FRUTAROM INDUSTRIES LTD.

2005 CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheet of Frutarom Industries Ltd. (hereafter - the Company) and its subsidiaries (together, the Group) as of 31 December 2005 and 2004 and the related consolidated statement of income, changes in shareholders' equity and cash flows for each of the three years in the period ended 31 December 2005. 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 4% and 4% of total consolidated assets as of 31 December 2005 and 2004, and whose revenues included in consolidation constitute approximately 7%, 10% and 12% of total consolidated revenues for the years ended 31 December 2005, 2004 and 2003, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and 2004 and the results of operations, changes in shareholders' equity and cash flows for each of the years ended on those dates, in accordance with International Financial Reporting Standards.

Haifa, Israel
14 March 2005

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005	2004
		U.S. dollars in thousands (Note 2c)	
A s s e t s	13		
CURRENT ASSETS:	3a1)		
Cash and cash equivalents	17	33,723	7,350
Accounts receivable:	14		
Trade		40,289	43,733
Other		6,756	7,291
Prepaid expenses and advances to suppliers		2,206	1,851
Inventories	15	46,886	43,769
T o t a l current assets		129,860	103,994
NON-CURRENT ASSETS:			
Property, plant and equipment	6	87,905	96,683
Intangible assets	7,2f	10,804	5,348
Deferred income tax assets	12e	3,319	2,957
Other non-current assets	16	1,978	4,758
T o t a l non-current assets		104,006	109,746
T o t a l assets		233,866	213,740

)
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: 14 March, 2006.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005	2004
		U.S. dollars in thousands (Note 2c)	
Liabilities and Shareholders' Equity			
CURRENT LIABILITIES:	3a1)		
Bank credit and loans	18	289	50,355
Accounts payable:	19		
Trade		17,895	20,257
Other		22,162	20,718
Provisions	20	547	1,193
T o t a l current liabilities		40,893	92,523
NON-CURRENT LIABILITIES:			
Loans and credit from banks (net of current maturities)	8,13		29,831
Retirement benefit obligations	9	7,775	8,502
Deferred income tax liabilities	12e	7,390	4,231
T o t a l non-current liabilities		15,165	42,564
COMMITMENTS AND CONTINGENT LIABILITIES:	10		
T o t a l liabilities		56,058	135,087
SHAREHOLDERS' EQUITY:	11		
Share capital		16,399	13,961
Additional paid-in capital		91,666	17,642
Currency translation differences	2c	(5,160)	5,039
Retained earnings		73,929	41,332
Amount designated for distribution of dividend declared subsequent to balance sheet date		2,005	1,740
Cost of Company shares held by subsidiary		(1,031)	(1,061)
T o t a l shareholders' equity		177,808	78,653
T o t a l shareholders' equity and liabilities		233,866	213,740

The notes on pages 10 to 71 are an integral part of the consolidated financial statements.

FRUTAROM INDUSTRIES LTD.
CONSOLIDATED INCOME STATEMENT

	Note	2005	2004	2003
		Year ended 31 December		
		U.S. dollars in thousands (Note 2c), except for per share data		
SALES		243,803	196,780	139,316
COST OF SALES	21a	149,285	122,447	89,455
GROSS PROFIT		94,518	74,333	49,861
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:				
Selling, marketing, research and development - net	21b	43,818	34,554	26,263
General and administrative	21c	18,217	17,869	11,106
OTHER INCOME - net	21d	1,255	102	73
OPERATING PROFIT		33,738	22,012	12,565
FINANCIAL EXPENSES - net	21e	416	1,347	996
PROFIT BEFORE TAXES ON INCOME		33,322	20,665	11,569
TAXES ON INCOME	12f	6,475	4,909	3,535
NET INCOME		26,847	15,756	8,034
			U.S dollars	
EARNINGS PER SHARE:	2q			
BASIC		0.49	0.34	0.34
DILUTED		0.48	0.33	0.18

The notes on pages 10 to 71 are an integral part of the consolidated financial statements.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Additional paid in capital	Currency translation differences	Retained earnings	Amount designed for distribution of dividend declared subsequent to balance sheet date	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands (Note 2c)						
BALANCE AT 31 DECEMBER 2002		12,758	4,812	419	21,338		(663)	38,664
CHANGES IN 2003:								
Net income not recognised in the net profit - changes in currency translation	2c			2,144				2,144
Net income					8,034			8,034
Total recognised income for 2003								10,178
Issuance of share capital	11b2)	1,181	10,451					11,632
Plan for allotment of Company shares to employees:	2k							
Purchase of Company shares by subsidiary							(225)	(225)
Receipts in respect of allotment of Company shares to employees							51	51
Recognition of compensation related to the plan							237	237
Dividend	11e				(912)			(912)
BALANCE AT 31 DECEMBER 2003		13,939	15,263	2,563	28,460		(600)	59,625
CHANGES IN 2004:								
Net income not recognised in the net profit - changes in currency translation	2c			2,476				2,476
Net income					15,756			15,756
Total recognised income for 2004								18,232
Plan for allotment of Company shares to employees:	2k							
Purchase of Company shares by subsidiary							(991)	(991)
Receipts in respect of allotment of Company shares to employees	11c3)						90	90
Recognition of compensation related to the plan							440	440
Allotment of shares and options to senior employees:	11d;11c3)							
Allotment of share capital to senior employees		22	89					111
Recognition of compensation related to employee stock and option grants			2,290					2,290
Dividend	11e				(1,144)			(1,144)
Appropriation for distribution of dividend declared subsequent to balance sheet date					(1,740)	1,740		
BALANCE AT 31 DECEMBER 2004 – forward		13,961	17,642	5,039	41,332	1,740	(1,061)	78,653

