LTD.

2007 CONSOLIDATED FINANCIAL STATEMENTS

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PRICEWATERHOUSECOOPERS

Kesselman & Kesselman
Certified Public Accountants (Isr.)
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Haifa 33034 Israel
Telephone +972-4-8605000
Facsimile +972-4-8605001

REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

We have audited the accompanying consolidated financial statements of Frutarom Industries Ltd. (hereafter - the Company) and its subsidiaries; balance sheets as of 31 December 2007, 2006 and 2005 and the related consolidated income statements, changes in shareholders' equity and cash flows statements for each of the three years in the period ended on these days. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of certain consolidated companies, whose assets included in consolidation constitute approximately 11%, 4% and 4% of total consolidated assets as of 31 December 2007, 2006 and 2005, and whose revenues included in consolidation constitute approximately 11%, 7%, and 7% of total consolidated revenues for the years ended 31 December 2007, 2006 and 2005, respectively. The financial statements of the above consolidated companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for these companies, is based on reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2007, 2006 and 2005 and the results of operations, changes in shareholders' equity and cash flows statements for each of the years in the period ended on these days, in accordance with International Financial Reporting Standards and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

Haifa, Israel
17 March 2008

FRUTAROM INDUSTRIES LTD.

BALANCE SHEETS

	Note	As of 31 December		
		2007	2006	2005
		U.S. dollars in thousands		
A s s e t s				
CURRENT ASSETS:				
Cash and cash equivalents	19	31,942	18,417	33,723
Short term investments	5a	1,279	3,260	
Accounts receivable:	16			
Trade		78,006	53,968	40,289
Other		11,995	10,038	6,756
Prepaid expenses and advances to suppliers		3,637	3,662	2,206
Inventories	17	90,452	59,754	46,886
T o t a l current assets		217,311	149,099	129,860
NON-CURRENT ASSETS :				
Property, plant and equipment - net	8	135,607	101,655	86,108
Intangible assets - net	2f,9	190,150	60,172	12,601
Deferred income tax assets	14e	3,745	3,833	3,319
Other non-current assets	18	1,898	1,938	1,978
T o t a l non-current assets		331,400	167,598	104,006
T o t a l non-current assets		548,711	316,697	233,866

_____)
Dr. John J. Farber)
Chairman of the Board

_____)
Ori Yehudai)
President and CEO

_____)
Alon Granot)
Executive Vice President and CFO

Date of approval of the financial statements by the Board of Directors: 17 March 2008.

	Note	As of 31 December		
		2007	2006	2005
		U.S. dollars in thousands		
Liabilities and Equity				
CURRENT LIABILITIES:				
Bank credit and loans	10	44,221	673	289
Accounts payable:	20			
Trade		38,797	27,500	17,895
Other		96,412	27,997	22,162
Provisions	21	440	946	547
Total current liabilities		179,870	57,116	40,893
NON-CURRENT LIABILITIES:				
Loans and credit from banks (net of current maturities)	10	82,579		
Retirement benefit obligations	11	11,518	7,499	7,775
Deferred income tax liabilities	14e	22,209	12,241	7,390
Others	5	1,420	22,708	
Total non-current liabilities		117,726	42,448	15,165
COMMITMENTS AND CONTINGENT LIABILITIES	12			
Total liabilities		297,596	99,564	56,058
EQUITY:	14			
Share capital		16,466	16,434	16,399
Capital surplus		94,392	93,116	91,666
Currency translation differences	2c	17,638	5,716	(5,160)
Retained earnings		125,279	103,658	75,934
Net of - cost of Company shares held by subsidiary		(2,660)	(1,791)	(1,031)
Total shareholders' equity		251,115	217,133	177,808
Total shareholders' equity and liabilities		548,711	316,697	233,866

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

INCOME STATEMENTS

	Note	Year ended 31 December		
		2007	2006	2005
		U.S. dollars in thousands, except for per share data		
SALES		368,261	287,247	243,803
COST OF SALES	22a	237,506	181,370	149,285
GROSS PROFIT		130,755	105,877	94,518
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:				
Selling, marketing, research and development - net	22b	66,898	48,518	43,818
General and administrative	22c	29,525	22,418	18,217
OTHER INCOME - net	22d	194	2,114	1,255
OPERATING PROFIT		34,526	37,055	33,738
FINANCIAL EXPENSES - net	22e	2,923	445	416
PROFIT BEFORE TAX INCOME		31,603	36,610	33,322
TAXES EXPENSES	14f	7,410	6,908	6,475
NET INCOME		24,193	29,702	26,847
		U.S dollars		
EARNINGS PER SHARE:	2u			
BASIC		0.42	0.52	0.49
DILUTED		0.41	0.51	0.48

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
BALANCE AT 1 JANUARY 2005		13,961	17,642	5,039	43,072	(1,061)	78,653
Derecognition of the balance of recognised negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3 (Note 2f)					7,731		7,731
BALANCE AT 1 JANUARY 2005 – after the effect of the transition provisions of IFRS 3		13,961	17,642	5,039	50,803	(1,061)	86,384
CHANGES IN 2005:							
Net income not recognised in the net profit - changes in currency translation differences	2c			(10,199)			(10,199)
Net income					26,847		26,847
Total recognised income for 2005							16,648
Issuance of share capital	13b	2,416	73,451				75,867
Plan for allotment of Company shares to employees of subsidiary:	2p						
Purchase of Company shares by subsidiary						(383)	(383)
Receipts in respect of allotment of Company shares to employees	13c3)					92	92
Recognition of compensation related to the plan	13c3)					321	321
Allotment of shares and options to senior employees:	13d;13c3)						
Allotment of share capital to senior employees		22	89				111
Recognition of compensation related to employee stock and option grants			484				484
Dividend	13e				(1,716)		(1,716)
BALANCE AT 31 DECEMBER 2005 - brought forward		16,399	91,666	(5,160)	75,934	(1,031)	177,808

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
BALANCE AT 31 DECEMBER 2005 - brought forward		16,399	91,666	(5,160)	75,934	(1,031)	177,808
CHANGES IN 2006:							
Net income not recognised in the net profit - changes in currency translation differences	2c			10,876			10,876
Net income					29,702		29,702
Total recognised income for 2006							40,578
Plan for allotment of Company shares to employees of subsidiary:	2p						
Purchase of Company shares by subsidiary						(1,135)	(1,135)
Receipts in respect of allotment of Company shares to employees	13c3)					146	146
Recognition of compensation related to the plan	13c3)					229	229
Allotment of share and options to senior employees	13d;13c3)						
Allotment of share capital to senior employees		35	141				176
Recognition of compensation related to employee stock and options grants			1,309				1,309
Dividend	13e				(1,978)		(1,978)
BALANCE AT 31 DECEMBER 2006 - brought forward		16,434	93,116	5,716	103,658	(1,791)	217,133

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
31 DECEMBER 2006 - brought forward		16,434	93,116	5,716	103,658	(1,791)	217,133
CHANGES IN 2007:							
Net income not recognized in the net profit - changes in currency translation differences	2c			11,922			11,922
Net income					24,193		24,193
Total recognised income for 2007							36,115
Plan for allotment of Company shares to employees:	2p						
Purchase of Company shares by subsidiary						(1,194)	(1,194)
Receipts in respect of allotment of Company shares to employees	13c3)					234	234
Recognition of compensation related to the plan	13c3)					91	91
Allotment of shares and options to senior employees:	13d;13c3)						
Allotment of share capital to senior employees		32	167				199
Recognition of compensation related to employee stock and option grants			1,109				1,109
Dividend	13e				(2,572)		(2,572)
BALANCE AT 31 DECEMBER 2007		16,466	94,392	17,638	125,279	(2,660)	251,115

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2007	2006	2005
		U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash generated from operations	23	24,032	36,389	34,431
Interest received (paid)		867	400	222
Income tax paid		(8,908)	(5,340)	(2,203)
Net cash provided by operating activities		15,991	31,449	32,450
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(14,685)	(10,056)	(10,100)
Acquisition of subsidiaries - net of cash acquired	5	(91,108)	(34,390)	
Acquisition of operations - net of cash acquired	5	(8,427)		
Reimbursement in respect of acquisition of operation	5	2,389	2,218	4,598
Proceeds from sale of property, plant and equipment		708	426	4,095
Purchase of intangible assets		(2,820)	(3,820)	(2,233)
Collection of long-term receivable				2,439
Capitalised lease fees	17			(382)
Short-term marketable securities - net		2,199	7	
Net cash used in investing activities		(111,744)	(45,615)	(1,583)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital, net of issuance costs				75,867
Receipts from senior employees in respect of allotment of shares		199	176	111
Receipt of long-term bank loans and credit		89,483		
Repayment of long-term bank loans and credit		(2,166)	(304)	(33,585)
Receipt of short-term bank loans and credit - net		20,521		
Repayment of long-term credit in connection with the acquisition of Flachsmann				(1,170)
Purchase of Company shares by subsidiary - net of receipts in respect of the shares		(960)	(989)	(291)
Repayment of long-term credit in connection with the acquisition of IFF				(39,468)
Dividend paid		(2,572)	(1,978)	(1,716)
Net cash provided by (used in) financing activities		104,505	(3,095)	(252)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		10,433	(15,979)	29,604
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,744	33,723	4,119
EXCHANGE GAINS (LOSSES) ON CASH AND CASH EQUIVALENTS		1,681	1,282	(1,011)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	19	28,177	17,744	33,723

The accompanying notes are an integral part of the financial statements.

NOTE 1 – GENERAL INFORMATION:

a. Information on the activities of Frutarom Industries Ltd. and its subsidiaries (hereafter - the "Group").

Frutarom Indusrties Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control. The Group operates principally in two divisions: the Flavors Division and the Fine Ingredients Division. The Group develops, manufactures, markets and sells flavors and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products. The Company has production facilities in Europe, North America, Israel, and Asia (see also a list of subsidiaries in Note 27); The Company has 25 research and development laboratories and it sells and markets its products principally through its 45 sales and marketing offices. Segment information for the reporting years is presented in Note 7.

The Company is a limited liability company incorporated and domiciled in Israel. The address of its registered office is 25 Heshaish St., Haifa Bay. The Company's controlling shareholder is ICC Industries Inc.

The Company's shares have been listed on the Tel-Aviv Stock Exchange (the "TASE") since 1996; since February 2005, Company's shares are also listed through Global Depository Receipts in the official list of the London Stock Exchange (hereafter - LSE) (b. below).

b. In February 2005, the Company has completed an offering in which it raised capital in the total amount of $ 76 million (net of issuance expenses at the amount of $ 5 million) as against the issuance of Company shares and listing Global Depositary Receipts (hereafter – GDRs) in the official list of the London Stock Exchange (Note 13b).

c. Acquisitions made by the group:

1) In January 2006, the Group acquired 70% of the control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Krause GmbH (hereafter together - Nesse), in consideration for € 18.4 million ($ 22.3 million) paid in cash and additional Success fee payments aggregate to approximately $ 21.6 million dollars (Note 5a).

2) In October 2006, the Group acquired 100% of the issued and paid share capital of the U.S. company Acatris Inc., of the Dutch company, Acatris Specialties Holdings B.V. and of the Belgian company, Acatris Belgium N.V. (hereafter together - Acatris), in consideration for € 10.5 million ($ 13.3 million) paid in cash (Note 5b).

3) In April 2007 the Group acquired, 100% of the issued and paid share capital of the U.K. company Belmay Limited (hereafter – Belmay), in consideration for $ 17.8 million.

NOTE 1 – GENERAL INFORMATION (continued):

As to the data included in the consolidated financial statements as a result of the consolidation for the first time, of Belmay (commencing 1 April 2007) (Note 5c)

4) In April 2007, the Group acquired, 100% of the issued and paid share capital of the U.K. company Jupiter Flavours Limited (hereafter – Jupiter). The acquisition was made in consideration for $ 3.6 million.

   As to the data included in the consolidated financial statements as a result of the consolidation for the first time, of Jupiter (commencing 19 April 2007) (Note 5d)

5) In July 2007, the Group purchased 100% of the ownership of the American companies Abaco Manufacturing Llc and Abaco Incorporated (hereafter - Abaco) in consideration for $ 5.1 million.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Abaco (commencing 3 July 2007) (Note 5g)

6) In August 2007, the Group signed a purchase agreement for the acquisition of 100% of the share capital of Reichan Beerot Itzhak Food Industries Ltd. (hereafter - Reichan) in consideration for $ 1 million.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Reichan (commencing 27 August 2007) (Note 5e)

7) In August 2007, the Group signed an agreement to purchase the operations and assets of Adumim Food Supplements Ltd. (hereafter - Adumim).

   The consideration of the acquisition in the amount of $ 4,250 thousands was paid upon the completion of the transaction subject to compliance with conditioning terms.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Adumim (commencing 30 August 2007) (Note 5f)

8) In October 2007, the Group signed an agreement for the acquisition of 100% of the share capital of the German companies Gewurzmuller GmbH and Blessing Biotech GmbH (hereafter - The Gewurzmuller Group).

   The consideration of the acquisition was approximately € 66.4 million (approximately $ 94 million) which also includes future payment.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of the Gewurzmuller Group (commencing 11 October 2007) (note 5h)

9) In November 2007, the Group acquired the operations and assets of Rad Natural Technologies Ltd. (hereafter - Rad).

NOTE 1 – GENERAL INFORMATION (continued):

In accordance with the agreement, the Group acquired the operations and assets of Rad which include fixed assets, inventories, agreements, orders, goodwill, intellectual property and expenses in advance (the Group did not undertake Rad's liabilities) in consideration for a cash payment of U.S. $ 4.1 million which was financed by a bank credit and additional future consideration estimated at $ 1.4 million.

As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Rad (commencing 15 November 2007) (note 5i)

As to further details regarding those acquisitions (Note 5).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Preparation:

1) The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Israeli Securities (Preparation of Annual Financial Statements), Regulations, 1993.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in (Note 4).

2) Adoption of new standards:

(a) Standards, amendments and interpretations effective in 2007:

1) IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

2) IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

3) IFRIC 11, 'IFRS 2 – Group and treasury share transactions. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

(b) Standards, amendments and interpretations effective in 2007 but not relevant.
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

1) IFRS 4, 'Insurance contracts'

2) IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies.

3) IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

4) IFRIC 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Groups' accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

1) IAS 27 (Amendment) – Consolidated and Separate Financial Statements (effective 1 July 2009).

The amendments to the Standard relate, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary.
The most significant changes of IFRS 3 (Revised) and IAS 27 (Amended) are:

- IFRS 3 (Revised) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;

2) IFRS 3 (Revised) Business Combinations (effective 1 July 2009). IFRS 3 (Revised) replaces IFRS 3. IFRS 3 (Revised) establishes principles and requirements for how an acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

3) IAS 1 (Revised) Presentation of Financial Statements (effective 1 January 2009). IAS 1 (Revised) replaces IAS 1 (Amended 2005), it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. IAS 1 (Revised) requires that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity it also changed the titles of the financial statements.

4) IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, it appears likely that the number of reportable segments would not change, as well as the manner in which the segments are reported would not change.

5) IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but it is not expected to have any material impact on the group’s accounts.

6) IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

(d) Standards amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations.
The following Standards, amendments and interpretations to existing standards have been published and are mandoatry for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

1) IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

2) IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

b. Principles of Consolidation:

1) Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2) As part of the condensed company data, the investment in Frutarom Ltd. is presented at cost (Note 26).

c. Foreign Currency Translation:

1) Functional and Presentation Currency.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Translation of transactions and balances.

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

3) Group Companies.

The results and financial position of all the Company's entities (none of which has the currency of hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates) in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences, are recognised as a separate component of shareholders' equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4) Information regarding foreign currency rates:

	NIS	Pound Sterling	Euro	Swiss Frank
Exchange rate at December 31:				
2007	3.846	0.4988	0.6794	1.1266
2006	4.225	0.5097	0.7579	1.2197
2005	4.603	0.5796	0.8444	1.3159
Increase (decrease) during the year:	%	%	%	%
2007	(9.0)	(2.1)	(10.4)	(7.6)
2006	(8.2)	(12.1)	(10.2)	(7.3)
2005	6.8	(11.8)	(15.2)	(16.3)

d. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is organised and managed on a worldwide basis into two major operating activities: the Flavors division, the Fine Ingredients division. Another operating activity is the Trade and Marketing division. Each division is considered to be a business segment.

e. Property, Plant and Equipment:

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	%
Buildings	2.7-4
Machinery and equipment	6.6-10
Vehicles and forklifts	15; 20
Computers	20-33
Office furniture and equipment	6-20

Leasehold improvements are amortised by the straight-line method over the terms of the lease, which are shorter than the estimated useful life of the improvements.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

f. Intangible Assets:

1) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

   Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

   Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in which it operates (note 2g).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Know-how and Product formulas are initially recorded at their acquisition cost and amortised on a straight-line basis over 10-20 years (mainly 20 years), commencing in the year in which they are first utilized.

3) Customer relations are initially recorded at their acquisition cost and amortised on a straight-line basis over 10 years.

4) Acquired trademarks are shown at purchase cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).
5) Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

   Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

   Computer software development costs recognised as assets are amortised over their estimated useful lives.

g. Impairment of Non-financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).
Non-financial assets, other than goodwill, that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Financial Assets:

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

1) Financial assets at fair value through profit or loss.
   Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

2) Loans and receivables
   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2j).

   Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

   Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

   The fair values of quoted investments are based on current bid prices.

   The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in (Note 2j).

i. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the moving average method, except for purchased products for which the first-in, first-out (FIFO) method is used.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.
Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

k. Cash Equivalents

Cash and cash equivalents includes all highly liquid investments, which include short-term bank deposits with original maturity of three months or less and bank overdrafts. Band overdrafts are shown within current liabilities on the balance sheet.

L. Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

m. Trade Payables

Trade payables are recognised initially at fair value and subsequently non-current balances are measured at amortised cost using the effective interest method.

n. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Deferred Income Taxes:

1) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

   Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

   Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

   Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2) Taxes, which would apply in the event of disposal of investments in subsidiaries, have not been taken into account in computing the deferred taxes, as it is the Group's policy to hold these investments, not to realise them.