The notes on pages 10 to 71 are an integral part of the consolidated financial statements.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Additional paid in capital	Currency translation differences	Retained earnings	Amount designated for distribution of dividend declared subsequent to balance sheet date	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands (Note 2c)						
BALANCE AT 1 JANUARY 2005		13,961	17,642	5,039	41,332	1,740	(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	49,063	1,740	(1,061)	86,384
CHANGES IN 2005:								
Net income not recognised in the net profit - changes in currency translation	2c			(10,199)				(10,199)
Net income					26,847			26,847
Total recognised income for 2005								16,648
Issuance of share capital	11b1	2,416	73,451					75,867
Plan for allotment of Company shares to employees of subsidiary:	2k							
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:	11d;11c3)							
Allotment of share capital to senior employees		22	89					111
Recognition of compensation related to employee stock and option grants			484					484
Dividend	11e				24	(1,740)		(1,716)
Appropriation for distribution of dividend declared subsequent to balance sheet date	24c				(2,005)	2,005		
BALANCE AT 31 DECEMBER 2005		16,399	91,666	(5,160)	73,929	2,005	(1,031)	177,808

The notes on pages 10 to 71 are an integral part of the consolidated financial statements.

FRUTAROM INDUSTRIES LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2005	2004	2003
		Year ended 31 December		
		U.S. dollars in thousands (Note 2c)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash generated from operations	22	34,431	21,028	12,799
Interest received (paid)		222	(1,334)	(1,161)
Income tax paid		(2,203)	(2,423)	(1,554)
Net cash provided by operating activities		32,450	17,271	10,084
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(12,001)	(5,960)	(3,043)
Acquisition of subsidiary - net of cash acquired	4b			(14,980)
Acquisition of operations – net of cash acquired	4a		(38,209)	
Reimbursement in respect of acquisition of operation	4a	4,598		179
Proceeds from sale of property, plant and equipment		4,095	201	136
Proceeds from sale of marketable securities				2,004
Purchase of other assets		(332)		(102)
Collection of long-term receivable	16	2,439		
Capitalised lease fees	16	(382)		
Net cash used in investing activities		(1,583)	(43,968)	(15,806)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital, net of issuance costs		75,867		11,632
Receipts from senior employees in respect of allotment of shares		111	111	
Receipt of long-term bank loans and credit			3,082	4,682
Repayment of long-term bank loans and credit		(33,585)	(11,014)	(9,329)
Receipt of short-term bank loans	4a		37,789	
Repayment of long-term credit in connection with the acquisition of Flachsmann	4b	(1,170)	(1,202)	
Purchase of Company shares by subsidiary – net of receipts in respect of the shares		(291)	(901)	(174)
Repayment of long-term credit in connection with the acquisition of IFF		(39,468)		
Dividend paid		(1,716)	(1,144)	(912)
Net cash provided by (used in) financing activities		(252)	26,721	5,899
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS		(1,011)	6	976
INCREASE IN CASH AND CASH EQUIVALENTS		29,604	30	1,153
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,119	4,089	2,936
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	17	33,723	4,119	4,089

The notes on pages 10 to 71 are an integral part of the consolidated financial statements.

NOTE 1 – GENERAL INFORMATION:

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

Frutarom Indusrties Ltd. is an established global company, founded in 1933. The Company operates through the consolidated company Frutarom Ltd. and the companies under its control. The Company operates principally in two divisions: the Flavors Division and the Fine Ingredients Division. The Company develops, manufactures, markets and sells flavors and fine ingredients used by producers of food and beverage, pharma/-nutraceutical, flavours and fragrances, and personal care 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 25); The Company has 20 research and development laboratories and it sells and markets its products principally through its 35 sales and marketing offices. Segment information for the reporting years is presented as part of Note 5.

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 on the London Stock Exchange (the "LSE") (b. below).

b. In February 2005, the Company has completed a public 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 (hereafter – LSE) – Note 11b.

c. In 2004, the group completed the purchase of the Food Systems Business (hereafter – FS) of International Flavors & Fragrances I.F.F. Inc. (hereafter – IFF) in Switzerland and Germany in consideration for approximately $ 31.8 million (approximately € 25.8 million) and in France in consideration for approximately $ 3 million (approximately € 2.5 million). IFF's FS business includes the development and production of unique fruit compounds and other natural products used as natural flavors in the production of a wide variety of food products. As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of the FP operations in Switzerland and Germany (commencing 17 August 2004) and in France (commencing 2 November 2004), see Note 4a.

In June 2003, the group completed the purchase of full ownership over Emil Flachsmann AG (hereafter – Flachsmann), a Swiss company engaged in developing, and manufacturing flavors and extracts as well as herbal extracts, in consideration for approximately $ 18 million. As to the data included, for the first time, in the consolidated financial statements, commencing 30 June 2003, as a result of the consolidation of Flachsmann, see Note 4b.
Flachsmann has subsidiaries in Europe and in Canada.

For further details regarding the said purchases, Notes 4a and 4b.

d. In January 2006, the Company acquired the control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Krause GmbH (hereafter – Nesse), in consideration for € 18.4 million ($ 22.3 million) paid in cash (Note 24a).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Preparation:

1) The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2) Adoption of new standards

Effective 1 January 2005, the Company adopted the following standards that are mandatory for the Company's accounting, as of that date:

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting policies, changes in accounting estimates and errors
IAS 10 (revised 2003)	Events after the balance sheet date
IAS 16 (revised 2003)	Property, plant and equipment
IAS 17 (revised 2003)	Leases
IAS 24 (revised 2003)	Related party disclosures
IAS 27 (revised 2003)	Consolidated and separate financial statements
IAS 28 (revised 2003)	Investments in associates
IAS 32 (revised 2003)	Financial instruments: Disclosure and presentation
IAS 33 (revised 2003)	Earnings per share
IAS 39 (revised 2003)	Financial instruments: Recognition and measurement

The adoption of the abovementioned standards did not result in substantial changes to the Group's accounting policies. Presentation and disclosure in these financial statements have been adjusted to conform to the requirements of these standards.