3) The Group may incur additional tax liability in the event of intercompany dividend distribution; no account was taken of the additional tax, since it is the Group's policy not to cause distribution of dividend, which would involve additional tax liability to the Company in the foreseeable future.

4) As stated in Note 14c, upon distribution of dividends from tax-exempt income of "approved enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had Frutarom Ltd. not been exempted from payment thereof. The amount of the related tax is charged as an expense in the income statements, when such dividend is distributed.

   Frutarom Ltd. does not intend to distribute dividends out of tax-exempt income, as above.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Employee Benefits:

1) Pension Obligations.

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In 2006, as part of a restructuring plan in a German subsidiary, it was agreed with employees' work council to terminate the define benefit plan and to commence making deposits with a defined contribution plan for some of the employees. As to the effect of the said transition on the financial statements (Note 11c).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Share-Based Compensation.

The group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3) Bonus Plans.

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where it is contractually committed, or where there is a past practice that has created a constructive obligation.

q. Research and Product Development Costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success – considering its commercial and technological feasibility – and only if the cost can be measured reliably.

Generally, research and product development costs are charged against income as incurred since the criteria for their recognition as an asset are not set by management.

Participation from government departments for development of approved projects is recognised as a reduction of expense, as the related costs are incurred, in case that the Group estimates that it would not be required to refund such participation. In case that the Group estimates it would be required to refund government participation, the participation would be presented in the balance sheet among liabilities.

r. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise termination of activities acquired and employee termination payments. Provisions are not recognised for future operating losses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

s. Revenue Recognition Policy

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

The Group manufactures and sells a range of products. Sales of goods are recognised when a Group entity has delivered products to the client, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery does not occur until the products have left Group's plants, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are occasionally sold with volume discounts; customers have a right to return faulty products. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 66 days, which is consistent with the market practice.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

t. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

u. Earnings Per Share

Basic:
Basic earnings per share is calculated by dividing the profit attributed to equity holders of the Company using the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by subsidiary (Notes 2L).

The weighted average number of shares used in calculating Basic earnings per share is as follows:

Year end 31 December:	Basic in thousands	Diluted in thousands
2007	56,921	57,812
2006	56,883	57,789
2005	55,671	56,784

Fully diluted:
Diluted earnings per share is calculated adjusting average number of shares outstanding to assume conversion of all dilutive potential shares. A calculation is done, for that purpose, to determine the number of shares that could have been acquired at fair value (determined as average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued, assuming the exercise of the share options.

v. Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's Board of Directors.

NOTE 3 – FINANCIAL RISK MANAGEMENT:

a. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Risk management is carried out under policies approved by the board of directors and senior management. These policies cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity. Group policies also cover areas such as cash management and raising short and long-term debt.

The Group's business is characterised by considerable dispersion. Through its two divisions, the Group produces thousands of products intended for hundreds of customers throughout the world, using hundreds of raw materials purchased from a wide range of suppliers worldwide. As stated, the Group is not significantly dependent on any of its customers, products or suppliers.

Discussions on implementing the risk management policy as relates to currency exposure and interest are conducted by the Group's management once each quarter.

The Group does not use derivative financial instruments for its hedge or speculative purposes.

1) Market Risk.

(a) Foreign Exchange Risk.

1. General

The Group operates globally and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in U.S. dollars.
Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. Most of the Group's subsidiaries generate their income primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale are in foreign currencies. Similarly, transaction exposure arises on net balances of monetary assets held in foreign currencies. The fact that raw materials purchases for the Group's production are also conducted in various currencies reduces currency exposure. The Group's subsidiaries manage this exposure locally. In addition,

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

Group management monitors total world-wide exposure with the help of comprehensive data received on a quarterly basis.

Generally, the Group does not take external hedging measures nor does it use derivative financial instruments for protecting itself from currency fluctuations.

Translation exposure arises from the consolidation of the Foreign Currency denominated financial statements of the Company's subsidiaries. The effect on the Company's consolidated shareholders' equity is shown as a currency translation difference

At 31 December 2007 and 2006, if the U.S. dollar had weakened/strengthened by 1% against the below currencies with all other variables held constant, post-tax profit for the year would have been changed as follows:

	2007			
	U.S. dollars in thousands			
	NIS	Pound sterling	Euro	Swiss franc
Financial asset/liabilities, net	(16,179)	3,758	4,480	(1,828)
Exchange gains/losses:				
Impact of strengthened by 1%	124	(29)	(34)	14
Impact of weakened by 1%	(124)	29	34	(14)

	2006			
	U.S. dollars in thousands			
	NIS	Pound sterling	Euro	Swiss franc
Financial asset/liabilities, net	(3,943)	481	7,632	3
Exchange gains/losses:				
Impact of strengthened by 1%	32	(4)	(62)	*
Impact of weakened by 1%	(32)	4	62	*

* Represents amounts less than $ 1 thousand.

The change is primarily as a result of foreign exchange gains/losses on translation of foreign currencies - denominated trade receivables, financial assets at fair value through profit or loss and foreign exchange losses/gains on translation of foreign currencies -denominated borrowings. Profit is more sensitive to movement in foreign currencies exchange rates in 2007 than 2006 because of the increased amount of foreign currencies denominated borrowings.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

2. Linkage of Monetary Balances:

Foreign currency denominated monetary balances included in the Company's consolidated balance sheet at 31 December 2007, are summarised below:

	Dollars	NIS	Pound sterling	Euro	Swiss francs	Other currencies	Total
	U.S. dollars in thousands						
Assets:							
Current assets:							
Cash and cash equivalents	7,613	422	382	21,538	664	1,323	31,942
Short term investments				1,279			1,279
Accounts receivable:							
Trade	21,233	10,662	10,544	27,118	6,592	1,857	78,006
Other	1,772	3,356	570	3,637	2,421	239	11,995
	30,618	14,440	11,496	53,572	9,677	3,419	123,222
Liabilities:							
Current liabilities:							
Bank credit and loans		2,052	20,864	1,095	3,023	8	27,042
Trade	7,151	7,556	4,594	13,446	4,971	1,079	38,797
Other	2,400	8,344	4,450	72,864	8,307	47	96,412
Provisions	259	181					440
Non-current liabilities:							
Bank credit and loans	8,014	12,486	28	76,293	2,937		99,758
Retirement benefit obligations	480			10,275	763		11,518
Others	1,420						1,420
	19,724	30,619	29,936	173,973	20,001	1,134	275,387

Some of the above balances are included in the balance sheets of subsidiaries in U.K., Belgium, Germany and Switzerland, which their functional currency is the Pound Sterling, Euro and Swiss Frank, respectively.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

(b) Raw Material Price Risks

Many of the raw materials used by the Group are natural products, which are seasonal. The Group purchases these for stock, generally during the season. Purchases are made out of season when necessary, sometimes at higher prices. The Group does not normally make future transactions. The Group is exposed to price changes in raw materials it uses in accordance with global price trends for these materials. The Group's Purchasing Department maintains an ongoing follow up on material prices. Selling prices of the Group's products are adjusted, as needed and as possible to significant and lengthy fluctuations in raw material prices.

2) Interest Rate Risk

As the group regularly has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to interest rate risk.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit of a 0.1% shift would be a maximum change of $ 32 thousands (2006- $ 1 thousand). The simulation is done on a quarterly basis.

Based on the simulations performed, the impact on post tax profit of a 0.5% shift would be a maximum change of $ 159 thousands (2006- $ 3 thousand). The simulation is done on a quarterly basis.

3) Credit Risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Company.

Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and accounting monitoring procedures.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

Groups sales are made to a large number of customers in Europe, U.S.A., Israel, Asia, and other countries (Note 7b3)).

There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored. Collateral is generally not required.

The provision for impairment of trade receivables is determined on basis of a periodic test of all amounts due.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

The table below shows the credit limit received by the Group and balance of the three major counterparties at the balance sheet date:

	31 December 2007		31 December 2006	
	Credit limit	Balance	Credit limit	Balance
	U.S. dollars in thousands			
Bank A	69,530	69,530	-,-	-,-
Bank B	20,864	20,864	3,200	-,-
Bank C	30,000	12,481	-,-	-,-
	120,394	102,875	3,200	-,-

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

According to an understanding with several banks the Group has a right to receive additional credit in respect of future acquisitions in order to fulfill its strategy, according to the term stipulated by the bank.

4) Liquidity Risk.

The Company's subsidiaries must have sufficient availability of cash to meet their obligations. Individual companies are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies and guidelines.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

	At 31 December 2007			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	47,817	55,510	32,720	
Trade and other payables	135,649		1,420	
	183,466	55,510	34,140	-,-

	At 31 December 2006			
	Less than 1 year3	**Between 1 and 2 years3**	**Between 2 and 5 years3**	**Over 5 years3**
Borrowings	673			
Trade and other payables	56,443	23,463		
	57,116	23,463	-,-	-,-

b. Capital risk management

Group's objective is to maintain, as possible, stable capital structure, which according to Group's management its current capital structure, is stable.

Consistent with others in the industry, the group monitors capital, including others also, on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	U.S. dollars in thousands	
Total borrowings (Note 10)	126,800	673
Less: cash and cash equivalents (Note 10)	(31,942)	(18,417)
Net debt	94,858	(17,744)
Total equity	251,115	217,133
Total capital	345,973	199,389
Gearing ratio	27.4%	

The increase in the gearing ratio during during 2007 is attributed mainly to receiving loans in respect of acquisitions made during 2007 as part of the Group's growing strategy.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

c. Fair Value of Financial Instruments:

The fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying value. The fair value of long-term receivables and long-term loans and other long-term liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates.

The carrying amounts and fair values of the financial instruments are as follows:

	Carrying amounts			Fair values		
	31 December			31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands			U.S. dollars in thousands		
Assets:						
Current assets:						
Accounts receivable:						
Trade	78,006	53,968	40,289	78,006	53,968	40,289
Other	11,995	10,038	6,756	11,995	10,038	6,756
	90,001	64,006	47,045	90,001	64,006	47,045
Liabilities:						
Current liabilities:						
Bank credit and loans (net of current maturities)	27,042	673		27,042	673	
Accounts payable:						
Trade	38,797	27,500	17,895	38,797	27,500	17,895
Other*	95,161	27,997	22,162	95,161	27,997	22,162
Non-current liabilities:						
Loans and credit from banks (including current maturities)	99,758		289	99,758		289
Other*	1,420	22,708		1,288	22,227	
	262,178	78,878	40,346	262,046	78,397	40,346

* The fair values are based on cash flows discounted using a rate based on borrowings rate of 5% for non-current liabilities.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS:

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a. Taxes on income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes.

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

b. Severance pay

The present value of Group liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include the long-term yield rate on the relating severance pay funds and the rate of discount. Changes in those assumptions shall influence the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long-term historical yields.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued):

The assumption regarding the required rate of discount is determined by the external actuaries at the end of each year. This rate of discount shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The liquidity of the market of high-quality corporate bonds is sufficient to serve as basis for determining the rate of discount. Therefore, in determining this rate the Group uses interest rate in the currency in which the benefits will be paid.

Other key assumptions relating to pension liabilities, such as future payroll raise are based on existing rates of payroll inflation.

c. Provision for contingent liabilities

Provision for legal contingent liabilities are recorded in the books of accounts in accordance with Group management's judgment regarding the reasonability that the cash flows shall indeed by used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash outflows that would be required to meet the existing liabilities.

d. Provision for impairment in respect of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

e. As for Accounts receivable trade and others (Note 2j and 3a3).

NOTE 5 – BUSINESS COMBINATIONS:

a. Acquisition of Nesse in 2006

On 17 January, 2006, the Group acquired, 70% of the shares that confer ownership and control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Krause GmbH.

Nesse is an international group engaged in the development, production, marketing and sale of savory solutions, which include non-sweet flavors and specialty functional ingredients.
In consideration for the acquisition, the Group paid, at date of acquisition, a total in cash of € 18.41 million ($ 22.3 million).

In addition, the sellers are entitled to receive, on March 31, 2008, a one-time payment, the amount of which would be based on the increase, if any, in the average operating profits of Nesse during the years 2005 – 2007, compared with the average operating profits of Nesse during the years 2003 – 2004 (hereafter – the success fee payment).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued):

The Group has an option to acquire (call option) the remaining 30% of Nesse's share capital and Nesse has the option to sell (put option) this percentage of share capital to the Group; the option is exercisable for two years commencing the end of 2007. The exercise price of the option would be equal to 30% of the average annual operating profit achieved by Nesse during the eight quarters preceding the quarter in which the option would be exercised, multiplied by 6.5.

Based on the unique terms of the options, as above, the Group fully consolidated (100%) the assets and liabilities of Nesse as of that date, while including the whole liability resulting from the future exercise of the call option under current liabilies.

The total cost of purchase, included in these financial statements (prior to acquisition costs), in the amount of € 54,614 thousands ($ 80,365 thousands), comprises of the present value of the liabilities, based on Group's estimation, in respect of the success fee payment and in respect of the exercise of the call option, as described above, in the amount of € 4,566 thousands ($ 5,517 thousands) and € 13,364 thousands ($ 16,150 thousands), respectively; and of purchase expenses in the total amount of € 136 thousands ($ 164 thousands).
The increase in the present value of the liability in respect of the period of time that elapsed is recognised as interest expenses.

The final cost of purchase depends upon setting the final price, after taking into account the average operating profit of Nesse during the years 2005 – 2007 and in the period of two years ending in the quarter in which the option will be exercised as above. The Group updates its projections every cut-off date. The cost of purchase was allocated to acquired tangible and intangible assets and to the acquired liabilities, based on their fair value at date of acquisition.

The intangible assets recognized include: product formulas in the amount of € 5,433 thousands ($ 6,566 thousands), customer relations in the amount of € 2,283 thousands ($ 2,759 thousands) and goodwill in the amount of € 20,784 thousands ($ 30,584 thousands). Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.
In accordance with the said purchase agreement, the group updated the cost of acquisition; as a result, the amount of goodwill increased in 2007 by € 1.4 million ($ 1.9 million) (2006 - $ 2.3 million).

During 2006, a consolidated company operating in Germany, which holds 70% of the shares of Nesse, and other shareholders of Nesse signed a "consolidated tax filing" agreement, wereunder commencing January 1, 2007 the subsidiary and Nesse shall be assessed for tax purposes in Germany on a consolidated basis; this would enable the consolidated company to offset its carryforward tax losses as against profits generated by Nesse, should such profits be generated. In light of the said agreement, the consolidated company changed its assessments as to its ability to utilize its carryforward tax losses and included in its accounts, for the first time, a tax asset in respect of its carryforward tax

NOTE 5 – BUSINESS COMBINATIONS (continued):

losses. As a result of the above, the Group's tax expenses for 2006 decreased by $ 1.5 million.

Assets and liabilities of Nesse, at the date of acquisition:

	Fair value	Acquiree's Carrying Amount
	U.S. dollars in thousands	
Cash and cash equivalents	2,729	2,729
Short-term investments	2,997	2,997
Receivables:		
Trade	4,230	4,787
Other	2,245	2,245
Inventories	2,520	2,835
Deferred tax assets	413	63
Property, plant and equipment – net	5,706	5,706
Goodwill*	21,158	
Intangible assets	9,325	
Bank credit and loans	(742)	(742)
Accounts payable:		
Trade	(1,949)	(1,949)
Other	(3,420)	(3,414)
Retirement benefit obligations – pensions	(156)	(156)
Deferred tax liabilities	(4,009)	(278)
	41,047	14,823

* Goodwill arising from the purchase of Nesse is allocated to the products and to the geographical spread of the purchased business, which are complementary to those of the Group; the activity of the purchased business and the activity of the Group overlap only to a small extent so that the Group will utilise the synergy by using the skillful workforce of Nesse and Nesse's market spread for cross selling.

The amount of $ 21,014 thousands, presented in the cash flow statements, does not include the amount of liabilities in respect of the success fee payment and in respect of the future exercise of the call option, as above.

b. Acquisition of Acatris in 2006

On October 1, 2006, the Group acquired, 100% of the issued and paid share capital of the U.S. company Acatris Inc., of the Dutch company, Acatris Specialities Holdings B.V., and of the Belgian company, Acatris Belgium N.V.
Acatris has multinational operations centered in the Netherlands and Belgium and is a member of the Dutch Royal Schouten Group N.V. Acatris develops, manufactures and markets innovative and unique botanical ingredients; Acatris Health's LifeLine product range includes Linumlife, Fenulife, and Soylife, which are strong reputable product

NOTE 5 – BUSINESS COMBINATIONS (continued):

brands and enjoy both licenses and patents that effectively promote and protect the sales of these clinically-proven natural health ingredients. Actaris' extensive customers' base includes hundreds of leading companies in the food supplement, functional food, natraceuticals and cosmetics markets, largely in Western Europe and the U.S.A.

At date of acquisition, the company paid a cash amount of € 10.5 million ($ 13.3 million) as consideration for the acquisition (prior to acquisition costs).

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The intangible assets recognized include: product formulas in the amount of € 1,108 thousands ($ 1,405 thousands), customer relations in the amount of € 353 thousands ($ 448 thousands) and goodwill in the amount of € 5,087 thousands ($ 6,451 thousands). Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.

Assets and liabilities of Acatris, at the date of acquisition:

	Fair value	Acquiree's Carrying Amount
	U.S. dollars in thousands	
Cash and cash equivalents	46	46
Receivables:		
Trade	2,630	2,694
Other	461	461
Inventories	3,133	3,265
Deferred tax assets	67	
Property, plant and equipment – net	2,660	2,146
Goodwill	6,451	
Intangible assets	1,853	
Accounts payable:		
Trade	(1,499)	(1,499)
Other	(1,202)	(1,202)
Deferred tax liabilities	(1,025)	(211)
	13,575	5,700

c. Acquisition of Belmay in 2007

On 1 April 2007 the Group purchased 100% of the issued and paid up share capital of the English company Belmay in consideration for $ 17.8 million.