Management has also assessed the relevance of the following amendments and interpretations, and concluded that they are not relevant to the Company:

IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
SIC 12 (Amendment), Consolidation – Special Purpose Entities (effective from 1 January 2005), and IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

3) Standards, interpretations and amendments to published standards that are not yet effective – Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods

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

beginning on or after 1 January 2006 or later periods, but for which the Company has not opted for early adoption, are as follows:

IAS 19 (amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Company will apply this amendment for annual periods beginning from 1 January 2006.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Company's operations, as the Company does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company should be able to comply with the amended criteria for the designation of financial instruments at fair value through the income statements. The Company will apply this amendment for annual periods beginning from 1 January 2006.

IAS 39 and IFRS 4 (Amendment) Financial Guarantee Contracts (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the high of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company.

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Publications), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Company's operations, as the Company is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial

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

instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning form 1 January 2007.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations.

The following publications, not yet effective are not relevant to the Company's operations:

1. IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Company's operations.

2. IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). IFRIC 6 is not relevant to the Company's operations.

3. IFRIC 7, Applying the Restatement Approach under IAS 29, "Financial Reporting in Hyperinflationary Economies" (effective date from 1 March 2006). IFRIC 7 is not relevant to the Company's operations.

b. Principles of Consolidation:

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.

Effective 31 March, 2004, the Company applies the provisions of IFRS 3 "Business Combinations", simultaneously with the adoption of IAS 36 and IAS 38 (as revised in 2004). IFRS 3 requires the purchase method of accounting, under which assets acquired and liabilities and contingent liabilities assumed are measured at their fair values, to be applied for all business combinations under its scope.

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

This standard applies as from the effective date above, to all business combinations for which the agreement date is on or after 31 March 2004. Transition provisions apply to business combinations that were entered into before the effective date.

This standard also sets forth additional guidance and comprehensive criteria for the initial identification and recognition of intangible assets and contingent liabilities of businesses acquired (Note 2f).

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 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 accounting treatment will be as follows:

1) For business combinations for which the agreement dates were before 31 March 2004 - the difference is presented as a deduction from intangible assets, and recognised as income on a systematic basis; this treatment applied until 31 December 2004 –Note 2f below.

2) For business combination for which the agreement date was after 31 March 2004 – 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 Company.

c. Foreign Currency Translation:

1) Functional and Presentation Currency.

Items included in the financial statements of each of the Company'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) 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.

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

3) Group Companies.

The results and financial position of all the Company's entities (none of which has the currency of a 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;
(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 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, including long-term borrowings thereto, are taken to shareholders' equity.

When a foreign operation is 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.

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 Company is organised 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:

1) These assets are initially recorded at cost of purchase (Note 2c2)), net of related government grant.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

2) The assets are depreciated by the straight-line method, on basis of their estimated useful life, except for land, which is not depreciated.

Annual rates of depreciation are 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.

3) Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

f. Intangible Assets:

Effective 31 March 2004, the Company applies the provisions of IFRS 3 "Business Combinations" (Note 2b). This standard sets forth guidance and comprehensive criteria for the initial identification and recognition of intangible assets and contingent liabilities of businesses acquired.

This standard applies as from the effective date and onward, to all business combinations for which the agreement date is on or after 31 March 2004 (the "effective date").

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets of the acquired subsidiary at the date of acquisition; when cost of acquisition is lower than the said fair value, the difference represents Negative Goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets.

The accounting treatment to be applied to goodwill or negative goodwill is, as follows:

1) For business combinations for which the agreement date was before the effective date and through 31 December 2004; Goodwill was amortised on a straight-line basis over the estimated useful life in equal annual installments at the rate no lower than 5% per annum, commencing on the date of acquisition. Negative goodwill was presented as a deduction from intangible assets, and recognised as income on a systematic basis, over the remaining weighted average useful life of the identified acquired depreciable assets.

In accordance with the transition provisions of IFRS 3, commencing 1 January, 2005, the Company ceased to amortise any existing goodwill arising from such business combinations (accumulated amortisation as at 31 December 2004 was eliminated with a corresponding decrease in the cost of goodwill), and de-recognised the balance of any remaining negative goodwill - amounting to $ 7,731 thousands (net of deferred taxes de-recognised amounting to $ 1,785 thousands), with a corresponding adjustment to the opening balance of retained earnings.

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

Separately recognised goodwill is tested for impairment commencing 2005. Goodwill is allocated to cash generating units for the purpose of the impairment testing.

2) For business combinations for which the agreement dates were after the effective date - Goodwill and indefinite live intangible assets are not amortised, but are subject to annual impairment test. Goodwill is being tested for impairment on an annual basis, as well as when there are indications of impairment. Goodwill is carried at cost less accumulated impairment losses.

Negative goodwill is directly recognised in the income statements.

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.

Customer relations are initially recorded at their acquisition cost and amortised on a straight-line basis over 10 years.

Trademark, is amortised on a straight-line basis over 20 years.

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 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. Inventories:

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted 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):

i. Accounts Receivable – Trade:

Trade receivables are carried at anticipated realisable value. A provision is made for impairment of receivables based on a periodic review of all outstanding amounts (Note 3a3)). Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is recognised in the income statement.
During the year in which they are identified, bad debts are written off. The charge is reported within selling and marketing expenses of the consolidated income statement.

j. Cash Equivalents:

The Company considers all highly liquid investments, which include short-term bank deposits with original maturity of three months or less, that are not restricted as to withdrawal or use, to be cash equivalents.

k. Share Capital:

1) Company shares held by subsidiary, which are purchased for the purpose of granting the shares to senior employees as part of an employee stock option plan approved by the Company's Board of Directors, are presented as reduction of "shareholders' equity" under "cost of Company shares held by subsidiary" , at their cost to the subsidiary (Note 2m2)).

2) Incremental costs directly attributable to the issue of new shares or options are shown in shareholders' equity as a deduction, net of tax, from the proceeds.

l. Deferred Income Taxes:

1) Deferred income taxes are computed using the liability method on temporary differences between the amounts presented in these statements and those taken into account for tax purposes. As for the main factors in respect of which deferred taxes have been included. See Note 12e.

   Deferred tax balances are computed at the tax rate expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statements reflects changes in the above balances during the year.

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 Company's policy to hold these investments, not to realise them.

3) The Company may incur additional tax liability in the event of intercompany dividend distribution; no account was taken of the additional tax, since it is the Company's policy not to cause distribution of dividend, which would involve additional tax liability to the Company in the foreseeable future.

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

4) As stated in Note 12c, 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 the Company 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.

The Company does not intend to distribute dividends out of tax exempt income, as above.

m. Employee Benefits:

1) Pension Obligations.

The Company operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in insurance companies or severance pay funds, and are subject to periodic actuarial valuations.

A defined benefit plan is a pension plan that defines 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.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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.

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 of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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 Company 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

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

are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2) Share-Based Compensation.

The Company has share purchase plans approved by the Board of Directors (Note 11c), for granting shares and options to its employees. The Company effected early adoption of IFRS 2 (issued 2004) – share based payments to account for these plans. Set forth below is the accounting treatment applied, in accordance with the transition provisions of IFRS 2:

(a) Shares granted before 7 November 2002.
Prior to 7 November 2002, the Company only granted shares under the 1996 plan (see Note 11c1)).

For these grants, the Company recognises compensation expenses in respect of the cash "outflow"; accordingly, the difference between the cost of the shares at date of purchase (Note 2k) and the exercise price the employee has to pay, is charged to income over the vesting period.

(b) Shares and options granted after 7 November 2002 and not vested at 1 January, 2004

The fair value of the employee services received in exchange for the grant of the shares and options granted after 7 November 2002 and not yet vested at 1 January 2004, is recognised as an expense. The compensation costs of each batch are spread over its vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to shareholders' equity over the remaining vesting period.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the rights to purchase shares are exercised.

3) Bonus Plans.

The Company recognises a liability and an expense for bonuses. The Company recognises a provision where it is contractually committed, or where there is a past practice that has created a constructive obligation.

n. 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.

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

Generally, research and product development costs are charged against income as incurred since the criteria for their recognition as an asset are not met in the opinion of management.

Participation from government departments for development of approved projects is recognised as a reduction of expense, as the related costs are incurred.

o. Provisions:

Provisions for restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not 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 (Note 4b). Provisions are not recognised for future operating losses. 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.

p. Revenue Recognition Policy:

Revenues from sales represent amounts received and receivable for goods supplied to customers after deducting volume discounts, turnover discounts and sales taxes. Sales are recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, which is generally upon shipment of products to customers outside the Company.

q. 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 2k and 2m2)).

The weighted average number of shares used in calculating earnings per share is as follows:

	Year end 31 December 2005:
	In thousands
2005	54,971
2004	46,271
2003	43,439

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 Company'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. The number of additional shares used in calculating earnings per share assuming conversion of share options is 1,112,779, 1,202,856 and 525,484 for 2005, 2004, and 2003, respectively.

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

r. Dividends:

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's Board of Directors. Liabilities relating to dividends declared subsequent to balance sheet date are included in the accounts for the period in which the declaration was made. The amount declared is appropriated, however, from retained earnings, and reported as a separate item in the shareholders' equity under - "Dividend declared subsequent to balance sheet date".

NOTE 3 – FINANCIAL RISK MANAGEMENT:

a. Financial Risk Factors

Financial risk management within the Company is governed by policies approved by the board of directors and senior management. These policies cover foreign exchange risk, interest rate risk, credit risk, price risk and liquidity risk. Company policies also cover areas such as cash management and raising short and long-term debt.

The Company's business is characterised by considerable dispersion. 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. As stated, the Company 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 Company's management once each quarter.

The Company does not use derivative financial instruments for its hedge or speculative purposes.

1) Market Risk.

(a) Foreign Exchange Risk.

1. General.

The Company 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 Company'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 Company's production are also conducted in various currencies reduces

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

currency exposure. The Company's subsidiaries manage this exposure locally. In addition, Company Treasury monitors total world-wide exposure with the help of comprehensive data received on a quarterly basis.

Generally, the Company 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.

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 2005, are summarised below:

	31 December , 2005						
	Dollars	**NIS**	**Pound sterling**	**Euro**	**Swiss francs**	**Other currencies**	**Total**
	U.S. dollars in thousands						
Assets:							
Current assets:							
Cash and cash equivalents	19,016	186	1,932	8,877	3,015	697	33,723
Accounts receivable and prepaid expenses:							
Trade	11,113	9,550	4,025	8,642	3,328	3,631	40,289
Other	1,507	178	625	2,687	1,191	568	6,756
	31,636	9,914	6,582	20,206	7,534	4,896	80,768
Liabilities:							
Accounts payable:							
Trade	4,853	4,608	1,419	3,705	3,163	147	17,895
Other	4,562	7,331	1,899	1,958	5,497	481	21,728
Provisions		547					547
Long-term liabilities -					289		289
retirement benefit obligations	760			6,098	917		7,775
	10,175	12,486	3,318	11,761	9,866	628	48,234

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

(b) Raw Material Price Risks

Many of the raw materials used by the Company are natural products, which are seasonal. The Company purchases these for stock, generally during the season. Purchases are made out of season when necessary, sometimes at higher prices. The Company does not normally make future transactions. The Company is exposed to price changes in raw materials it uses in accordance with global price trends for these materials. 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 as possible to significant and lengthy fluctuations in raw material prices.