Belmay develops, produces and markets flavors for the food and beverage industry.

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 18,474 thousands. The intangible assets which were recognized include: Product formulas in the amount of £ 1,229 thousands ($ 2,402 thousands), customer relations in the amount of £ 1,159 thousands ($ 2,266 thousands) and goodwill in the amount of £ 4,662 thousands ($ 9,119 thousands). Product formulas and customer relations are amortized over an economic period of 20 years and 10 years, respectively. Goodwill is not amortized but it is examined for impairment on an annual basis.

Belmay's assets and liabilities as of the date of acquisition:

	Fair value	Acquired company's carrying amount
	U.S. dollars in thousands	
Cash and cash equivalents	430	430
Accounts receivable:		
Trade	2,648	2,648
Other	211	211
Inventories	1,062	1,062
Deferred income tax assets	147	147
Property, plant and equipment - net	4,251	4,251
Intangible assets - net	4,668	
Goodwill	9,119	
Bank credit and loans	(80)	(80)
Accounts payable:		
Trade	(1,320)	(1,320)
Other	(1,238)	(1,238)
Deferred income tax liabilities	(1,424)	(23)
	18,474	6,088

d. Acquisition of Jupiter in 2007

On 19 April 19 2007, the Group purchased 100% of the issued and paid up share capital of the English company Jupiter. Jupiter develops, produces and markets flavors. The company paid an amount of £ 1,477 thousands ($ 2.8 million) in cash for the acquisition. In addition, a future consideration not exceeding the amount of $ 600 thousands which was based on the expenses forecasted to be obtained by the company during the period ended 31 July 2007 was determined in the purchase agreement. The said amount of £ 300 thousands ($ 600 thousands) was paid during 2007.

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 3,614 thousands.

The intangible assets recognized include: product formulas in the amount of £ 249 thousands ($ 498 thousands), customer relations in the amount of £ 428 thousands ($ 856 thousands) and goodwill in the amount of £ 1,198 thousands ($ 2,396 thousands). Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.

Jupiter's assets and liabilities as of the date of acquisition:

	Fair value	Acquired company's carrying amount
	In thousands	
Cash and cash equivalents	18	18
Trade receivables	406	406
Inventories	172	172
Deferred income tax assets	22	22
Property, plant and equipment - net	110	110
Intangible assets – net	1,354	
Goodwill	2,396	
Accounts payable:		
Trade	(238)	(238)
Other	(218)	(218)
Deferred income tax liabilities	(408)	
	3,614	272

e. Acquisition of Reichan in 2007

On 27 August 2007, the Group acquired 100% of the share capital of Reichan.

Reichan is engaged in developing, producing and marketing mixtures of flavors as well as in marketing raw materials for the food industry.

In consideration for the acquisition, the Company paid an amount of NIS 4,250 thousands (approximately $ 1,030 thousands).

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates approximately NIS 4,443 thousands (approximately $ 1,073 thousands).

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of acquisition was attributed to assets (tangible and intangible) and to liabilities purchased according to their fair value on the date of acquisition. Goodwill is not amortized but is tested for impairment on an annual basis.

The intangible assets which were recognized include goodwill in the amount of NIS 10,801 thousands ($ 2,619 thousands). Goodwill is not amortised but subject to annual impairment test.

The operations of Reichan were merged with the Company's operations in the Acco plant.

Assets and liabilities of Reichan as of the date of acquisition:

	Fair value	Value in books of acquired company
	In thousands	
Cash and cash equivalents	1	1
Accounts receivable:		
Trade	1,632	1,632
Other	11	11
Inventories	362	362
Deferred income tax assets	20	20
Property, plant and equipment - net	187	187
Goodwill	2,619	
Credit and loans from banks	(2,527)	(2,527)
Accounts payable:		
Trade	(950)	(950)
Other	(212)	(208)
Retirement benefit obligation	(72)	(72)
	1,073	(1,544)

f. Acquisition of the operations of Adumim in 2007

On 30 August 2007, the Group acquired, the operations of Adumim.

Adumim is a public company traded in the Tel-Aviv Stock Exchange. Adumim is engaged in two main fields of operation: The development, production and marketing of supplements and raw materials for the food and functional food industries, and the development and production of dietary supplements.

In consideration for the acquisition, the company paid an amount of $ 4,250 thousands in cash.

NOTE 5 – BUSINESS COMBINATIONS (continued):

In accordance with the purchase agreement, the company acquired the property, plant and equipment in the amount of $ 789 thousands and the inventory in the amount of $ 860 thousands.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The intangible assets recognized include: product formulas in the amount of $88 thousands, customer relations in the amount of $ 250 thousands and goodwill in the amount of $ 2,498 thousands. Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.

The operations of Adumim will be merged with the Company's operations in the Haifa Bay plant.

Commencing on 30 August 2007, the company leases the real-estate asset owned by Adumim for a period of 18 months.
The company has the right to terminate the lease period with a prior notice.

g. Acquisition of Abaco in 2007

On 3 July 2007, the Group acquired 100% of the share capital of the U.S. companies Abaco Manufacturing LLC and Abaco Incorporated.

Abaco is engaged in the development, production and marketing unique raw materials for the flavor and aroma industry.

In consideration for the acquisition, the Company paid an amount of $ 4 million in cash and on the date of acquisition. In addition, it took over a debt of Abaco in the amount of $ 1.1 million.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of the acquisition presented in this report aggregates $ 5,200 thousands.

The intangible assets recognized include: product formulas in the amount of $ 654 thousands, customer relations in the amount of $ 688 thousands and goodwill in the amount of $ 2,503 thousands. Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.

The operations of Abaco will be merged with the Company's operations in the U.S. plant.

NOTE 5 – BUSINESS COMBINATIONS (continued):

	Fair value	Value in books of acquired company
	In thousands	
Cash and cash equivalents	50	50
Trade	604	604
Other	333	333
Inventories	724	724
Deferred income tax assets	44	44
Property, plant and equipment - net	476	476
Intangible assets – net	1,342	
Goodwill	2,503	
Accounts payable - trade	(339)	(339)
Deferred income tax liabilities	(537)	
	5,200	1,892

h. Acquisition of the Gewurzmuller Group in 2007

On 11 October 2007, the Group signed an agreement for the acquisition of 100% of the share capital of The Gewurzmuller Group.

The Gewurzmuller Group is engaged in the development, production and marketing of the Savory flavors solutions (a spectrum of non-sweet flavors) and of Starter Culture (natural products based on microbiological processes).

The consideration paid in cash of the acquisition is approximately € 47.3 million (approximately $ 67 million). Based on the purchase agreement, a mechanism was set for the payment of a future consideration. As a result, the final consideration to be paid will present to the Gewurzmuller Group a value based on the average multiplier of 7.1 with respect to the EBITDA obtains during the period of 12 months ended on 31 December 2007. This future consideration was estimated by Group's management to be approximately $ 27 million.

The consideration of the acquisition will be financed by a long-term bank loan (5 years) which bears interest at a rate of an annual LIBOR plus 1% during the first year and an annual LIBOR plus 1.2% as from the second year. Under the loan agreement, the company undertook to comply with the following financial criteria:

1. The amount of shareholders' equity of the Company will not, at any time whatsoever, be less than $ 180,000,000.

NOTE 5 – BUSINESS COMBINATIONS (continued):

2. The amount of shareholders' equity of the company will not be less than 30% of its total balance sheet.

3. The ratio - a division of the company's remaining financial liabilities in the operating profit from current operations before financing and tax expenses plus depreciation and amortization expenses - will not exceed 6.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities, including future consideration, based on their fair value at date of acquisition. The fair value of the assets and liabilities would be determined subject to final assessments performed for the Company.

The cost of acquisition presented in this report aggregates € 66,961 thousands ($ 94,937 thousands). The intangible assets which were recognized include: product formulas in the amount of € 2,857 thousands ($ 4,051 thousands), customer relations in the amount of € 9,636 thousands ($ 13,663 thousands) and goodwill in the amount of € 47,750 thousands ($ 67,700 thousands). Product formulas and customer relations are amortized over an economic period of 20 years and 10 years, respectively. Goodwill is not amortized but it is examined for impairment on an annual basis.

Gewurzmuller Group's assets and liabilities as of the date of acquisition:

	Fair value	Acquired company's carrying amount
	In thousands	
Cash and cash equivalents	3,163	3,163
Accounts receivable:		
Trade	9,648	9,648
Other	9,888	9,888
Inventories	8,585	8,268
Deferred income tax assets	500	500
Property, plant and equipment – net	16,559	16,559
Intangible assets – net	17,812	98
Goodwill	67,700	
Accounts payable:		
Trade	(3,101)	(3,101)
Other	(9,986)	(9,986)
Deferred income tax liabilities	(5,538)	
Retirement benefit obligation – pensions	(8,762)	(8,762)
Bank loans	(11,531)	(11,531)
	94,937	14,744

NOTE 5 – BUSINESS COMBINATIONS (continued):

i. Acquisition of Rad Natural Technologies in 2007

On November 15, 2007, the Group acquired the operations of Rad. Rad is engaged in the research and development, manufacture, marketing, distribution and sale of unique natural extracts from plants with anti-oxidant activities for the use in food products, dietary supplements and cosmetics and its know-how in the field is unique and protected by a patent.

In accordance with the agreement, the company acquired the assets of Rad which include fixed assets, inventories, agreements, orders, goodwill, intellectual property and expenses in advance (the Group will not undertake Rad's liabilities) in consideration for a cash payment of U.S. $ 4.1 million which was financed by a bank credit. A payment mechanism for a future consideration was determined in the agreement, according to which Rad will be entitled to an additional consideration, if the total sales of its products in the years 2008 and 2009 exceed $ 4 million. Rad will be entitled to an amount of $ 4.9 million, if the total sales of its products in the years 2008 and 2009 exceed $ 11.1 million. Group's management estimated this future consideration at the amount of $ 1.4 million.

Under the agreement, Rad's manager undertook to be employed at least until 31 December 2009, and the company undertook to employ her at least until that date.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 5,769 thousands.
The intangible assets which were recognized include: product formulas in the amount of $ 5,236 thousands, and goodwill in the amount of $ 1,166 thousands. Product formulas are amortized over an economic period of 20 years. Goodwill is not amortized but it is examined for impairment on an annual basis.

Rad's assets and liabilities as of the date of acquisition.

	Fair value	Acquired company's carrying amount
	U.S. dollars thousands	
Inventories	269	269
Property, plant and equipment - net	108	108
Intangible assets - net	5,236	
Goodwill	1,166	
Deferred income tax liabilities	(1,011)	
	5,768	377

NOTE 5 – BUSINESS COMBINATIONS (continued):

Pro forma full year information

The following unaudited pro forma summary presents the Group as if all of the businesses acquired during the year to 31 December 2007 had been acquired on 1 January 2007 or 1 January 2006, respectively. The pro forma amounts include the results of the acquired companies, amortization of the acquired intangibles assets recognized on acquisition and the interest expense on debt incurred as a result of the acquisition. The pro forma amounts do not include any possible synergies from the acquisition. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

	2007	2006
	U.S. dollars in thousands	
Revenue	431,466	300,530
Profit for the financial year	25,598	30,281

The acquired companies contributed revenues of $ 33,591 thousands, and net income of $ 1,004 thousands to the Company for the period from the day of acquisition to 31 December 2007.

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Assets at fair value through the profit and loss	Total
31 December 2007			
Assets as per balance sheet			
Trade and other receivables	90,001		90,001
Cash and cash equivalents		31,942	31,942
Total	90,001	31,942	121,943
Liabilities as per balance sheet - borrowings			126,800

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY (continued):

	Loans and receivables	Assets at fair value through the profit and loss	Total
31 December 2006			
Assets as per balance sheet			
Trade and other receivables	64,006		64,006
Cash and cash equivalents		18,417	18,417
Total	64,006	18,417	82,423
Liabilities as per balance sheet - borrowings			673

Credit quality of financial assets

As to the credit quality of financial assets, (Note 3a3).

NOTE 7 – SEGMENT INFORMATION

a. Business Segment Data:

As at 31 December 2007, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
Income statement data:					
Sales and other operating income - net					
Unaffiliated customers	247,672	110,088	10,501		368,261
Intersegment		4,863		(4,863)	
Total sales and other operating income	247,672	114,951	10,501	(4,863)	368,261
Segment results	26,823	7,904	497	(698)	34,526
Unallocated corporate expenses - net					-,-
Operating profit					34,526
Financial expense					2,923
Taxes on income					7,410
Net income					24,193
Other data:					
Segment assets					
Unallocated corporate assets	320,808	77,642			400,745
Consolidated total assets					147,966
					548,711
Segment liabilities	154,067	17,231	512		171,810
Unallocated corporate liabilities					125,786
Consolidated total liabilities					297,596
Cost of purchase of long-term assets - CAPEX	6,786	3,567			
Depreciation and amortization	6,416	1,534			

NOTE 7 – SEGMENT INFORMATION (continued):

a. Business Segment Data (continued):

As at 31 December 2006, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
Income statement data:					
Sales and other operating income - net:					
Unaffiliated customers	187,030	93,468	6,749		287,247
Intersegment		4,896		(4,896)	
Total sales and other operating income	187,030	98,364	6,749	(4,896)	287,247
Segment results	30,078	7,056	200		37,334
Unallocated corporate expenses - net					(279)
Operating profit	29,848	7,286			37,055
Financial expenses					445
Taxes on income					6,908
Net income					29,702
Other data:					
Segment assets	130,726	49,595	2,021		182,342
Unallocated corporate assets					134,355
Consolidated total assets					316,697
Segment liabilities	56,436	7,768	868		65,072
Unallocated corporate liabilities					34,492
Consolidated total liabilities					99,564
Cost of purchase of long-term assets - CAPEX	1,937	3,794			
Depreciation and amortization	3,147	1,264			

NOTE 7 – SEGMENT INFORMATION (continued):

a. Business Segment Data (continued):

As at 31 December 2005, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
Income statement data:					
Sales and other operating income - net:					
Unaffiliated customers	150,437	87,040	6,326		243,803
Intersegment		2,728		(2,728)	
Total sales and other operating income	150,437	89,768	6,326	(2,728)	243,803
Segment results	24,269	9,460	238		33,967
Unallocated corporate expenses - net					(229)
Operating profit					33,738
Financial expense					(416)
Taxes on income					(6,475)
Net income					26,847
Other data:					
Segment assets	93,558	44,507	2,721		140,786
Unallocated corporate assets					93,080
Consolidated total assets					233,866
Segment liabilities	21,477	8,787	1,077		31,341
Unallocated corporate liabilities					24,717
Consolidated total liabilities					56,058
Cost of purchase of long-term assets - CAPEX	4,258	4,885			
Depreciation and amortization	3,776	1,918			

NOTE 7 – SEGMENT INFORMATION (continued):

b. Information on Business and Geographical Segments:

1) Business Segments.

For management purposes, the Group is organised on a worldwide basis into two major operating activities: the Flavor Division and the Fine Ingredients Division. Another operating activity is the Trade and Marketing, which is incorporated as a separate company in Israel (each division is considered to be a business segment (Note 2d).

The Flavor Division is engaged in the development, manufacturing, marketing and sale of flavors, compounds and food systems. The Fine Ingredients Division is engaged in the development, manufacturing, marketing and sale of natural flavors extracts, natural functional food ingredients, natural pharma-nutraceutical extracts, specialty essential oils and citrus products, aroma chemicals and natural gums.

The Trade and Marketing activity focuses in trade and marketing of raw materials produced by third parties to customers in Israel. The divisions are the basis on which the Company reports its primary segment information.

2) Geographical Segments.

The Group has operating production facilities in Europe, North America, Israel and Asia. In addition, the Group has 25 research and development laboratories and sells and markets its products principally through its 45 sales and marketing offices.

The trade and marketing operations of raw materials are carried out in Israel by a subsidiary of the Company, which imports products not produced by Frutarom Ltd.

3) Sales by Destination Based on Customer Location

Following are data regarding the distribution of the Company's consolidated sales by geographical market, based on customer locations:

	Year ended 31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Israel	40,486	33,112	30,983
North America	38,838	34,451	30,285
Europe	239,677	174,572	143,259
Asia and the Far East	27,823	25,402	24,784
Other countries	21,437	19,710	14,492
	368,261	287,247	243,803

NOTE 7 – SEGMENT INFORMATION (continued):

4) Assets and Additions to Property, Plant, Equipment, and Intangible Assets by Geographical Area

Following are data reflecting the carrying value of segment assets and additions to property, plant, equipment, and intangible assets by geographical area in which the assets are located:

	Carrying value of segment assets			Additions to property, plant equipment, and intangible assets*		
	31 December			Year ended 31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands					
Israel	94,128	82,157	88,068	5,129	2,412	2,520
North America	43,713	16,620	16,382	1,951	3,720	2,986
Europe	406,732	216,063	126,013	10,391	7,693	7,721
Other countries	4,138	1,857	3,403	34	51	253
	548,711	316,697	233,866	17,505	13,876	13,480

* Do not include the property, plant equipment and intangible assets of acquired companies.

5) Segment Assets and Liabilities.

Segment assets include all operating assets used by a segment and consist principally of receivables, inventories, property, plant and equipment and intangible assets, net of impairments and provisions. While most such assets can be directly attributed to individual segments, the carrying value of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade payables, wages, and taxes currently payable and accrued liabilities (including severance pay).

6) Inter-Segment Transfers.

Segment revenue, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at normal terms and conditions charged to unaffiliated customers for similar goods. Such transfers are eliminated in consolidation.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

a. Composition of Assets, Grouped by Major Classifications, and Changes Therein is as Follows:

2007:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2007
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	54,124	74		7,083	61,281	6,077	225		1,869	8,171	53,110
Machinery and equipment	79,380	8,736	(782)	12,095	99,429	32,994	5,181	(450)	5,254	42,979	56,450
Vehicles and forklifts	3,083	1,027	(807)	364	3,667	1,127	539	(556)	298	1,408	2,259
Furniture and office equipment (including computers)	10,138	1,563	(317)	18,365	29,749	7,107	1,574	(239)	13,808	22,250	7,499
Leasehold improvements	3,634	3,285	(89)	17,110	23,940	1,399	2,022		4,230	7,651	16,289
	150,359	14,685	(1,995)	55,017	218,066	48,704	9,541	(1,245)	25,459	82,459	135,607

* Arising from differences from acquisition of subsidiaries and from translation of foreign currency financial statements of subsidiaries.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

a. Composition of Assets, Grouped by Major Classifications, and Changes Therein is as Follows:

2006:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2006
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	48,607	2,494	(262)	3,285	54,124	4,739	1,200	(69)	207	6,077	48,047
Machinery and equipment	61,324	6,598	(485)	11,943	79,380	25,806	6,347	(309)	1,150	32,994	46,386
Vehicles and forklifts	2,452	602	(35)	64	3,083	979	143	(10)	15	1,127	1,956
Furniture and office equipment (including computers)	9,664	45	(72)	501	10,138	6,195	698	(63)	277	7,107	3,031
Leasehold improvements	3,108	317		209	3,634	1,328			71	1,399	2,235
	125,155	10,056	(854)	16,002	150,359	39,047	8,388	(451)	1,720	48,704	101,655

* Arising from differences from acquisition of subsidiaries and from translation of foreign currency financial statements of subsidiaries.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

a. Composition of Assets, Grouped by Major Classifications, and Changes Therein is as Follows:

2005:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2005
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	57,021	1,234	4,279	(5,369)	48,607	3,384	1,324		31	4,739	43,868
Machinery and equipment	58,784	6,248	151	(3,557)	61,324	21,734	4,886	113	(701)	25,806	35,518
Vehicles and forklifts	2,285	468	235	(66)	2,452	859	302	174	(8)	979	1,473
Furniture and office equipment (including computers)	8,274	2,082	153	(539)	9,664	5,659	890	108	(246)	6,195	3,469
Leasehold improvements	3,204	68		(164)	3,108	1,249	133		(54)	1,328	1,780
	129,568	10,100	4,818	(9,695)	125,155	32,885	7,535	395	(978)	39,047	86,108

* Arising from differences from acquisition of subsidiaries and from translation of foreign currency financial statements of subsidiaries.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

b. Rights in Land:

1) The land on which the plants of an Israeli subsidiary, a U.S. subsidiary, a Swiss subsidiary, a German subsidiary, a U.K. subsidiary and a Belgian subsidiary are located is under the ownership of the Group.
2) Through 31 December 2007, the Group paid an amount of $ 1,289 thousands in respect of development of the land located in the industrial zone in the north of Israel. As to capitalized lease fees paid in respect of the land (Note 18a2).

c. The Group plans to expand its Haifa bay plant through a total investment of approximately $ 2.5 million, as part of a plan approved by the Israeli Investment Centre, in accordance with the Law for Encouragement of Capital Investments, 1959 (Note 14c).
The Company has another plan for expansion of its plant, at a total investment of $ 2.5 million, under the amendment to the Law for the Encouragement of Capital Investments, as published in April 2005 (Note 14c). Through 31 December 2007, the Group completed its investments under the said expansion plans.

d. A subsidiary has a plan for the erection of a new plant in the industrial zone in the north of Israel, at a total investment of up to $ 18 million. The Investment Centre has approved this plan as part of the expansion of existing Company plants, in accordance with the Law for Encouragement of Capital Investments, 1959 (Note 14c). Implementation of investment is to be partly financed by investment grants of up to $ 4 million.

e. As to pledges on assets (Note 15).

NOTE 9 – INTANGIBLE ASSETS:

	Original amount			Amortised balance		
	31 December			31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands					
Know-how and Product formulas	33,723	19,299	9,800	28,733	15,601	7,210
Goodwill	132,249	35,544	3,091	130,829	34,141	1,786
Customer relations	24,281	5,394	1,884	22,372	4,603	1,618
Trademarks	285	279	245	193	202	190
Computer software	10,013	5,844	1,797	8,023	5,625	1,797
	200,551	66,360	16,817	190,150	60,172	12,601

NOTE 9 – INTANGIBLE ASSETS (continued):

	Computer software	Know-how and Product formulas	*Goodwill	Customer relations	Trademarks	Total
			U.S. dollars in thousands			
Balance at 1 January 2005:		8,210	4,332	2,096	226	14,864
Changes in year ended 31 December 2005:						
Adjustment to purchase price of IFF's FS business			(2,271)			(2,271)
Additions	1,901	229	103			2,233
Translation differences	(104)	(689)	(378)	(278)	(23)	(1,472)
Amortisation charge (Note 2f)		(540)		(200)	(13)	(753)
Closing net book amount	1,797	7,210	1,786	1,618	190	12,601
Changes in year ended 31 December 2006:						
Additions	3,820					3,820
Changes in amount of excess of cost of			2,267			2,267
acquisition (Note 5)		7,971	27,609	3,207		38,787
Impairment				(126)		(126)
Translation differences	223	1,296	2,479	387	25	4,410
Amortisation charge (Note 2f)	(215)	(876)		(483)	(13)	(1,587)
Closing net book amount	5,625	15,601	34,141	4,603	202	60,172
Changes in year ended 31 December 2007:						
Additions	2,820					2,820
Changes in amount of excess of cost of acquisition			1,925			1,925
Adjustments arising from acquisition of subsidiaries	101	12,930	87,999	17,723		118,753
Translation differences	432	1,325	6,764	1,020	5	9,546
Amortisation charge (Note 2f)	(955)	(1,123)		(974)	(14)	(3,066)
Closing net book amount	8,023	28,733	130,829	22,372	193	190,150

* Goodwill as of December 31, 2007 is allocated to the Flavor segment in the U.K., Germany and in Israel and to the Fine Ingredients segment in Belgium and in U.S.A.

NOTE 10 – BORROWINGS:

	31 December	
	2007	**2006**
	U.S. dollars in thousands	
Non current – borrowings	82,579	-,-
Current		
Bank overdrafts (Note 23)	3,765	
Bank borrowings	40,456	673
	44,221	673
Total borrowings	126,800	673

Bank borrowings

Bank borrowings mature until 2012 and bear average coupons of 5.37% annually.

The exposure of the Group's borrowings to interest rate changes at the balance sheet dates is all under 6 months.

The fair value of current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the borrowing's interest rate.

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the group's borrowings are denominated in the following currencies:

	2007	**2006**
	U.S. dollars in thousands	
Pound sterling	20,892	
Dollars	8,014	
NIS	14,538	
Euro	77,388	673
Swiss francs	5,960	
Other currencies	8	
	126,800	673

NOTE 10 – BORROWINGS (continued):

The Group has the following undrawn borrowing facilities:

	2007
	U.S. dollars in thousands
Floating rate:	
Expiring within one year	15,194
Expiring within two years	24,206
Expiring within three years	20,656
Expiring within four years	14,612
Expiring within five years	15,390
Expiring beyond five years	-,-
Fixed rate:	90,058
Expiring within one year	1,985
Expiring within two years	1,752
Expiring within three years	4,507
Expiring within four years	1,319
Expiring within five years	137
Expiring beyond five years	-,-
	9,700
Total	99,758

As to covenants on loans (Note 5h).

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS:

a. Labour laws and agreements in Israel and abroad require the subsidiaries of the Company to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. The Israeli companies' liability is covered mainly by regular contributions in defined contribution plans. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the companies.

b. Under the agreement with its employees, the U.S. subsidiary financed a defined benefit plan. As part of the collective agreement signed between the Company's subsidiary and the industrial labour union on 13 October, 2000, the U.S. subsidiary suspended the said plan and joined, as from that date, a comprehensive pension plan of the labour union, which is a defined contribution plan.

The U.S. subsidiary will continue financing its existing liabilities under the suspended pension plan. The amount of liability for employee rights upon retirement and amounts funded, as presented in the consolidated accounts, reflect the U.S. subsidiary's liability in respect of the suspended plan.

c. The Swiss and German subsidiaries have a liability for payment of pension to employees in Switzerland and Germany under a defined benefit plan. The said liabilities

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS (continued):

have been transferred to these subsidiaries as part of the Flachsmann, FS, Nesse and the Gewurzmuller Group acquisitions in 2003, 2004, 2006, and 2007, respectively (Note 5). The Swiss and German subsidiaries make deposits with pension plans in respect of these liabilities. The amount of the liability for pension (net) included in the balance sheet reflects the difference between the two following components, computed as follows:

1) The liability for pension payment is computed on the basis of the balance of the liability at date of acquisition of Flachsmann, the FS, Nesse and the Gewurzmuller Group, with the addition of service expenses and interest expenses (computed in accordance with rate of capitalisation as of balance sheet date) and net of the amounts paid in the period in respect of pension.

2) The assets of the pension fund are computed based on the balance of the assets at date of acquisition of Flachsmann, the FS, Nesse and the Gewurzmuller Group, with the addition of the expected yield on the fund's assets and the deposits made with the pension fund in the period, net of the amounts paid in the period in respect of pension.

As part of a restructuring plan in a German subsidiary, during 2006 it was agreed with employees' work council to terminate the define benefit plan and to commence making deposits with a defined contribution plan for some of the employees. As a result of the said transition, the retirement benefit obligations of was decreased by € 900 thousands ($ 1.1 million), after the tax effect of € 540 thousands ($ 680 thousands). The said amount was carried to income as a reduction of payroll costs. The company has concurrently carried to income payroll costs related to this plan, in the total amount of € 379 thousands ($ 479 thousands), after the tax effect of € 222 thousands ($ 287 thousands).

d. The following amounts related to employee remuneration and benefits are included in determining operating profit:

	2007	2006	2005
	U.S. dollars in thousands		
Wages and salaries	69,410	51,928	46,632
Social security costs	8,149	8,140	5,285
Post-employment benefits: defined benefit plans	1,173	(275)	1,192
Post-employment benefits: defined contribution plans	2,397	1,023	1,551
Termination benefit expenses	1,459	520	168
Compensation under stock option plans and other employee benefits	1,200	1,538	2,749
Total employees' benefits	83,788	62,874	57,577

At year-end, the Group employed 1,499 people (1,154 people and 1,016 people, respectively, in 2006 and 2005).

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY (continued):

Amounts recognised in the income statement for post-employment defined benefit plans consist of the following:

	2007	2006	2005
	U.S. dollars in thousands		
Current service cost	1,167	1,637	1,736
Interest cost	1,527	1,502	1,709
Actual return on plan assets – U.S. and German Subsidiaries	(228)	(291)	(171)
Expected return on plan assets – Swiss and German Subsidiaries	(1,210)	(1,253)	(1,253)
Employees' contributions	(262)	(893)	(856)
Net actuarial losses (gains) recognised	179	(977)	27
Total included in employees' remuneration	1,173	(275)	1,192

Changes during the year in the net asset (liability) recognised in the balance sheet for post-employment defined benefit plans were as follows:

	2007	2006	2005
	U.S. dollars in thousands		
At 1 January	7,499	7,775	8,502
Increase as a result of acquisition for the first time of a subsidiary	8,762	155	
Total expenses (revenues) included in employees' remuneration	1,173	(275)	1,192
Contributions paid	(6,947)	(932)	(899)
Currency translation effects and others	1,031	776	(1,020)
At 31 December	11,518	7,499	7,775

The following amounts were recognised in the balance sheet for post-employment defined benefit plans:

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Actuarial present value of funded obligations due to former employees and present employees	52,224	47,997	39,712
Plan assets held in trusts at fair value	(40,041)	(39,541)	(33,071)
Plan assets under actuarial present value of funded obligations	12,183	8,456	6,641
Unrecognised actuarial losses (gains)	(665)	(957)	1,134
Recognised liability for funded obligations due to past and present employees	11,518	7,499	7,775

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS (continued):

Amounts recognised in the balance sheet for post-employment defined benefit plans are predominantly non-current and are reported as non-current assets and non-current liabilities.

The Group operates defined benefit schemes in several countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the defined benefit plans, were as follows:

	U.S.A.			Germany			Switzerland		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rates	5.75%	5.75%	5.75%	5.50%	4.50%	4.00%	3.50%	2.90%	3.00%
Projected rates of remuneration growth				1.50%	1.80%	2.00%	2.00%	1.00%	0.80%
Expected rates of return on plan assets	7.25%	7.25%	6.75%	4.50%	5.00%	5.00%	3.90%	3.40%	3.40%

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. Commitments:

1) Lease Commitments:

Some of the premises, warehouses and sites in the U.K., Germany, Belgium and Israel occupied by the Group are rented under various operating lease agreements. The lease agreements for the premises expire on various dates between 2007 and 2017.
Minimum lease commitments of the Company and its subsidiaries under the above leases, at rates in effect on 31 December 2007, are as follows:

	$ in thousands
Year ending 31 December:	
2008	4,322
2009	2,263
2010	1,455
2011	1,321
2012	1,253
2013 – 2017	4,511
	15,125

Rental payments for the premises in Israel, in the U.K. and in Germany and Belgium are payable in U.S. dollars, in Pounds Sterling, and in Euro, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

Rental expenses totaled $ 3,289 thousands, $ 2,009 thousands and $ 1,877 thousands, in the years ended 31 December 2007, 2006, and 2005, respectively.

2) Royalty Commitments:

(a) The Group and several third parties entered into agreements whereunder the Group acquired licenses for use of knowhow for the purpose of developing products. The Group will pay the third parties royalties at a range of rates of the sale of products developed, or a fixed amount in respect of each product sold.

(b) Frutarom Ltd. is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Frutarom Ltd. (dollar linked); as from 1 January, 1999 – with the addition of an annual interest rate based on Libor.

The maximum royalty amount payable by Frutarom Ltd. at 31 December 2007 is $ 537 thousands.

In 2007 and 2006, Frutarom Ltd. was of the opinion that it would not be required to refund Chief Scientist grants in the total amount of $ 141 thousands (2006 - $ 187 thousands), therefore it carried this amount to income.

b. Contingent Liabilities:

1) Reimbursement of expenses arising from raise of capital

As part of a capital raise made by the Company in the London Stock Exchange (see note 12b), the Company and the Bank of New York (hereafter – the bank) signed, in February 2005, an agreement, whereunder the bank would allocate the GDRs issued in the LSE as part of the above capital raise, and would provide services to the Company and to holders of the GDRs.

In consideration for the services as above, the bank paid the Company $ 810 thousands); under this agreement, the bank also undertook to bear further expenses of up to $ 270 thousands, relating to quoting the GDRs in future years.
Under the said agreement, the Company might be required to reimburse the expenses paid by the bank (with the addition of $ 500 thousands) if one of

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

the suspending conditions of the agreement, which pertain to cease of quoting the GDRs, the reduction of such quoting, or a change in ownership, is met. Under the agreement, such reimbursement of expenses might be required for a seven-year period, commencing the date of capital raise. The Company recognizes the amounts received from the bank as revenues over the period of the service received from the bank.

2) Legal Procedures against the Company and Subsidiaries

(a) In September 2001, Pikanti Meat Industries (1982) Ltd. and Hevrat Nitsolat Hacartel Ltd. (the "Plaintiffs"), lodged a claim for damages against Osem Food Industries Ltd. of the Nestle group and 16 other leading companies in the Israeli food industry (including Frutarom Trade and Marketing (1990)). The Plaintiffs claim that the defendants have created a cartel to destroy the activity of the Plaintiffs; they also claim that at a certain date the defendants ceased to supply them goods. In the opinion of Group's management, based on the opinion of its legal advisors, the claim has no factual basis. Total amount claimed was $ 108 million; the amounts claimed from each defendant was not specified. Since the plaintiffs did not pay the court fees, in 2003, the claim was cancelled.

In January 2004, the Plaintiffs lodged a new claim with a similar cause of action against Frutarom Trade and Marketing (1990) and 28 other companies.

The amount claimed was $ 217 million. The Plaintiffs attached to the claim an application for remission from payment of court fees. This application was rejected by the Court and so was the plaintiff's appeal against the Court's rejection of the said application; further to the rejection of the application and nonpayment of the court fees the claim was abated. The plaintiffs have appealed against the abatement of the claim and the appeal was rejected. The Group's management believes, based on its legal counsel's opinion, that the claim is a vexatious and frivolous claim, has no factual basis, the facts included therein concerning Frutarom are in themselves erroneous, and that the chances that the claimants will prevail in the claim are remote.

(b) A number of claims and third party notices have been filed against the Group. The claims are for bodily injury and economic damages, which the plaintiffs allege resulted from the pollution of the Kishon River, for which – according to the plaintiffs – the Group was among those responsible. Group's management believes, based on the opinion of its legal counsel, that the chances that the plaintiffs will prevail in the claims are remote. Group also believes that even if it will be found liable due to the circumstances of the said claim, the potential damage that might arise to the Group is immaterial, due to the large number of defendants, the very small quantity of effluents discharged by the Group during the relevant

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

years (about 0.01% of total effluents discharged by the other defendants); due to the fact that effluents discharged by the Group cannot cause the damages allegedly caused and due to the period during which effluents were discharged by the Group compared with the other defendants. Commencing in 2000, the Group discontinued discharge of all effluents to the Kishon River.
Set forth below are the claims filed against the Group concerning the pollution of the Kishon River:

(1) As part of a claim, the amount of which was not specified, and which was filed by a former serviceman in the Israeli navy and other plaintiffs against Haifa Chemicals Ltd. ("HCL") for alleged bodily injury caused to the plaintiffs while diving in the Kishon River in the course of their military service, HCL sent the Group and other parties third party notices; in these notices, HCL demands that if the Court will find it liable for the damages caused to the plaintiffs, the third parties will bear part of the compensation to be paid to the plaintiffs, since those third parties were among those responsible for the pollution.

(2) As part of a claim, the amount of which was not specified, and which was filed by fishermen who developed cancer and by their relatives against HCL and other parties, for alleged bodily injury, allegedly caused as a result of the pollution of the Kishon River by the defendants, the defendants sent the Group and other parties third party notices; in these notices, the defendants demand that if the Court will find them liable for the damages caused to the plaintiffs, the Group and the other parties will bear part of the compensation to be paid to the fishermen and/or indemnify the defendants for payment of such compensation. The number of plaintiffs participating in this claim increases from time to time, since other fishermen, who developed cancer continue to join the claim.