2) Interest Rate Risk

Interest rate risk arises from movements in interest rates, which could have adverse effects on the Company's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities.

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.

Most of the Company's sales are made in Europe to a large number of customers. The remainder of the Company's sales are made in the U.S.A., Israel, Asia and other countries (Note 5b3)).

Collateral is generally not required. There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Company deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored.

The provision for impairment of trade receivables is determined on basis of rates, which change according to the age of the customer's debt.

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.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

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 Company policies, guidelines and guidance.

b. 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	
	2005	2004	2005	2004
	U.S. dollars in thousands		U.S. dollars in thousands	
Assets:				
Accounts receivable:				
Trade	40,289	43,733	40,289	43,733
Other	6,756	7,291	6,756	7,291
Long-term receivable:		2,773		3,015
	47,045	53,797	47,045	54,039
Liabilities:				
Bank credit (net of current maturities)		44,750		44,750
Accounts payable:				
Trade	17,895	20,257	17,895	20,257
Other(*)	22,162	20,718	22,166	20,705
Loans and credit from banks (including current maturities)	289	35,436	289	35,436
	40,346	121,161	40,350	121,148

* The fair values are based on cash flows discounted using a rate based on borrowings rate of .4.19%.

NOTE 4 – BUSINESS COMBINATIONS:

a. Acquisition of European FS from IFF:

In 2004, the Company completed the acquisition of the FS of IFF in Europe (Note 1ac).

IFF's FS business includes the development and production of unique fruit compounds and other natural products used as natural flavors in the production of a wide variety of food products, such as dairy products, pastries, etc. The FS operations of IFF were carried out in three independent plants, located in Switzerland, Germany and France.

In accordance with the letter of intent, signed between the parties in May 2004, the transaction included the entire European FS operations, except that all of the French employees will be excluded, as it was Frutarom's explicit intention to transfer the French production activity to the German and Swiss production sites. This required IFF to enter into a consultation process with the employees' work council in France, in order for the Company to be able to transfer the French FS operations to Germany and Switzerland and to enable IFF to sell the French FS business to the Company. As a result, and after agreeing on the principal acquisition terms, the parties agreed to proceed with the acquisition of the Swiss and German operations and withhold the process of the French operations acquisition, until IFF completes the consultation process in accordance with the French law.

As detailed below, the acquisition of the German and Swiss operations was completed on 17 August 2004, and the acquisition of the French operations was completed on 29 October 2004.

1) Acquisition of the German and Swiss Operations:

(a) On 17 August 2004, the Company completed the acquisition of the Swiss and German FS operations. According to the purchase agreement, the Company has purchased, through its subsidiaries, the fixed assets, intellectual property, inventory and prepaid expenses of the said plants, in consideration for approximately € 30 million ($ 37 million). The employees of the purchased activity have been transferred to the subsidiaries, and so were the assets and liabilities related to the employees and to their retirement rights, which were evaluated at date of signing the agreement as net liabilities in the amount of approximately € 2.5 million ($ 3.1 million). Accordingly, on 18 August 2004, the Company paid IFF an amount of approximately € 27.5 million ($ 33.9 million).

As of 31 December 2004, the net cost of acquisition of the German and Swiss operations (net of liabilities related to the employees and to their retirement rights, which have been transferred to the subsidiaries) amounted to € 25.8 million ($ 31.8 million). This cost includes purchase expenses in the total amount of € 0.4 million ($ 0.5 million), and is net of adjustments related to the purchase, at the total amount of € 2.2 million ($ 2.6 million).

The original 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 and the remaining balance in the amount of $ 2.2 million was allocated to goodwill. The intangible assets recognised included product formulas, customer relationships and goodwill.

NOTE 4 – BUSINESS COMBINATIONS (continued):

(b) On 5 September 2005, the Company and IFF agreed on certain adjustments, under the purchase agreement of the German and Swiss operations amounting to € 2.9 million (app. $ 3.5 million). The adjustments made to the fair value of the fixed assets, inventory, assets and liabilities related to the employees and to their retirement rights at the date of acquisition, decrease the cost of acquisition by the said amount. $ 2.6 million of the above, have already been taken into account in the purchase accounting in 2004 (see a above).

As a result of the abovementioned adjustment, the Company reduced the goodwill arising from the purchase of the operations by € 0.7 million (app. $ 0.9 million). According to the said agreement, the Company received from IFF, during September 2005, an amount of € 2 million ($ 2.5 million) in cash. The remaining balance was set off against the Company's debt to IFF, in accordance with the agreement.

(c) The purchase agreement includes consideration adjustment mechanisms; those mechanisms include, inter alia, an earn-out mechanism, whereunder, the purchase price may decrease or increase by an additional amount of up to € 3.5 million ($ 4.3 million), depending on the results of the purchased operations in the years 2005 and 2006.

As of 31 December 2005, in accordance with the earn-out mechanism, the purchase price of the Swiss and German operations was reduced by € 1.75 million.
As a result of the abovementioned adjustment (app. $ 2.1 million), the Compnay reduced the goodwill arising from the purchase of the operations by € 1.1 (app. $ 1.3 million) and a negative goodwill in the amount of € 0.65 (app. $ 0.8 million) was created for the Company. The amount of negative goodwill was carried directly to income.

(d) The purchase agreement enables the Company to continue manufacturing certain supplementary products to the customers of the purchased operations, in consideration for 50% of the gross profit arising from the sale of those products for a 5-year period commencing at date of purchase. The annual expense arising in respect of this commitment is not material.

(e) The acquisition of the operations as above was financed by short-term bank loans at the total amount of $ 34 million, which were repaid in February 2005.