(3) A class action was filed against the HCL and other entities, under Section 10 to the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. According to the claim, the defendants have been polluting the Kishon River, in such a manner as to interfere with the activities of the plaintiffs, and that the pollution causes the destruction of natural resources and poses a real danger to public health. The claimants request the Court to order the cessation of the discharge of effluents into the Kishon River and the restoration of the river to its state prior to the discharge of the effluents. Some of the defendants sent the Group and other parties third party notices; in those notices the

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

defendants claim that if they will be required to bear the expenses incidental to restoration of the Kishon River to its state prior to the discharge of effluents as above, the Group and the other parties will be required to indemnify them in respect of those expenses.

In April 2007, the Court has dismissed the claim due to the fact that the state of the Kishon River has been dramatically improved and thus the claim no longer meets the threshold requirements for filing a claim. In May 2007 the claimant appealed against the Court's resolution. The appeal has not yet been heard by the Court.

(4) On 15 January 2004, Israel Shipyards Ltd. lodged a claim in the amount of $ 4.8 million against the Group and 11 other entities for economic damages allegedly caused as a result of the discharge of effluents to the Kishon River.

In May 2007, an application was filed to the Court to the effect that the company would be excluded from the claim; the claimants have agreed to such exclusion. The court accepted the application on May 9, 2007.

(c) In August 2007, a claim was filed to the Haifa District Court against the company for a smell hazard that was allegedly caused by the company's Haifa plant. At the same time, an application has been submitted that the Court would consider the said claim to be a class action. According to the claimants the smell hazards caused by the plant have damaged their individual autonomy and their right to breathe clean air to the extent that their quality of life has been damaged.
The group of individuals, which the claimants request to include in the class action, consists of residents who lived in a radius of 3.5 kilometers and/or their working place is in a radius of 2 kilometers of the company's Haifa plant and/or make frequent use of their vehicles and/or frequently used public transportation in the Akko-Haifa road in that part of the road that is close to the company's plant. The compensation claimed for the said group of people in the application to recognize the claim as a class action is NIS 225 million.

Based on the opinion of its legal advisors, company's management is of the opinion that the company has good defenses (both legal and factual) against the said application and against the claim itself.

(d) In addition to the aforementioned, subsidiaries of the Group are a party to legal procedures in the ordinary course of business; in the opinion of Group’s management the said legal procedures do not materially affect the Group’s financial position. Some of the claims are covered by insurance

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

policies and in respect of the other claims, the Group has fully provided in its accounts.

(e) On 6 March 2008, an indictment was submitted to the Magistrates Court – Krayot, Haifa against Frutarom Ltd., a subsidiary of the Company and several officeholders (hereafter – the Indictment).

The Indictment was submitted for the alleged offenses of running a business in contradiction to the terms of its license (an offense according to the Business Licensing Law – 1968) and causing odor nuisance whose source is the Company's plant in the Haifa Bay (an offense according to the Abatement of Nuisances Law – 1961).

The Company estimates that the above will not have a material adverse effect on its business and operations.

NOTE 13 – SHAREHOLDERS' EQUITY:

a. Share Capital:

1) Composed of ordinary shares of NIS 1 par value, as follows:

	Number of shares in thousands and the amount thereof, denominated in NIS		
	31 December		
	2007	2006	2005
Authorized	100,000	100,000	100,000
Issued and paid	57,706	57,676	57,676

Company shares are listed on the TASE at NIS 31.2 ($ 8.11) per share as of 31 December 2007. The GDRs representing the Company's shares are listed on the LSE.

2) Ordinary Company shares of NIS 1 par value, held by its subsidiary and included in the issued and paid share capital constitute 1.29%% (747,044 shares) and 1.33% (765,693 shares) of the balance of ordinary issued and paid shares of this type as of 31 December 2007 and 2006, respectively.

b. Capital Raise

On 22 February 2005, the Company completed a public offering on the London Stock Exchange, in which it raised capital in the total amount of $ 76 million (net of issuance costs at the amount of $ 5 million) as against the allocation of 10,600,000 ordinary Company shares and of listing Global Depositary Receipts (hereafter – GDRs) on the LSE official list; each GDR represents one Company share; the price per GDR was $ 7.63.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The allotment of shares and GDRs has taken place in two stages: in the first stage, on 8 February 2005, 10,000,000 Company shares were issued and GDRs were listed. In the second stage, on 22 February 2005, the underwriters fully exercised an option they were granted in the first stage, for the sale of additional 600,000 shares, at the price mentioned above.

Commensurate with the said allotment, ICC Handles AG of the ICC group – the Company's controlling shareholder – sold 2,600,000 existing Company shares at the price mentioned above. The Company did not receive any consideration in respect of the shares sold by ICC Handles AG.

c. Employee Share Option Plan for Senior Employees of Subsidiaries:

1) In 1996, the Company's Board of Directors approved an employee stock purchase plan (the "1996 Plan"), whereunder a subsidiary purchases Company shares in the TASE, for the purpose of granting options to senior employees of the Company against these shares.

   The options to purchase the shares are granted to the employees twice a year. The senior employees have the right to exercise the options they were granted at the end of the vesting period. The vesting period of the options granted under this plan is spread over three equal, annual batches: one year, two years and three years from date of grant.
   In any case, an employee's right, as above, expires six years from the date such right was granted.

   The exercise price is determined in accordance with the batch in which the shares were purchased. The exercise price for each batch constitutes 33.3% of the average price paid by the subsidiary upon purchase of Company shares.

   This plan is intended to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Those terms stipulate, inter alia, that the company is entitled to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plans.

   In 2003, in light of the changes in the provisions of the Income Tax Ordinance relating to grant of shares and options to employees, the company's Board of Directors approved an employee stock option plan (hereafter – the 2003 plan), which replaces the 1996 plan.
   The terms of the shares granted under the 2003 during the years 2003-2006 are identical to the terms of the shares granted under the 1996 plan.
   This plan is intended to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

In accordance with the alternative chosen by the company and pursuant to the terms thereof, the company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the company's accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

2) Set forth below are data regarding the rights for shares under the 1996 Plan and the 2003 Plan, which have not yet been exercised by Company employees, as of 31 December 2007:

Year of grant	Number of shares in respect of which the vesting period ended	Number of shares in respect of which the Vesting period has not yet ended	Exercise price $
2002	11,107		0.43-0.45
2003	55,278		0.89-1.53
2004	85,629		1.73-2.10
2005	92,185	52,854	2.91-2.97
2006	11,798	141,709	2.68-2.90
2007		150,599	2.79-2.97
	255,997	345,162	

As of 31 December 2007, the remaining amount of compensation, computed as the excess or the fair value of the said ordinary shares granted to employees over the exercise price at the date of grant not yet recorded as expenses in the income statements, is approximately $ 1,232 thousands. The said remaining compensation will be charged to income using the accelerated method over the remaining vesting period.

As to shares granted to a manager in the Company - Note 24a2).

The changes in the number of rights for shares outstanding and their related weighted average exercise prices are as follows:

	2007		2006		2005	
	Average exercise price in U.S. $ per share	Rights for shares	Average exercise price in U.S. $ per share	Rights for shares	Average exercise price in U.S. $ per share	Rights for shares
At 1 January	1.97	636,117	1.33	695,172	0.87	763,961
Granted	2.70	150,599	2.40	169,206	2.46	191,613
Forfeited	2.30	(37,807)	2.24	(20,290)	0.74	(67,019)
Exercised	1.16	(147,750)	0.72	(207,971)	0.51	(193,383)
At 31 December	2.54	601,159	1.97	636,117	1.33	695,172

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The following table summarises information about share rights outstanding at 31 December 2007:

Share rights outstanding			Share rights exercisable		
Range of exercise prices	Number outstanding at 31 December 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 31 December 2007	Weighted average remaining contractual life
$		Years	$		Years
0.43	3,517	0.25	0.43	3,517	0.25
0.45	7,590	0.75	0.45	7,590	0.75
0.89	29,682	1.25	0.89	29,682	1.25
1.53	25,596	1.75	1.53	25,596	1.75
1.73	45,697	2.25	1.73	45,697	2.25
2.10	39,933	2.75	2.10	39,933	2.75
2.91	68,462	3.25	2.91	43,183	3.25
2.97	76,578	3.75	2.97	49,002	3.75
2.90	89,281	4.25	2.90	6,940	4.25
2.68	64,226	4.75	2.68	4,857	4.75
2.97	89,297	5.25			
2.79	61,300	5.75			
	601,159			255,997	

3) On 21 December 2003, the Company's Board of Directors resolved to issue up to 1,200 thousands ordinary shares of NIS 1 par value, to be registered for trade in TASE and to be allotted to senior executive employees.

On 18 January 2004, the Company issued 900 thousands shares to senior employees, as part of said resolution. The market value of Company's shares at date of designation was NIS 19.64 ($ 4.46).

The allotted shares are to be held by a trustee. As from the date of allotment, the shares vest in equal batches, as follows: half a year (1 July 2004), one year (1 January 2005), two years (1 January 2006) and three years (1 January 2007).

In consideration of the shares, the employees paid NIS 5 ($ 1.14) per share, using a non-recourse loan they received for that purpose from the Company. In case that an employee will not complete the vesting period, the Company will repurchase from that employee the shares as against the offset of the employee's debt to the Company. The loans to the employees are in NIS and they are unlinked and bear no interest. The loans are repayable upon sale of the share, or within 60 days from termination of the employee's employment, whichever is earlier, but not later than 1 January 2010.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

Through 31 December 2007, the employees repaid a total of $ 398 thousands out of the loans they were granted (2006 - $ 398 thousands, 2005 - $ 222 thousands).

In June 2005, a senior employee resigned from his office in the Company. The Company repurchased from the employee 125,000 shares, the vesting period of which has not yet been completed, as against the employee's debt to the Company.

The shares will be released to the senior employees upon payment of the said loans (an amount of NIS 5 per each share released), but not before the end of the vesting period.

The fair value of the allotted shares – computed using the Black & Scholes shares valuation model, amounted at date of grant to U.S. $ 3,024 thousands. This value is based on the following assumptions: expected dividend at a rate set to 0% in all years (as the employees are also entitled to dividend), standard deviation of expected share price returns of 33% - 39%, annual risk-free interest at a rate of 1.24%, 1.24%, 1.76% and 2.27% (in accordance with the option's expected life) and an expected average option life until exercise: six months for the first batch, one year for the second batch, two years for the third batch and three years for the fourth batch.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last six months, one year, two years and three years (in accordance with the vesting periods of the batches).

As to shares granted to manager in the Company – Note 24a2).

d. Allotment of Options to Senior Employees

1) On 17 May 2004, the Company's Board of Directors approved, as part of the 2003 Plan (Note 12c) and as part of the Board of Directors' resolution to issue 1.2 million ordinary shares, the allotment of 150,000 non-marketable options (the "Options") to a senior employee of the Company; each option is exercisable into one ordinary share of NIS 1 par value.

   The said options are to be held by a trustee and they will be granted to the employee in equal batches at the end of the vesting period. The vesting periods are as follows: the first batch vests on 9 October 2004; the second on 9 October 2005; the third on 9 October 2006 and the fourth on 9 October 2007. In any case, the employee's right to exercise the options expires six years from date of grant (on 17 May 2010). The exercise price was set to NIS 10.87 ($ 2.36). The market value of the Company's shares at date of allotment was NIS 20.94 ($ 4.55). On 16 June 2004, the Tel-Aviv Stock Exchange approved the registration

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

of 150,000 Company shares of NIS 1 par value, which will arise from exercise of the said options.

The fair value of the allotted shares – computed using the Black & Scholes shares valuation model, amounted at date of grant to U.S. $ 346 thousands. This value is based on the following assumptions: expected dividend at a rate set to 0% in all years; standard deviation of expected share price returns of 33.3%, - 39.5%, annual risk-free interest at a rate of 1.74%, 1.74%, 2.82% and 3.1% (in accordance with the option's expected life) and an expected average option life until exercise: five months for the first batch, seventeen months for the second batch, twenty nine months for the third batch and forty one months for the fourth batch.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last five months, seventeen months, twenty nine months and forty one months (in accordance with the vesting periods of the batches).

2) On 2 January 2006, the Company's Board of Directors approved, as part of the 2003 Plan (Note 13c) the allotment of 725,000 non-marketable options (the "Options") to four senior employees of the Company; each option is exercisable into one ordinary share of NIS 1 par value.

The said options are to be held by a trustee and they will be granted to the employees in equal batches at the end of the vesting period. The vesting periods are as follows: for three senior employees – 3 equal batches – two years, three years and four years form date of grant. For 1 senior employee – 4 equal batches – one year, two years, three years and four years from date of grant.
In any case, the employees' right to exercise the options expires six years after the date of grant. The exercise price was set to NIS 31.07 ($ 6.75). The market value of the Company's shares at date of allotment was NIS 34.52 ($ 7.50).

On 31 January 2006, the Tel-Aviv Stock Exchange approved the registration of 600,000 Company shares of NIS 1 par value, which will arise from exercise of the said options. 125,000 stocks out of the 725,000 options granted are existing stocks held by Frutarom Ltd.

The fair value of the allotted shares – computed using the Black & Scholes shares valuation model, amounted at date of grant to U.S. $ 1,620 thousands. This value is based on the following assumptions: expected dividend at a rate set to 0% in all years; standard deviation of expected share price returns of 29%-31%, annual risk-free interest at a rate of 4.45%-4.35% and an expected average option life until exercise of one year, two years, three years and four years.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last twelve months, twenty four months and thirty six and forty eight months (in accordance with the vesting periods of the batches).

As to the fair value of options granted to a manager – Note 24a2).

e. Dividend and Retained Earnings

The amounts of the dividend paid presented in the statement of changes in shareholders' equity are net the share of a subsidiary holding Company shares (Note 2L). The subsidiary's share in the dividend is $ 33 thousands, $ 26 thousands and $ 23 thousands in 2007, 2006 and 2005, respectively.
In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by a subsidiary (that are presented as a separate item on the statement of changes in shareholders' equity) have to be deducted from the amount of retained earnings presented among Company's shareholders' equity.

NOTE 14 - TAXES ON INCOME:

a. Corporate taxation in Israel

1) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company and the Israeli subsidiaries are taxed under this law.

Under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law) (Amendment No. 20, 2008, hereafter – the amendment), that was enacted in the Kneset on February 26, 2008, the provisions of the Inflationary Adjustments Law will no longer apply to the company in 2008 and thereafter. The amendment specifies transitional provisions regarding the discontinuance of the provisions of the Inflationary Adjustments Law that have applied to the company through the end of 2007.

2) Tax rates

The income of the Company and its Israeli subsidiaries (other than income from "approved enterprises" or "beneficiary enterprises", see b. below) is taxed at the regular rate. Through December 31, 2003, the corporate tax was 36%. In July 2004, Amendment No. 140 to the Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%. In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax

NOTE 14 –TAXES ON INCOME (continued):

rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for 2004 and thereafter are as follows:

2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and for 2010 and thereafter – 25%.

As a result of the changes in the tax rates, the Group and adjusted - in each of the years 2004 and 2005 – at the time the aforementioned amendments were made, its deferred tax balances, in accordance with the tax rates expected to be in effect in the coming years; the effect of the change has been carried to income on a current basis.

Capital gains (other than the real capital gain on the sale of marketable securities - which is subject to tax at the regular rates) are taxed at a reduced rate of 25% on the capital gains derived after January 1, 2003, and at the regular corporate tax rates on the capital gain derived through the aforementioned date.

b. Subsidiaries outside Israel

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside Israel are as follows:

Company incorporated in the USA – tax rate of 41%.
Company incorporated in Germany– tax rate of 40%.
Company incorporated in Belgium – tax rate of 34%
Company incorporated in the UK – tax rate of 30%.
Company incorporated in the Switzerland – tax rate of 22%.
As a result of a change in the German tax law, the applicable tax rate for the companies' Group operating in Germany will be reduced as of 2008 to 30%.

c. Encouragement Laws in Israel

1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereinafter - the Law)

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the “approved enterprise” or “benefited enterprise” status granted to certain enterprises of the Company, and by virtue of the “Foreign Investors’ Company“ status it was granted, Frutarom Ltd. is entitled to various tax benefits.

NOTE 14 –TAXES ON INCOME (continued):

The main tax benefits available to Frutarom Ltd. are:

(a) Reduced tax rates

During the 10-year period of benefits, commencing in the first year in which Frutarom Ltd. earns taxable income from the approved enterprises (provided the maximum period to which it is restricted by law has not elapsed), the following reduced tax rates apply:

(1) Corporate tax at the rate of 20% on income from certain approved or benefited enterprises owned by foreign investors' companies (this tax rate is determined based on the percentage of foreign shareholding as defined by the law).

(2) Tax exemption on income from certain approved enterprises which had previously opted for by Frutarom Ltd. the "alternative benefits" track (involving waiver of investment grants) and tax exemption on income from a benefited enterprise; the length of the exemption period is two, four or six years, after which the income from these enterprises is taxable at a decreased rate (see 1a above) for an additional eight, six or four years, respectively. In the event of distribution of cash dividends (and for benefited enterprise – also liquidation dividend) out of income, which was tax exempt as above, Frutarom Ltd. would have to pay the decreased tax rate (see 1a above) in respect of the amount distributed, (Note 2L4)).

In 2003, Frutarom Ltd. addressed the Investment Centre, requesting to recognise Frutarom Ltd. as an R&D intensive and labour-intensive company, which is characterised by a rapid technological turnover. In September 2005 the Investment Centre notified Frutarom Ltd. that two of its approved enterprises are recognised as approved enterprises that are characterised by a rapid technological turnover, for which Frutarom Ltd. is entitled to tax benefits by virtue of the Investment Centre's base turnover procedure (an erosion of base turnover at a rate of 10% commencing in
the first year of operation). Pursuant to the Investment Centre's notification, Frutarom Ltd. included in its books a tax benefit in the amount of $ 1.7 million in respect of prior years. At the beginning of 2006, the Investment Centre informed the company that it recognises another approved enterprise of Frutarom Ltd. as an approved enterprise characterised by a rapid technology turnover; the tax benefits to which the company would be entitled to receive in respect of this approved enterprise are similar to the tax benefits it receives in respect of the other two enterprises. Accordingly, Frutarom Ltd. recorded in 2006 a tax benefit receivable in respect of previous years in the total amount of $ 1 million. Frutarom Ltd.'s request to recognise

NOTE 14 –TAXES ON INCOME (continued):

an additional approved enterprises as an approved enterprise characterised by a rapid technology turnover has not yet been granted. The period of benefits in respect of those of the abovementioned enterprises, which were activated, expires in the years 2006 through 2016.

2) Accelerated depreciation

Frutarom Ltd. is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of buildings, machinery and equipment used by the approved enterprise.

3) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and Frutarom Ltd. may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.
Group's management believes that as of 31 December 2007, Frutarom Ltd. fulfills all the requirements.

d. The Law For The Encouragement of Industry (Taxation), 1969:

Frutarom Ltd. is an "industrial company" as defined by this law. As such, Frutarom Ltd. is entitled to claim amortisation over 8 years of acquired product formulas, as well as depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law, and have done so.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

e. Deferred Taxes:

1) The composition of the deferred taxes, and the changes therein during the year are as follows:

	In respect of balance sheet items						
			Provisions for employee rights				
	Depreciable fixed assets	Negative goodwill	Severance pay	Vacation and recreation pay	Inventories	Other	Total
	U.S. dollars in thousands						
Balance at 31 December 2004	6,580	(1,785)	(1,822)	(424)	(770)	(505)	1,274
Derecognition of the balance of recognised negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3		1,785					1,785
Differences from translation of foreign currency financial statements of subsidiaries	(420)		216		(80)	(2)	(286)
Amounts carried to income	295		(440)	22	565	856	1,298
Balance at 31 December 2005 - brought forward	6,455	-,-	(2,046)	(402)	(285)	349	4,071

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

	In respect of balance sheet items							
		Provisions for employee rights						
	Depreciable fixed assets	Severance pay	Vacation and recreation pay	Inventories	Other	Depreciable intangibles	In respect of carryforward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2005 - brought forward	6,455	(2,046)	(402)	(285)	349		-,-	4,071
Changes in 2006:								
Addition to deferred taxes in respect of acquisition of the subsidiaries (Note 5)	655	(62)		(172)	(244)	4,378		4,555
Differences from translation of foreign currency financial statements of subsidiaries	397	(177)		53	43	351	(69)	598
Amounts carried to income	571	562	(5)	140	(215)	(259)	(1,610)	(816)
Balance at 31 December 2006 - brought forward	8,078	(1,723)	(407)	(264)	(67)	4,470	(1,679)	8,408

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

	In respect of balance sheet items							
		Provision for employee rights						
	Depreciable fixed assets	Severance pay	Vacation and recreation pay	Inventories	Other	Depreciable intangibles	In respect of carry forward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2006 - brought forward	8,078	(1,723)	(407)	(264)	(67)	4,470	(1,679)	8,408
Changes in 2007:								
Addition to deferred taxes in respect of acquisition of the subsidiaries (Note 5)	752	(416)		(192)	(631)	8,738		8,251
Differences from translation of foreign currency financial statements of subsidiaries	447	(136)		67	63	664	(85)	1,020
Amounts carried to income	309	909	(57)	(417)	505	(1,410)	946	785
Balance at 31 December 2007	9,586	(1,366)	(464)	(806)	(130)	12,462	(818)	18,464

NOTE 14 –TAXES ON INCOME (continued):

2) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

3) Classification of deferred tax assets and liabilities by maturities, are as follows:

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Deferred tax assets:			
Deferred tax asset to be recovered within 12 months	3,745	3,833	1,701
Deferred tax asset to be recovered after more than 12 months			1,618
	3,745	3,833	3,319
Deferred tax liabilities:			
Deferred tax liability to be recovered within 12 months	1,541	1,142	1,363
Deferred tax liability to be recovered after more than 12 months	20,668	11,099	6,027
	22,209	12,241	7,390
	18,464	8,408	4,071

4) The deferred taxes in respect of activities in Israel are computed at the tax rate of 26% (2006 – 28%). This rate is an average taking into account the income from Frutarom Ltd.'s approved enterprises.

   Deferred taxes of foreign subsidiaries in Switzerland, U.S.A., U.K. and Germany are computed at the tax rates applicable to these companies (see b above).

5) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of $ 73 thousands in respect of losses relating to the Company and to subsidiaries in Russia and Ukraine amounting to $ 281 thousands that can be carried forward against future taxable income.

   Deferred income tax liabilities of approximately $ 4,380 thousands in 2007 have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

NOTE 14 –TAXES ON INCOME (continued):

f. Taxes on Income Included in The Income Statements:

1) As follows:

	2007	2006	2005
	U.S. dollars in thousands		
For the reported year:			
Current	6,625	8,724	6,877
Deferred, see e. above:			
In respect of a change in tax rates, Note 14a2)(a)			(115)
For the reported year	785	(816)	1,413
	7,410	7,908	8,175
For previous years		(1,000)	(1,700)
T o t a l	7,410	6,908	6,475

Current taxes (consolidated) are computed at an average tax rate of 23.45%, 23.83% and 20.11%, for the years 2007 2006, and 2005, respectively.

NOTE 14 –TAXES ON INCOME (continued):

2) Theoretical tax reconciliation:

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 14d above) and the actual tax expense:

	2007	2006	2005
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	31,603	36,610	33,322
Theoretical tax expense in respect of this income – at 29% (2006 – 31%; 2005 – 34%)	9,165	11,349	11,329
Less – tax benefits arising from approved enterprise status	(14)	(645)	(1,239)
	9,151	10,704	10,090
Increase (decrease) in taxes resulting from:			
Different tax rates applicable to foreign subsidiaries	243	(2,212)	(2,173)
Computation of deferred taxes at a rate which is different from the theoretical rate	8	35	62
Increase in taxes resulting from adjustment to deferred tax balances due to changes in tax rates (Note 14a2))			(115)
Disallowable deductions	18	18	160
Decrease in taxes resulting from utilization, in The reported year, of carryforward tax losses for which deferred taxes were not created net of increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were Not created		(27)	(839)
Difference between the basis of measurement of income reported for tax purposes and the Basis of measurement of income for financial reporting purposes – net*	(1,871)	(918)	1,028
Other	(139)	308	(38)
Taxes on income for the reported year	7,410	7,908	8,175

* The majority of the said difference results from the difference between the changes in the CPI - which is used as the basis for calculating the results for tax purposes for the activity in Israel – see a1) above – and the changes in the NIS/dollar exchange rate.

NOTE 14 –TAXES ON INCOME (continued):

g. Tax Assessments:

The Company and one of the Israeli subsidiaries have received tax assessments through the year 1999.
Frutarom Ltd. received final tax assessments through the year 1998.
Tax assessments filed by the Company and the Israeli subsidiaries through the year ended 31 December 2001 are considered to be final.

NOTE 15 – LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

a. To secure long-term bank loans and credit and short-term bank credit granted to subsidiaries of the Company in the U.S.A., U.K. and Switzerland, the subsidiaries have registered floating charges on their assets.

b. To secure long and short-term loans extended to Frutarom Ltd., this company registered fixed charges on its share capital and its goodwill, floating charges on all its assets and insurance rights and floating charges on all its assets including the rights and yield arising from the assets.
The charges were registered in favour of several bank; Frutarom Ltd. has also agreed not to register any pledges or transfer assets without the prior consent of the banks.

NOTE 16 – ACCOUNTS RECEIVABLE:

	31 December		
	2007	**2006**	**2005**
	U.S. dollars in thousands		
a. Trade:			
Open accounts	75,927	52,192	37,537
Related parties	274	403	526
	76,201	52,595	38,063
Cheques collectible	1,805	1,373	2,226
	78,006	53,968	40,289
The item includes – provision for impairment of receivables	3,214	2,201	1,726

NOTE 16 – ACCOUNTS RECEIVABLE (continued):

Trade receivables that are less than 120 days past due are not considered impaired. As of 31 December 2007, trade receivables of $ 21,800 thousands (2006- $ 13,775 thousands) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	2007	2006
	U.S. dollars in thousands	
Up to 60 days	18,034	11,932
60 days to 120 days	3,786	1,843
	21,820	13,775

As of 31 December 2007, trade receivables of $ 4,302 thousands (2006- $ 3,029 thousands) were impaired and provided for. The amount of the provision was $ 3,214 thousands as of 31 December 2007 (2006- $ 2,201 thousands). The individually impaired receivables mainly relate to clients, of which their debt is past due for several reasons. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
	U.S. dollars in thousands	
120 days to one year	3,474	2,547
Over one year	828	482
	4,302	3,029
Provision for impairment of receivables	(3,214)	(32,201)
	1,088	828

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
b. Other:			
Employees	526	251	153
Related parties	6	255	355
Government institutions	9,290	4,112	2,144
Adjustments to purchase price of the FS		2,305	2,071
Sundry	2,173	3,115	2,033
	11,995	10,038	6,756

NOTE 17 – INVENTORIES

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Raw materials and supplies	45,577	26,509	22,624
Products in process	3,930	2,137	1,903
Finished products	36,939	29,428	20,755
	86,446	58,074	45,282
Inventories for commercial operations – purchased products	4,006	1,680	1,604
	90,452	59,754	46,886

NOTE 18 – OTHER NON-CURRENT ASSETS

Prepaid expenses in respect of leasehold rights in land:

1) Frutarom Ltd. has a leasehold right in land located in the Akko Industrial Zone and the Haifa Bay. The net capitalised lease fees as at 31 December 2007, in respect of the said lands amount to $ 1,301 thousands (2006 - $ 1,333 thousands). The leasing period is 49 years ending in the years 2032 through 2042. Frutarom Ltd. has a right to extend the leasing for an additional 49-year period.

2) In October 2003, Frutarom Ltd. and the Israel Lands Administration entered into an agreement in respect of additional leasing rights in land located in the industrial zone in the north of Israel. Leasehold rights in respect of this land are for a period of 49 years ending January 2053. Frutarom Ltd. has a right to extend the leasing period for additional 49 years.
During 2005, capitalised lease fees in the amount of $ 382 thousands were paid in respect of the said land.

3) A subsidiary in China has “Land Use Rights” on land in China. The rights are for a period of 50 years ending in 2046. Net capitalised lease fees as at 31 December 2007, in respect of the said land amount to $ 215 thousands (2006 - $ 223 thousands).

NOTE 19 – CASH AND CASH EQUIVALENTS:

a. The cash and cash equivalents item is composed of the following balances:

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Cash and cash equivalents	31,942	18,417	33,723
Bank overdrafts	(3,765)	(673)	
	28,177	17,744	33,723

NOTE 19 – CASH AND CASH EQUIVALENTS (continued):

b. Classified by currency, linkage terms and interest rates, the cash and cash equivalents are as follows:

	Weighted interest rates as of 31 December 2007	31 December 2007	2006	2005
		U.S. dollars in thousands		
In Dollars	1.7%	7,613	6,333	19,016
In Pounds sterling		382	843	1,932
In Euro	3.5%	21,538	8,066	8,877
In Swiss franc		664	2,034	3,015
Other		1,745	1,141	883
		31,942	18,417	33,723

NOTE 20 – ACCOUNTS PAYABLE:

	31 December 2007	2006	2005
	U.S. dollars in thousands		
a. Trade:			
Open accounts	38,528	27,476	17,895
Cheques payable	269	24	
	38,797	27,500	17,895
b. Other:			
Payroll and related expenses	7,813	5,683	5,375
Government institutions	18,678	13,362	8,159
Provision for commissions and discounts	1,914	1,467	1,325
Shareholder and related parties			124
Income received in advance			164
Liability to Bank of New York (Note 12b1))	444	810	810
Accrued expenses	8,644	5,128	3,438
Customer advances		140	270
Future consideration and call option in respect of Nesse and the Gewurzmuller Group	56,035		
Sundry	2,884	1,407	2,497
	96,412	27,997	22,162

NOTE 21 – PROVISIONS FOR LIABILITIES AND CHARGES:

	Restructuring from Flachsmann acquisition	Claims and litigations	Total
	U.S. dollars in thousands		
Balance at 1 January	633	560	1,193
Changes during 2005:			
Changes in company organization:			
Utilised during the year	(583)	(13)	(596)
Currency translation effects	(50)		(50)
Balance at 31 December 2005	-,-	547	547
Changes during 2006 -			
Additional provisions		399	399
Balance at 31 December 2006	-,-	946	946
Changes during 2007:			
Utilised during the year		(506)	(506)
Balance at 31 December 2007		440	440

Restructuring Provisions From Flachsmann Acquisition

Provisions for the Flachsmann acquisition have been recognised during the acquisitions for compensating Flachsmann's employees for terminating of their employment and closing certain Flachsmann's facilities. The provision was fully used until the end of 2005.

Claims and Litigation

These provisions are made in respect of legal claims brought against the Group and potential litigations. Related estimated legal fees are also included in these provisions (Note 12b).

NOTE 22 – INCOME STATEMENT ANALYSIS:

	2007	2006	2005
	U.S. dollars in thousands		
a. Cost of Sales:			
Industrial operations:			
Materials consumed	177,743	136,283	102,693
Payroll and related expenses	31,675	23,730	23,675
Depreciation and amortisation	8,491	7,642	7,232
Other production expenses	19,931	16,665	12,349
	237,840	184,320	145,949
Increase in work in process and finished products inventories	(9,304)	(8,907)	(1,914)
	228,536	175,413	144,035
Commercial operations – cost of products sold	8,970	5,957	5,250
	237,506	181,370	149,285
b. Selling, Marketing, Research and Development Expenses - net:			
Payroll and related expenses	34,474	25,488	23,291
Transportation and shipping	10,616	6,644	6,817
Provisions for payment of commissions and royalties	3,865	4,145	3,820
Provision for impairment of trade receivables	204	111	62
Depreciation and amortisation	2,412	1,763	832
Travel and entertainment	3,282	3,832	3,210
Office rent and maintenance	3,794	2,956	2,386
Other	8,251	3,579	3,400
	66,898	48,518	43,818
The item includes expenses for product development and research activities, net*	18,170	14,099	11,956
* net of participation from government departments and others	289	389	165

NOTE 22 – INCOME STATEMENT ANALYSIS (continued):

	2007	2006	2005
	U.S. dollars in thousands		
c. General and Administrative Expenses:			
Payroll and related expenses	17,639	13,656	10,611
Depreciation and amortisation	1,704	610	266
Professional fees	2,353	2,222	1,524
Communication, office supplies and maintenance	3,818	2,909	3,070
Insurance for office holders and costs related to Board of Directors	109	140	130
Travel and entertainment	1,420	1,335	928
Other	2,482	1,546	1,688
	29,525	22,418	18,217
d. Other income – net:			
Capital loss (gain) on sale of fixed assets	89	(23)	328
Rental	(107)	(65)	(49)
Impairment of property, plant and equipment and intangible assets		126	
Negative goodwill arising from the acquisition of IFF		(2,242)	(1,496)
Sundry	(176)	90	(38)
	(194)	(2,114)	(1,255)
e. Financial Expenses – net:			
In respect of long-term loans and credit	903		512
In respect of exchange differences of financial assets and liabilities - net	167	88	26
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other - net	1,260	(53)	(122)
Periodic change in non-current liability in respect of Nesse (Note 5a)	593	410	
	2,923	445	416

NOTE 23 – CASH FLOWS FROM OPERATIONS

	2007	2006	2005
	U.S. dollars in thousands		
Net income	24,193	29,702	26,847
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	12,647	10,015	8,330
Recognition of compensation related to employee stock and option grants	1,200	1,538	805
Liability for employee rights upon retirement - net	(5,521)	(1,168)	293
Deferred income taxes – net	785	(816)	1,298
Loss (gain) from sale of fixed assets	42	(23)	328
Increase (decrease) in provisions - net	(545)	399	(596)
Differences in long-term loans	550		
Provision for impairment of intangibles in subsidiary		126	
Negative goodwill arising from the acquisition of IFF		(2,242)	(1,496)
Other	593	546	83
	9,751	8,375	9,045
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(5,152)	(5,247)	944
Other	6,506	(1,744)	(1,375)
Increase (decrease) in accounts payable:			
Trade	3,832	4,938	(998)
Other	465	5,249	5,530
Increase in inventories	(15,563)	(4,884)	(5,562)
	(9,912)	(1,688)	(1,461)
Cash flows from operating activities	24,032	36,389	34,431
Non-cash transactions			
Change in excess of cost of acquisition (note 5)	1,925	2,268	

NOTE 24 - RELATED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions with Related Parties:

1) Income (expenses):

	2007	2006	2005
	U.S. dollars in thousands		
Sales – affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan (hereafter "Fallek")	522	883	848
Other		12	90
	522	895	938

Goods are sold on the basis of the market prices with non-related parties.

Purchases:			
Affiliates (companies controlled by the controlling shareholder):			
Azur S.A. (hereafter – "Azur")	(958)	(400)	(328)
Controlling shareholder	(334)	(16)	(182)
	(1,292)	(416)	(510)

The agreement for rendering of services by Azur was approved by the shareholders' meeting.
Goods are bought on the basis of the market prices with non- related parties.

Dividend	(945)	(717)	(691)
Other income (expenses):			
Affiliates:			
Azur	(66)	(61)	(58)
EIL			12
Fallek			(12)
		(61)	(58)
Controlling shareholder	36		(29)
	(30)	(61)	(87)
Benefits to related parties:			
Wages and salaries	(1,365)	(2,050)	(1,028)
Director fees to 7 directors (in the Company)	(142)	(179)	(130)

2) Shares granted to a manager in the Company

The difference between the market value of the shares which were granted to a manager in the years 2007, 2006, and 2005 under 1996 plan (Note 13c) and the exercise price stipulated by the plans, as known at time of the grant is $ 156 thousands, $ 155 thousands and $ 169 thousands, respectively.