2) Acquisition of the Operation in France:

(a) On 29 October 2004, the Company completed the purchase of the French FS operations. As initially agreed in the letters of intent, the French operations were purchased for a consideration of approximately € 3.5 million ($ 4.3 million) subject to certain adjustments, including the earn-out adjustment mechanism that was set in the agreement for the purchase of the German and Swiss operations (see a. above). The said purchase concerns the assets of the operations in France (including intangible assets) and does not include transfer of employees. Through the end of 2004, the Company has relocated the manufacturing activities to Germany and Switzerland for the purpose of reducing costs and utilising the synergy between the purchased operations and the Company's activities.

NOTE 4 – BUSINESS COMBINATIONS (continued):

The research and development operations, the marketing and selling operations, which serve the French market, will continue to operate in France.

In November 2004, the Company paid IFF € 3 million ($ 3.8 million) after the parties agreed to adjust the purchase price by an amount of € 0.5 million ($ 0.6 million), due to adjustments made to the fair value of the fixed assets and inventory at the date of acquisition.

The cost of purchase was allocated mainly to acquired tangible and intangible assets, based on their fair value at date of acquisition.

(b) In accordance with the agreement signed in September between the Company and IFF (see also 1b above), the cost of acquisition of the French operations was reduced by € 1.1 million (app. $ 1.4 million). As a result of the abovementioned adjustment, the Company increased the negative goodwill arising from the purchase of the French operations by € 0.6 million (app. $ 0.7 million). The increase in negative goodwill was carried directly to income.

(c) The acquisition of the operations as above was financed by short-term bank loan (granted in Euro) at the total amount of $ 3.8 million. The loan was repaid in February 2005.

3) The results of the purchased of the German and Swiss operations and the France operations for the periods starting 17 August and 2 November 2004 (dates of purchase of operations), respectively, through 31 December 2004 were included for the first time in the consolidated financial statements for the year ended 31 December 2004.

The acquired operations contributed revenues of $ 20,641 thousands, and net income of $ 892 thousands to the Company for the period from 17 August (as to German and Swiss operations), 2004, and 2 November 2004 (as to the to French operations) to 31 December 2004. Had the acquisition of the German , Swiss and French operations occurred on 1 January 2004, Company's revenue for 2004 would have been $ 252,678 thousands, and net profit for that year would have been $ 19,384 thousands.

NOTE 4 – BUSINESS COMBINATIONS (continued):

Assets and liabilities of the purchased German, Swiss and France operations, at the date of acquisition:

	*Fair value	Acquiree's carrying amount
	U.S. dollars in thousands	
Cash and cash equivalents	9	9
Inventories	7,457	9,007
Receivables	337	486
Property, plant and equipment – net	29,161	14,575
Goodwill	2,214	
Negative Goodwill (carried directly to income)	(199)	
Intangible assets	3,136	
Deferred tax assets	1,082	
Current liabilities	(1,946)	(1,624)
Retirement benefit obligations - pensions	(5,899)	(3,326)
Deferred tax liabilities	(274)	
	35,078	19,127

* Prior to the 2005 adjustments to the purchase price, see (1) and (2) above.

The amount of $ 38.2 million, presented in the cash flow statements, includes the amounts receivable from IFF, as above, and does not include accrued purchase expenses.

b. Acquisition of Flachsmann in 2003:

In 2003, the Company completed the purchase of full ownership over Flachsmann through a subsidiary, in consideration for Swiss Francs 23,068 thousands ($ 17,773 thousands). Swiss Francs 20,068 thousands out of the said amount were paid in cash on date of acquisition; Swiss Francs 1.5 million ($ 1,262 thousands) was paid in June 2004 and an additional amount of Swiss Francs 1.5 million ($ 1,170 thousands) was paid in June 2005.

As a result of the acquisition, commencing 30 June 2003, the assets and liabilities of Flachsmann were consolidated for the first time. The consolidated statement of income includes the results of operations of Flachsmann, commencing the said date.

Flachsmann is engaged in developing, manufacturing and marketing flavors and extracts for the food industry as well as herbal extracts for the extracts, flavors and pharmaceutical industries and applications for the food industry.

As part of the said acquisition, the Company has established a plan for the reorganisation of the activities of Flachsmann. This reorganisation plan was designed to reduce costs, merge the marketing activities and utilize the synergy between the Company's and Flachsmann's activities. The plan included the merger of Flachsmann's activities in Canada and Europe with the Company's existing activities, while reducing the number of Flachsmann's employees and also included termination of activities of sites held by Flachsmann. Note 20.

NOTE 4 – BUSINESS COMBINATIONS (continued):

Total cost of the acquisition of Flachsmann – $ 17,912 thousands (translated from Swiss Francs at the exchange rate on the date of acquisition)– including legal fees and other direct fees incidental to the acquisition ($ 139 thousands) - has created for the Company negative goodwill at the total amount of $ 7,599 thousands; (the said amount is net of the related tax of $1,830 thousands).

In 2004, the Company changed the provision for reorganisation, since it managed to reduce reorganisation costs, as against an increase of $ 220 thousands in negative goodwill; (the said amount is net of the related tax of $ 23 thousands).
The amount of negative goodwill was carried to income, commencing the date of acquisition, on a systematic basis, over the remaining weighted average useful life of the identified acquired depreciable assets. On 1 January 2005, in accordance with the transition provisions of IFRS 3, the Company de-recognised the balance of remaining negative goodwill, which has not yet been carried to income – amounting to $ 7,731 thousands (net of deferred taxes de-recognised amounting to $ 1,785 thousands) (Notes 2f and 7).