NOTE 24 – "RELATED PARTIES" – TRANSACTIONS AND BALANCES (continued):

The compensation costs that have been charged to the income statements, in respect of the said shares granted in the years 2007, 2006, and 2005, are $ 159, $ 125 thousands and $ 50 thousands, respectively.

As part of the Board resolution, a manager in the Company was granted, on 2 January 2006, 350 thousands options; the fair value of options that the Company allotted to a manager, computed using the Black & Scholes shares valuation model (based on the assumptions described in Note 13d2), was estimated at the date of grant to $ 783 thousands (Note 13d2).

3) The Company's articles of association allow for insurance and indemnification of office holders as permitted by Israeli law. The Company established indemnification policy in respect of its office holders and office holders of subsidiaries. The Company also resolved to insure office holders in respect of their duties, all subject to the provisions of the law and other limitations.

4) As to selling of shares by ICC Handles AG of the ICC group – the Company's shareholder - see Note 13b.

b. Balances with Related Parties:

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
1) Current receivables - presented in the balance sheets among "other receivables" and "trade" under current assets - balance at balance sheet date - Affiliated:			
Fallek	274	403	526
Azur		250	318
Other		5	37
	274	658	881
Highest balance during the year	525	874	1,133
2) Current payables to shareholder and related parties	131		124
	747		
	878		124

NOTE 25 – SUBSEQUENT EVENT

On 17 March 2008 the group's Board of Directors declared the distribution of a dividend of NIS 0.18 per share. The total amount of the dividend is $ 3.032 million (according to the exchange rate at the day of signing this report).

NOTE 26 – CONDENSED COMPANY DATA:

a. Balance sheet data:

	December 31		
	U.S. dollars in thousands		
	2007	2006	2005
A s s e t s			
Current assets - accounts receivable:	2,447	179	68
Fixed assets – net	139	139	139
Investments, loans and capital notes to subsidiaries	116,303	108,745	100,199
	118,889	109,063	100,406
Liabilities and shareholders' equity			
Current liabilities		105	64
Shareholders' equity (see c. below)	118,889	108,958	100,342
	118,889	109,063	100,406

b. Operating results data:

	2007	2006	2005
	U.S. dollars in thousands		
General and administrative expenses	72	72	384
Financing income (expenses) – net	9,408	7,807	(4,687)
Other income - net	156	156	156
Income in respect of dividend received	2,572	1,978	1,716
Net income (loss) for the year	12,064	9,869	(3,199)

NOTE 26 – CONDENSED COMPANY DATA (continued):

c. Changes in shareholders' equity:

	Share Capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands				
BALANCE AS OF 1 JANUARY 2005	13,961	17,642	(1,777)	(1,061)	28,765
CHANGES IN 2005:					
Net income			(3,199)		(3,199)
Issuance of share capital	2,416	73,451			75,867
Plan for allotment of Company shares to employees of subsidiary:					
Purchase of Company shares by subsidiary				(383)	(383)
Receipts in respect of allotment of Company shares to employees				92	92
Recognition of compensation related to the plan				321	321
Allotment of shares and options to senior employees:					
Allotment of share capital to senior employees	22	89			111
Recognition of compensation related to stock and option grants to employees		484			484
Dividend			(1,716)		(1,716)
BALANCE AT 31 DECEMBER 2005 – brought forward	16,399	91,666	(6,692)	(1,031)	100,342

NOTE 26 – CONDENSED COMPANY DATA (continued):

	Share capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
BALANCE AS OF 1 JANUARY 2006 - brought forward	16,399	91,666	(6,692)	(1,031)	100,342
CHANGES IN 2006:					
Net income			9,869		9,869
Plan for allotment of Company shares to employees of subsidiary					
Purchase of Company shares by subsidiary				(1,135)	(1,135)
Receipts in respect of allotment of Company shares to employees				146	146
Recognition of compensation related to stock and option grants to employees				229	229
Allotment of shares and options to senior employees:					
Receipts in respect of allotment of Company shares to employees	35	141			176
Recognition of compensation related to stock and option grants to employees		1,309			1,309
Dividend			(1,978)		(1,978)
BALANCE AT 31 DECEMBER 2006 - brought forward	16,434	93,116	1,199	(1,791)	108,958

NOTE 26 – CONDENSED COMPANY DATA (continued):

c. Changes in shareholders' equity:

	Share capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
BALANCE AS OF 1 JANUARY 2007 - brought forward					
CHANGES IN 2007:	16,434	93,116	1,199	(1,791)	108,958
Net income			12,064		12,064
Plan for allotment of Company shares to employees of subsidiary:					
Purchase of Company shares by subsidiary				(1,194)	(1,194)
Receipts in respect of allotment of Company shares to employees				234	234
Recognition of compensation related to stock and option grants to employees				91	91
Allotment of shares and options to senior employees:					
Receipts in respect of allotment of Company shares to employees	32	167			199
Recognition of compensation related to stock and option grants to employees		1,109			1,109
Dividend			(2,572)		(2,572)
BALANCE AT 31 DECEMBER 2007	16,466	94,392	10,691	(2,660)	118,889

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 – LIST OF CONSOLIDATED SUBSIDIARIES

Name of company	Country	Percentage of shareholding and control	
		31 December	
		2007	2006
		%	%
Frutarom Ltd.	Israel	100	100
Frutarom Trade and Marketing (1990)	Israel	100	100
Galilee Essences Ltd.(1)	Israel	100	100
Frutarom (UK) Ltd. (2)	U.K.	100	100
International Frutarom Corporation (6)	U.S.A	100	100
Frutarom Russia Ltd.	Russia	100	100
Frutarom Ukraine Ltd.	Ukraine	100	100
Frutarom Kazakhstan Ltd.	Kazakhstan	100	100
Frutarom Flavors (Kunshan) Company	China	100	100
Far Aromatic Gida Urunleri Sanayi Ve Ticaret Limited Sirketi Ltd.	Turkey	100	100
Frutarom Mexico S.A.	Mexico	100	100
Frutarom do Brazil Ltda.	Brazil	100	100
Reichan Beerot Itzhak Ltd.	Israel	100	100
Food Industries Ltd.	Israel	100	100

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 – LIST OF CONSOLIDATED SUBSIDIARIES (continued):

(1) Inactive company

(2) Frutarom (UK) Ltd. holds full ownership in:

Turkish Holdings Ltd.(1)
Frutarom Switzerland Ltd.(3)
Jupiter Flavours Ltd.
Belmay Ltd.(7)

(3) Frutarom Switzerland Ltd. holds full ownership in:

Frutarom Germany GmbH (4)
Frutarom Nordic A/S
Frutarombel Ltd.
Frutarom France S.A.R.L.
Frutarom (Marketing) S.R.L.
Frutarom Belgium N.V.
Frutarom Netherlands B.V.(5)

(4) Frutarom Germany GmbH holds ownership in:

GewürzMüller Nesse GmbH (70%)
GewürzMüller Nesse Gebr. Krause GmbH (70%)
GewürzMüller GmbH (100%)(8)
Blessing Biotech GmbH (100%)

(5) Frutarom Netherlands B.V. holds full ownership in:

Frutarom Specialties Belgium N.V.
Frutarom USA Holding Inc.(1)

(6) International Frutarom Corporation holds full ownership in:

Frutarom USA Inc.
Frutarom Inc.
Abaco Inc.
Abaco Manufacturing LLC

(7) Belmay Ltd. holds full ownership in:

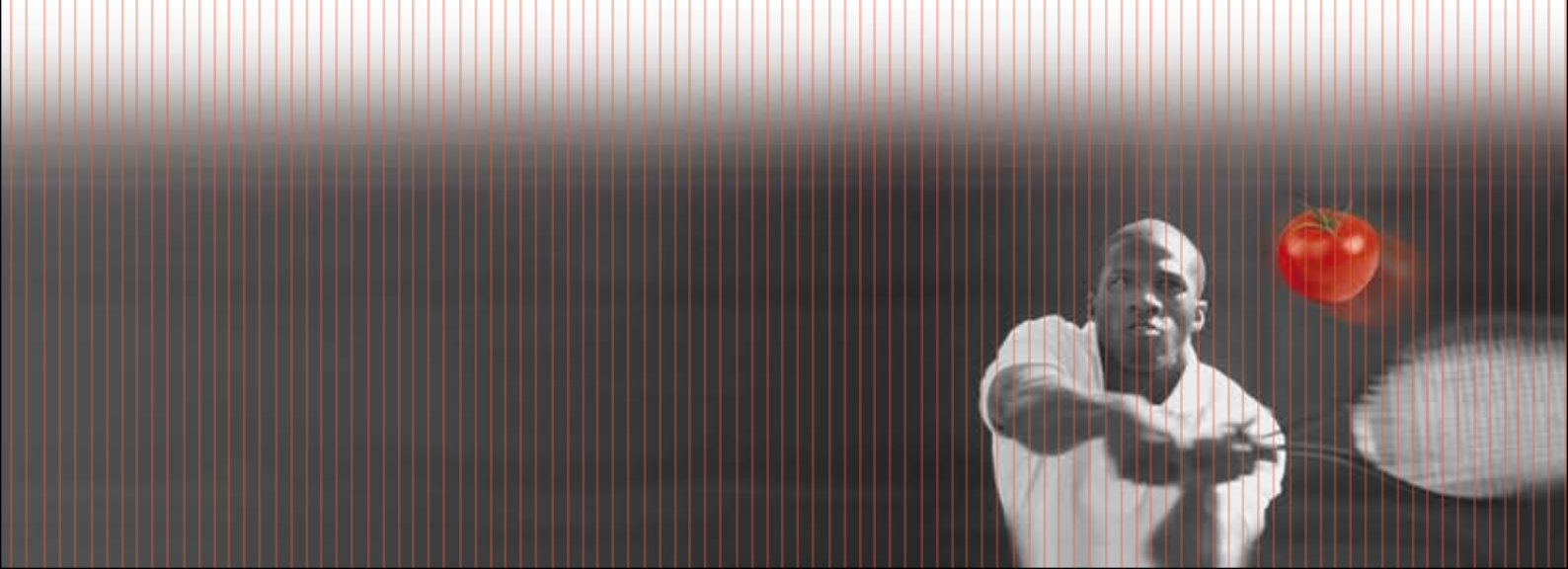
Belmay Denmark AS
Belmay AS
Belmay Pacific PTE Ltd.

(8) GewürzMüller GmbH Holds full ownership in:

Sell-4-u.com Agentur für Marketing
E-business und Telemarketing GmbH
GewürzMüller AG

SECTION D

ADDITIONAL INFORMATION



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Periodic Report for 2007

PERIODIC REPORT FOR 2007

Company name:	Frutarom Industries Ltd.
Company number:	52-004280-5
Address:	25 HaShaish St., Haifa Bay P.O.B. 10067, Haifa Bay 26110
Email:	info@frutarom.com
Telephone:	+972-4-846 2401
Fax:	+972-4-872 2517
Balance Sheet date:	December 31, 2007
Date of report:	March 17, 2008
Period of report:	January 1 - December 31, 2007

Regulation 9 - Financial Reports

The Financial Reports* for the period ended December 31, 2007, including the auditor's opinion, are attached and form an integral part thereof.

* In accordance with Accounting Standard Number 29 issued by the Israeli Accounting Standard Board on July 2006 regarding "Adoption of International Financial Reporting Standards (IFRS)", Frutarom has chosen the early adoption option, and accordingly has prepared its reports in accordance with IFRS as of the second quarter of 2006.

Regulation 10 - Directors Report

The Directors Report on the status of the Company's business is attached and forms an integral part thereof.

Regulation 10A - Summary of Quarterly Profit and Loss Reports

A table summarizing the Profit and Loss Reports of the Company for each of the quarters of 2007, is attached and forms an integral part thereof.

Regulation 10C - Use of Proceeds on Shares

None.

Regulation 11 - Investments in Subsidiaries and Affiliated Companies

Company name	Type of share	No. of shares	Total par value	Adjusted cost (US$ 000)	Adjusted balance value (US$ 000)
Frutarom Ltd. #51-013293-9	Ordinary	23,972,645	23,972,645	11,693	160,584
Frutarom Trust Ltd. #51-239737-3	Ordinary	100	100	0.1	0.1

Holding in Subsidiaries

Company name	% of equity	% of voting rights	% of authority to appoint directors
Frutarom Ltd.*	100	100	100
Frutarom Trust Ltd.	100	100	100

*Frutarom Ltd. directly and indirectly holds the following companies:

Frutarom Trade & Marketing (1990) Ltd.	100%
Galilee Essences Ltd.[(1)]	100%

Frutarom (UK) Ltd. [2]	100%
International Frutarom Corp.[6]	100%
Frutarom Russia Ltd.	100%
Frutarom Ukraine Ltd.	100%
Frutarom Kazakhstan Ltd.	100%
Frutarom Flavors (Kunshan) Company	100%
Far Aromatik Gida Urunleri Sanayi Ve Ticaret Limited Sirketi	100%
Frutarom Mexico S.A.	100%
Frutarom do Brasil Ltda.	100%
Raychan Be'erot Yitzhak Food Industries Ltd. [9]	100%

[1] Dormant company

[2] Frutarom (UK) Ltd. holds the following companies:

Turkish Holdings Ltd.[1]	100%
Frutarom Switzerland Ltd. [3]	100%
Jupiter Flavours Ltd.	100%
Belmay Ltd. [7]	100%

[3] Frutarom Switzerland Ltd. holds the following companies:

Frutarom Germany GmbH[4]	100%
Frutarom Nordic A/S.	100%
Frutarombel Ltd.	100%
Frutarom France S.A.R.L.	100%
Frutarom (Marketing) S.R.L.	100%
Frutarom Belgium N.V.	100%
Frutarom Netherlands B.V. [5]	100%

[4] Frutarom Germany GmbH holds the following companies:

GewurzMuhle Nesse GmbH	70%
GewurzMuhle Nesse Gebr. Krause GmbH	70%
GewürzMüller GmbH[8]	100%
Blessing Biotech GmbH	100%

[5] Frutarom Netherlands B.V. holds the following companies:

Frutarom Specialties Belgium N.V.	100%
Frutarom USA Holding Inc. [1]	100%

[6] International Frutarom Corporation holds the following companies:

Frutarom USA Inc.	100%
Frutarom Inc.	100%
Abaco Inc.	100%
Abaco Manufacturing LLC.	100%

[7] Belmay Ltd. holds the following companies:

Belmay Denmark	100%

Belmay AS	100%
Belmay Pacific PTE Ltd.	100%

(8) GewürzMüller GmbH holds the following companies:

Sell-4-u.com Agentur für Marketing E-business und Telemarketing GmbH	100%
GewürzMüller AG	100%

(9) In the process of being merged into Frutarom Ltd.

Regulation 12 - Changes in Investments in Subsidiaries and Affiliated Companies During the Report Period

A. Changes to investments by Frutarom Ltd.
For details regarding the acquisition of Raychan Be'erot Yitzhak Food Industries Ltd. by Frutarom Ltd. completed in August 2007, refer to section 1.20 in the "Description of the Company's Business" chapter in this Periodic Report.

B. Changes to investments by Frutarom Germany GmbH.
For details regarding the acquisition of GewürzMüller GmbH and Blessing Biotech GmbH by Frutarom Germany GmbH in October 2007, refer to section 1.23 in the "Description of the Company's Business" chapter in this Periodic Report.

C. Changes to investments by Frutarom (UK) Ltd.
For details regarding the acquisition of Belmay Ltd. by Frutarom (UK) Ltd. in March 2007, refer to section 1.18 in the "Description of the Company's Business" chapter in this Periodic Report.

For details regarding the acquisition of Jupiter Flavours Ltd. by Frutarom (UK) Ltd. in April 2007, refer to section 1.19 in the "Description of the Company's Business" chapter in this Periodic Report.

D. Changes to investments by International Frutarom Corporation.
For details regarding the acquisition of Abaco Inc. and Abaco Manufacturing Inc. by International Frutarom Corporation, refer to section 1.22 in the "Description of the Company's Business" chapter in this Periodic Report.

E. Changes to investments by Frutarom Switzerland Ltd.
In 2007 the voluntary liquidation of Flachsmann Properties Ltd. and Flachsmann Canada Ltd., which were dormant companies, was completed.

Regulation 13 - Income of Subsidiaries and Affiliated Companies and Income from them

Company name	Profit before tax (US$ 000)	Profit after tax (US$ 000)	Dividend (US$ 000)	Management fees	Interest
Frutarom Ltd.	22,111	14,701	(2,572)	156	-
Frutarom Trust Ltd.	-	-	-	-	-

Regulation 14 – Loans

Granting loans is not one of the Company's main business activities.

Regulation 20 - Trade on the Stock Exchange

During the report period the Company issued 30,000 ordinary shares of the Company par value NIS 1.00 each, resulting from the exercise of 30,000 options by a senior officeholder.

During the report periodtrade in the Company's shares was not halted, excluding technical halts due to the publication of the Company's financial reports (on March 20, 2007, May 21, 2007, August 21, 2007, and November 21, 2007).

Regulation 21 – Payments to Officers

Following is a list of the payments made by the Company and obligations to pay, as taken upon itself during 2007, to each of the five highest salaried senior officeholders who served it (in US$ 000):

President & Chief Executive Officer[1]	1,365
Executive Vice President [1]	565
Executive Vice President [1]	490
Executive Vice President [1]	401
Vice President[1]	132

[1] Including the value of a benefit for options allocated in 2007 according to the options plan of 2003.

Regulation 22 - Wages and Benefits to Interested Parties

During the report period wages and other expenses paid to interested parties were in the amount of US$ 142,000 adjusted.