NOTE 5 – SEGMENT INFORMATION:

a. Business Segment Data:

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	155,605	81,872	6,326		243,803
Intersegment	990	2,728		(3,718)	
Total sales and other operating income	156,595	84,600	6,326	(3,718)	243,803
Segment results – operating income	25,202	8,527	238		33,967
Unallocated corporate expenses					(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 amortisation	3,776	1,918			

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION (continued):

a. Business Segment Data (continued):

As at 31 December 2004, 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	110,908	79,120	6,752		196,780
Intersegment		2,612		(2,612)	
Total sales and other operating income	110,908	81,732	6,752	(2,612)	196,780
Segment results – operating income	15,352	6,512	256		22,120
Unallocated corporate expenses					(108)
Operating profit					22,012
Financial expense					(1,347)
Taxes on income					(4,909)
Net income					15,756
Other data:					
Segment assets	105,291	51,170	2,777		159,238
Unallocated corporate assets					54,502
Consolidated total assets					213,740
Segment liabilities	17,199	7,959	1,076		26,234
Unallocated corporate liabilities					108,853
Consolidated total liabilities					135,087
Cost of purchase of long-term assets – CAPEX	1,689	2,179			
Depreciation and amortisation	2,588	2,152			

NOTE 5 – SEGMENT INFORMATION (continued)**:**

a. **Business Segment Data** (continued)**:**

As at 31 December 2003, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
Income statement data:	U.S. dollars in thousands				
Sales and other operating income - net					
Unaffiliated customers	68,199	64,639	6,478		139,316
Intersegment		2,334		(2,334)	
Total sales and other operating income	68,199	66,973	6,478	(2,334)	139,316
Segment results - operating income	8,468	4,385	236		13,089
Unallocated corporate expenses					(524)
Operating profit					12,565
Financial expenses					(996)
Taxes on income					(3,535)
Net income					8,034
Other data:					
Cost of purchase of long-term assets	976	1,396			
Depreciation and amortisation	1,411	2,070			
Non-cash income	69				

NOTE 5 – SEGMENT INFORMATION (continued)**:**

b. Information on Business and Geographical Segments:

1) Business Segments.

For management purposes, the Company 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, natural gums and peptide building blocks.

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 Company has operating production facilities in Europe, North America (mainly the U.S.A.), Israel and Asia. In addition, the Company has 20 research and development laboratories and sells and markets its products principally through its 35 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		
	2005	**2004**	**2003**
	U.S. dollars in thousands		
Israel	30,983	27,269	24,897
North America	30,285	30,337	28,896
Europe	143,259	102,247	53,626
Asia and the Far East	24,784	24,408	23,133
Other countries	14,492	12,519	8,764
	243,803	196,780	139,316

NOTE 5 – 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	
	2005	2004	2005	2004
	U.S. dollars in thousands			
Israel	88,068	64,492	**2,520	2,161
North America	16,382	16,611	**2,986	421
Europe	126,013	129,979	7,721	*37,577
Other countries	3,403	2,658	253	113
	233,866	213,740	13,480	40,272

* Including segment assets of FS (Note 4a).
** Including assets acquired from other segments.

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 6 – PROPERTY, PLANT AND EQUIPMENT:

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	3,983	153	(643)	11,461	5,659	890	108	(246)	6,195	5,266
Leasehold improvements	3,204	68		(164)	3,108	1,249	133		(54)	1,328	1,780
	129,568	12,001	4,818	(9,799)	126,952	32,885	7,535	395	(978)	39,047	87,905

* Arising from differences from translation of foreign currency financial statements of subsidiaries.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT:

a. Composition of Assets, Grouped by Major Classifications, and Changes Therein is as Follows:

2004:

	Cost						Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Acquisition of the FS from IFF (see Note 4a)	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 2004
	U.S. dollars in thousands						U.S. dollars in thousands					
Land and buildings	36,680	1,080		15,545	3,716	57,021	2,574	784		26	3,384	53,637
Machinery and equipment	40,742	3,296	(270)	12,583	2,433	58,784	16,781	4,524	(126)	555	21,734	37,050
Vehicles and forklifts	1,828	778	(454)	98	35	2,285	928	210	(281)	2	859	1,426
Furniture and office equipment (including computers)	6,341	747	(39)	935	290	8,274	4,618	942	(34)	133	5,659	2,615
Leasehold improvements	3,037	59			108	3,204	1,069	151		29	1,249	1,955
	88,628	5,960	(763)	29,161	6,582	129,568	25,970	6,611	(441)	745	32,885	96,683

* Arising from differences from translation of foreign currency financial statements of subsidiaries and from adjustment to purchase price of Flachsmann (Note 4b).

NOTE 6 - 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, and a U.K. subsidiary are located, is under the ownership of the Company.

2) Through 31 December 2005, the Company paid an amount of $ 1,289 thousands in respect of development of the land located in the Sagie 2000 industrial zone. As to capitalized lease fees paid in respect of the land – see Note 16a2).

c. The Company 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 12a).

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 12c). Through 31 December 2005, Frutarom Ltd. invested approximately $ 2.8 million out of the said expansion plans.

d. A subsidiary has a plan for the erection of a new plant in the Emek Izrael Sagie 2000 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 12c). Implementation of investment is to be financed by investment grants of up to $ 4 million.

e. In 2001, the Company decided to change its original plan of use and postpone the date of operating of certain assets, in the amount of approximately $ 1,662 thousands, which have been acquired in 2000; accordingly, the Company reassessed the recoverability of the assets and recognised impairment losses in the amount of $ 448 thousands, $92 thousands and $ 97 thousands in 2001, 2002 and 2004, respectively, in respect of the said assets, computed on the basis of net selling price of the assets, which was determined by reference to an active market. The assets are expected to become operational during 2006.

f. As to pledges on assets –Note 13.