Regulation 24 - Shares and Convertible Securities Held by Interested Parties

Name of Interested party	ID#	Share name	Number of share on exchange	# of shares held on March 6, 2008	% of holding		% of holding on a fully diluted basis	
					Equity	Voting rights	Equity	Voting rights
Clal Insurance Business Holdings Ltd. (Nostro)	52-003612-0	Ordinary	1081082	199,543	0.35	0.35	0.34	0.34
Clal Insurance Business Holdings Ltd. (Participating Life Insurance)	52-003612-0	Ordinary	1081082	1,911,288	3.31	3.31	3.27	3.27
Clal Insurance Business Holdings Ltd. (Provident Funds)	52-003612-0	Ordinary	1081082	2,391,134	4.14	4.14	4.09	4.09
Clal Insurance Business Holdings Ltd. (Mutual Funds)	52-003612-0	Ordinary	1081082	263,669	0.46	0.46	0.45	0.45
Epsilon Trust Funds (1991) Ltd.[1]	51-157620-9	Ordinary	1081082	30,576	0.05	0.05	0.05	0.05
Epsilon Pension Funds Management Ltd. [2]	51-354412-2	Ordinary	1081082	16,000	0.03	0.03	0.03	0.03
Frutarom Trust Ltd.[3]	51-239737-3	Ordinary	1081082	740,759	1.28	1.29	0.00	0.00
ICC Industries Inc.[4]	132653653	Ordinary	1081082	2,070,678	3.59	3.59	3.54	3.54
ICC Handels AG[5]	CH1703002067	Ordinary	1081082	19,227,347	33.32	33.32	32.91	32.91
John Oram[6]	140036362	Ordinary	1081082	779,171	1.35	1.35	1.33	1.33
Ori Yehudai[7]	052731569	Ordinary	1081082	498,897	0.86	0.86	1.70	1.70
Hans Abderhalden[8]	004817414	Ordinary	1081082	12,805	0.02	0.02	0.03	0.03
Yair Seroussi[9]	053654927	Ordinary	1081082	6,277	0.01	0.01	0.01	0.01

[1] Epsilon Trust Funds (1991) Ltd. is an interested party in the Company by virtue of its being a company controlled by Koor Industries Ltd., which was acquired by Discount Investment Ltd., which is a company controlled by I.D.B. Development Ltd. I.D.B. Development Ltd. is a controlling party in Clal Insurance Business Holdings Ltd., which is an interested party in the Company by virtue of its holdings.

[2] Epsilon Pension Funds Management Ltd. is an interested party in the Company by virtue of its being a company controlled by Koor Industries Ltd., which was acquired by Discount Investment Ltd., which is a company controlled by I.D.B. Development Ltd. I.D.B. Development Ltd. is a controlling party in Clal Insurance Business Holdings Ltd., which is an interested part in the Company by virtue of its holdings.

[3] Frutarom Trust Ltd., a wholly owned subsidiary of the Company, holds shares in trust for the Company's employees.

[4] The controlling party in ICC Industries Inc., Dr. John J. Farber, also serves as Chairman of the board of directors of the Company. Dr. Farber's wife, Maya Farber, serves as a director in the Company.
[5] ICC Handels AG is a wholly owned subsidiary of ICC Industries Inc.
[6] Mr. John L. Oram serves as a director in the Company and as the President of ICC Industries Inc.
[7] Mr. Ori Yehudai serves as the President and Chief Executive Officer of the Company. Mr. Yehudai also holds 492,670 options that may be exercised into 492,670 ordinary shares in the Company.
[8] Mr. Hans Abderhalden serves as a director in the Company. Mr. Abderhalden also holds 6,171 options that may be exercised into 6,171 ordinary shares in the Company.
[9] Mr. Yair Seroussi serves as a director in the Company.

Regulation 24A – Registered and Issued Share Capital and Convertible Securities

Registered Share Capital:	NIS 100,000,000 divided into 100,000,000 shares par value NIS 1 each
Issued Share Capital:	NIS 57, 706,357 divided into 57,706,357 shares par value NIS 1 each

Regulation 25A – Registered Office

Registered office:	25 HaShaish St., P.O.B. 10067, Haifa Bay 26110, Israel
Email:	info@frutarom.com
Telephone:	+972 4 846 2401
Fax:	+972 4 872 2517

Regulation 26 – Directors on the Report Date

A. Dr. John J. Farber, Chairman of the Board

I.D. number:	111-201-362 (U.S.)
Year of birth:	1925
Address:	435 E. 52 St., New York, N.Y. 10022, U.S.A.
Nationality:	American

Not a member of committees of the board.
Not an external director.
Not employed by the company.
Chairman of the board of the Company; chairman of ICC Industries Inc., the Company's majority shareholder.
Began service as a director in 1996.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held, main occupation during the past 5 years: Academic - Ph.D. in Chemistry from Polytechnic Institute of Brooklyn, New York. Chairman of the Company and of ICC Industries Inc.
Director in other companies: chairman of ICC Industries Inc., the Company's majority shareholder. Serves as director of subsidiaries of the Company and of ICC Industries Inc.
Married to Mrs. M. Farber, director of the Company.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

B. Mrs. Maya Farber

I.D. number:	152-434-380 (U.S.)
Year of birth:	1936
Address:	435 E. 52 St., New York, N.Y. 10022, U.S.A.
Nationality:	American

Not a member of committees of the board.
Not an external director.
Not employed by the Company.
Began service as a director in 1996.

Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic – BA from Hunter College, New York. Artist.
Director in other companies: ICC Industries Inc., the Company's majority shareholder.
Married to Dr. J. J. Farber, chairman of the board.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: No.

C. Mr. John L. Oram

I.D. number: 140-036-362 (British)
Year of birth: 1944
Address: POB 533, Bedford Hills, N.Y., U.S.A.
Nationality: British
Chairman of compensation committee.
Not an external director.
Not employed by the Company.
Began service as director in 1996.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic – BA, Accountant and economist. President of ICC Industries Inc.
Director in other companies: subsidiaries of ICC Industries Inc., the Company's majority shareholder.
Not related to another interested party.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

D. Mr. Hans Abderhalden

I.D. number: 004817414 (Swiss)
Year of birth: 1939
Address: Lerchenbergstrasse 114, 8703 Erlenbach 8703, Switzerland
Nationality: Swiss
Not an external director.
Director in Frutarom Switzerland Ltd.
Began service as a director in 2004.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: IMD Program for Executive Development from IMD, Switzerland. President and chief executive officer of Emil Flachsmann AG (today Frutarom Switzerland Ltd.).
Director in other companies: Frutarom Switzerland Ltd.
Not related to another interested party.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

E. Mr. Yair Seroussi

I.D. number: 053654927 (Israeli)
Year of birth: 1955
Address: 17 HaDeganim St., Givatayim
Nationality: Israeli

Member of audit committee, executive committee and compensation committee of the board.
Not an external director.
Not employed by the Company.
Began service as a director in 2005.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic - BA in economics and social sciences from The Hebrew University in Jerusalem. Since 1993, representative of Morgan Stanley in Israel, managing director of Amdil Holdings Ltd., and business and financial advisor.
Director in other companies: DSPG (director), Israel Company Ltd. (external director), Europort Ltd. (chairman of the board) and Wintegra Ltd. (director).
Not related to another interested party in the Company.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

F. Mr. Isaac Angel[1]

I.D. number: 012735478 (Israeli)
Year of birth: 1956
Address: 44 Ravutzki St., Ra'anana
Nationality: Israeli

Member of audit and executive committees of the board.
Not employed by the Company.
External director.
Began service as a director in 2008.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: High school education. Senior vice president at Verifone Inc. until December 31, 2007; president and general manager of Lipman Electronic Engineering Ltd. until 2006. From 2008 began to serve as a business advisor.
Director in other companies: No.
Not related to another interested party in the Company.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

G. Mr. Yacov Elinav[1]

I.D. number: 006287338 (Israeli)
Year of birth: 1944
Address: 10 Hadudaim St., Herzlia

[1] Mr. Isaac Angel and Mr. Yacov Elinav were appointed as external directors in the Company on February 12, 2008 (following the date of the balance sheet).

Nationality: Israeli
Member of audit, compensation and executive committees of the board.
Not employed by the Company.
External director.
Began service as a director in 2008.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic education - BA in economics and business management from The Hebrew University, Jerusalem). In 2004 began service as chairman of the board of Dash Securities and Investments Ltd. Until 2003 served as vice president of Bank HaPoalim.
Director in other companies: Elinav Consulting and Services Ltd.; New Kopel Ltd.; Middle East Pipes Ltd.; Office Textile Ltd.; Tefron Ltd.; Dash Securities and Investments Ltd.; Dash Provident Funds Ltd.; Dash Institutionals Ltd.; Sapiens Ltd.; B.G. Group Ltd.; Polar Communication Ltd.; R.H. Technologies Ltd. (external director); Phoenix Platinum Ltd.; Phoenix Platinum HR Ltd.; Global Box Ltd.
Not related to another interested party in the Company.
Whether a director considered by the Company to have accounting and financial expertise for the purpose of complying with the minimum number set by the Board: yes.

Regulation 26A - Senior Officeholders on the Report Date

1. Ori Yehudai
President & C.E.O.
I.D. number: 052731569 (Israeli)
Year of birth: 1954
Serves as director in subsidiaries of the Company.
Not related to another officer or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic - BA in Economics from Tel Aviv University and MA in Business Administration from Tel Aviv University. President and chief executive officer of the Company. From 2001-2004 served as chairman of the Manufacturers Association in the North of Israel.
Began service in 1996. (Employed by the Company since 1986.)

2. Yoni Glickman
Executive Vice President, Manager – Fine Ingredients Division
I.D. number: 026071530
Year of birth: 1960
Serves as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic - BA in Business Administration from The Hebrew University. General manager of Hanita Coatings Ltd.
Began service in 2003.

3. **Kobi Levy**
Executive Vice President, Manager – Flavors Division
I.D. number: 057386278 (Israeli)
Year of birth: 1961
Does not serve as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic - BA in Economics from The Hebrew University. From 1999-2003 served as general manager of Strauss Fresh Food Group. In 2004, served as managing director of Rav-Bariah.
Began service in 2005.

4. **Alon Granot**
Executive Vice President & C.F.O.
I.D. number: 057210247 (Israeli)
Year of birth: 1961
Responsible for market risk management as relates to currency translation rates and interest.
Serves as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic - BA in Economics and Business Administration from Haifa University and MA in Economics from the Technion, Haifa. Worked at Kulicke & Sofa Ltd. from 1990-2001.
Began service in 2001.

5. **Eyal Shohat**
Vice President – Legal Affairs
I.D. number: 025609694
Year of birth: 1973
Serves as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic – LLB in Law and BA in Accounting from the Tel Aviv University. From 2002-2007 served at Legal Counsel in the Company.
Began service in 2006. (Employed by the Company since 2002.)

6. **Yoav Barak**
Internal Auditor
I.D. number: 53670352
Year of birth: 1955
Does not serve as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic – BA in Economics and Accounting from Haifa University.

Performs internal auditing for companies, general manager of Rosenthal Ltd., general manager of PT3 Ltd., general manager of Tamor Lighting Ltd., general manager of Fertilizers & Chemicals Ltd., general manager of Zika Electrodes Ltd.
Began service in 2004.

6. Guy Gill
Vice President – Finance
I.D. number: 24223380
Year of birth: 1969
Does not serve as a director in subsidiaries of the Company.
Not related to another senior officeholder or interested party in the Company.
Education, professions and fields of education, educational institute at which degree was earned and which degree or certificate held and main occupation during the past 5 years: Academic – BA in Economics and Accounting from Haifa University. Financial manager at Ginegar Factory Industries (1996) Ltd. from 2003-2007. Kost Forrer et Gabbay from 2001-2002. From 2006-2007 served as Controller in the Group.
Began service in 2006.

Regulation 27 – Auditors of the Company

Frutarom Industries Ltd.'s auditors are Kesselman & Kesselman, 1 Nathanson St., Haifa 33034, Israel.

To the best of the Company's knowledge the auditors are not interested parties and/or related to any senior officeholder or interested party in the Company.

Regulation 28 – Changes to Memorandum or Articles of Association

No changes were made during the report period to the articles of association and/or memorandum.

Regulation 29 – Recommendations and Decisions of the Directors

Recommendations of the management to the general meeting and their decisions that do not require the approval of the general meeting:

On March 19, 2007 the board of directors of the Company resolved to distribute a dividend of NIS 0.18 per share, totaling NIS 10,381,744.

Decisions of the special general meeting:

On February 12, 2008, the general meeting of the shareholders of the Company approved the appointment of Mr. Isaac Angle and Mr. Yacov Elinav as external directors in the Company.

Regulation 29A – Decisions of the Company

No decisions were taken by the Company in the matters mentioned.

Date: March 17, 2008

Frutarom Industries Ltd.

By: _____
Signatory: Ori Yehudai
Position: President and Chief Executive Office

By: _____
Signatory: Alon Granot
Position: Executive Vice President and CFO

FRUTAROM INDUSTRIES

CONSOLIDATED INCOME STATEMENT BY QUARTERS

IN US$ 000	Q1 - 2007		Q2 -2007		Q3 - 2007		Q4 - 2007		2007 Total		Q1 - 2006		Q2 -2006		Q3 - 2006		Q4 - 2006		2006 Total	
SALES	**80,501**	**100.0%**	**91,704**	**100.0%**	**87,692**	**100.0%**	**108,364**	**100.0%**	**368,261**	**100.0%**	**70,988**	**100.0%**	**72,345**	**100.0%**	**71,282**	**100.0%**	**72,632**	**100.0%**	**287,247**	**100.0%**
Cost of sales																				
Material consumed	38,149	47.4%	44,504	48.5%	41,641	47.5%	53,115	49.0%	177,409	48.2%	32,404	45.6%	34,001	47.0%	31,884	44.7%	35,044	48.2%	133,333	46.4%
Other manufacturing	12,544	15.6%	14,389	15.7%	14,511	16.5%	18,653	17.2%	60,097	16.3%	11,540	16.3%	12,088	16.7%	12,471	17.5%	11,938	16.4%	48,037	16.7%
Total	**50,693**	**63.0%**	**58,893**	**64.2%**	**56,152**	**64.0%**	**71,768**	**66.2%**	**237,506**	**64.5%**	**43,944**	**61.9%**	**46,089**	**63.7%**	**44,355**	**62.2%**	**46,982**	**64.7%**	**181,370**	**63.1%**
GROSS PROFIT	**29,808**	**37.0%**	**32,811**	**35.8%**	**31,540**	**36.0%**	**36,596**	**33.8%**	**130,755**	**35.5%**	**27,044**	**38.1%**	**26,256**	**36.3%**	**26,927**	**37.8%**	**25,650**	**35.3%**	**105,877**	**36.9%**
R&D, Selling and G&A																				
R&D	3,757	4.7%	4,559	5.0%	4,387	5.0%	5,467	5.0%	18,170	4.9%	3,432	4.8%	3,352	4.6%	3,692	5.2%	3,623	5.0%	14,099	4.9%
Selling expenses	9,820	12.2%	11,770	12.8%	11,912	13.6%	15,226	14.1%	48,728	13.2%	7,664	10.8%	8,499	11.7%	8,587	12.0%	9,669	13.3%	34,419	12.0%
General & Administration	5,832	7.2%	7,889	8.6%	7,324	8.4%	8,480	7.8%	29,525	8.0%	5,595	7.9%	5,829	8.1%	5,865	8.2%	5,129	7.1%	22,418	7.8%
Total	**19,409**	**24.1%**	**24,218**	**26.4%**	**23,623**	**26.9%**	**29,173**	**26.9%**	**96,423**	**26.2%**	**16,691**	**23.5%**	**17,680**	**24.4%**	**18,144**	**25.5%**	**18,421**	**25.4%**	**70,936**	**24.7%**
OPERATING PROFIT	**10,399**	**12.9%**	**8,593**	**9.4%**	**7,917**	**9.0%**	**7,423**	**6.9%**	**34,332**	**9.3%**	**10,353**	**14.6%**	**8,576**	**11.9%**	**8,783**	**12.3%**	**7,229**	**10.0%**	**34,941**	**12.2%**
Financing expenses	241	0.3%	(75)	(0.1)%	1,723	2.0%	1,034	1.0%	2,923	0.8%	(313)	(0.4)%	567	0.8%	82	0.1%	109	0.2%	445	0.2%
Other expenses	17	0.0%	92	0.1%	(412)	(0.5)%	109	0.1%	(194)	(0.1)%	(22)	(0.0)%	(1,085)	(1.5)%	(463)	(0.6)%	(544)	(0.7)%	(2,114)	(0.7)%
PROFIT BEFORE TAX	**10,141**	**12.6%**	**8,576**	**9.4%**	**6,606**	**7.5%**	**6,280**	**5.8%**	**31,603**	**8.6%**	**10,688**	**15.1%**	**9,094**	**12.6%**	**9,164**	**12.9%**	**7,664**	**10.6%**	**36,610**	**12.7%**
TAX	2,519	3.1%	2,680	2.9%	733	0.8%	1,478	1.4%	7,410	2.0%	1,842	2.6%	540	0.7%	2,181	3.1%	2,345	3.2%	6,908	2.4%
Tax rate	24.8%		31.3%		11.1%		23.5%		23.4%		17.2%		5.9%		23.8%		30.6%		18.9%	
NET PROFIT	**7,622**	**9.5%**	**5,896**	**6.4%**	**5,873**	**6.7%**	**4,802**	**4.4%**	**24,193**	**6.6%**	**8,846**	**12.5%**	**8,554**	**11.8%**	**6,983**	**9.8%**	**5,319**	**7.3%**	**29,702**	**10.3%**

BOARD OF DIRECTORS

Dr. John J. Farber	**Chairman of Board of Directors**
Maya Farber	
John L. Oram	**Chairman of Compensation Committee**
Hans Abderhalden	
Yair Seroussi	**Member of Audit Committee, Compensation Committee and Executive Committee**
Yacov Elinav	**External Director, Member of Audit Committee, Compensation Committee and Executive Committee**
Isaac Angel	**External Director, Member of Audit Committee and Executive Committee**