NOTE 7 – INTANGIBLE ASSETS:

	Original amount		Amortised balance	
	31 December		31 December	
	2005	2004	2005	2004
	U.S. dollars in thousands			
Product formulas	9,800	10,415	7,210	8,210
Goodwill	3,091	5,719	1,786	4,332
Customer relations	1,884	2,184	1,618	2,096
Trademarks	245	274	190	226
Negative goodwill		(11,105)		(9,516)
	15,020	7,487	10,804	5,348

NOTE 7 – INTANGIBLE ASSETS (continued):

	Product formulas	*Goodwill	Negative goodwill	Customer relations	Trademarks	Total
	U.S. dollars in thousands					
Changes in year ended 31 December 2004:						
Opening net book amount	7,156	1,955	(9,465)		223	(131)
Adjustment to purchase price of Flachsmann (Note 4b)			(243)			(243)
Acquisition of the FS business from IFF (Note 4a)	1,152	2,214		1,984		5,350
Exchange differences	481	371	(777)	195	16	286
Amortisation charge (Note 2f)	(579)	(208)	969	(83)	(13)	86
Closing net book amount	8,210	4,332	(9,516)	2,096	226	5,348
De-recognition of the balance of recognised negative goodwill (Note 2f)			9,516			9,516
Changes in year ended 31 December 2005:						
Adjustment to purchase price of IFF's FS business (Note 4a)		(2,271)				(2,271)
Additions	229	103				332
Exchange differences	(689)	(376)		(278)	(23)	(1,366)
Amortisation charge (Note 2f)	(540)	(2)		(200)	(13)	(755)
Closing net book amount	7,210	1,786	-,-	1,618	190	10,804

* Goodwill is allocated to the Flavor division segment in the U.K.
For the purpose of the annual impairment test, the recoverable amount of the relevant cash generating unit was based on value-in-use calculations. These calculations use pre-tax discount rate of 13%, weighted average growth rate of 2% and budgeted gross margin of 31%.

NOTE 8 – LONG-TERM LOANS AND CREDIT FROM BANKS:

a. The long-term loans and credit may be classified by currency of repayment, linkage terms and interest rates, as follows:

	Weighted interest rates as of 31 December 2005	31 December 2005	31 December 2004
		U.S. dollars in thousands	
Revolving credit facilities(1):			
U.S. dollar			14,181
Swiss Francs(2)	3.25%	289	13,500
Loans:			
U.S. dollar			2,067
Pound sterling			5,688
		289	35,436
Less – current maturities		(289)	5,605
		-,-	29,831

NOTE 8 – LONG-TERM LOANS AND CREDIT FROM BANKS (continued):

(1) Including agreements with banks whereunder the banks will extend Israeli, U.S., U.K., and Swiss subsidiaries revolving credit facilities.

As of 31 December 2005, the unutilized credit balances of Israeli, U.S., U.K., and Swiss subsidiaries are $ 10,000 thousands, $ 10,000 thousands, $ 1,380 thousands, and $ 12,464 thousands, respectively.

(2) The balance was repaid in January 2006.

b. During 2005, the Company used the consideration it received in respect of the issuance of shares (Note 11b), to repay all the long-term bank loans and credit from banks.

NOTE 9 – 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 have been transferred to these subsidiaries as part of the FS and Flachsmann acquisitions in 2004 and 2003, respectively (Note 4). 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 the FS and Flachsmann, 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.

NOTE 9 - RETIREMENT BENEFIT OBLIGATIONS (continued):

2) The assets of the pension fund are computed based on the balance of the assets at date of acquisition of the FS and Flachsmann, 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.

d. The following amounts related to employee remuneration and benefits are included in determining operating profit:

	2005	**2004**	**2003**
	U.S. dollars in thousands		
Wages and salaries	46,632	36,182	23,295
Social security costs	5,285	5,300	3,971
Post-employment benefits: defined benefit plans	1,192	1,560	374
Post-employment benefits: defined contribution plans	1,551	517	727
Termination benefit expenses	168	173	231
Compensation under stock option plans and other employee benefits	2,749	4,086	2,115
Total employees' remuneration	57,577	47,818	30,713

At year-end, the Company employed 1,016 people (977 and 782 people, respectively, in 2004 and 2003).

Amounts recognised in the income statement for post-employment defined benefit plans consist of the following:

	2005	**2004**	**2003**
	U.S. dollars in thousands		
Current service cost	1,736	1,492	550
Interest cost	1,709	1,041	488
Actual return on plan assets – U.S. and German subsidiaries	(171)	(185)	(417)
Expected return on plan assets – Swiss and German subsidiaries	(1,253)	(774)	(318)
Employees' contributions	(856)	(280)	
Net actuarial losses recognised	27	266	71
Total included in employees' remuneration	1,192	1,560	374

Changes during the year in the net asset (liability) recognised in the balance sheet for post-employment defined benefit plans were as follows:

	2005	**2004**
	U.S. dollars in thousands	
At 1 January	8,502	1,232
Total expenses included in employees' remuneration	1,192	1,560
Changes in Company organisation -FS acquisition		5,899
Contributions paid	(899)	(900)
Currency translation effects and others	(1,020)	711
At 31 December	7,775	8,502

NOTE 9 – RETIREMENT BENEFIT OBLIGATIONS (continued):

The following amounts were recognised in the balance sheet for post-employment defined benefit plans:

	31 December	
	2005	**2004**
	U.S. dollars in thousands	
Recognised liability for actuarial present value of unfunded obligations due to past and present employees:		
Actuarial present value of funded obligations due to former employees and present employees	39,712	45,062
Plan assets held in trusts at fair value	(33,071)	(36,733)
Plan assets over (under) actuarial present value of funded obligations	6,641	8,329
Unrecognised actuarial gains	1,134	173
Recognised liability for funded obligations due to past and present employees	7,775	8,502

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 Company 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		
	2005	**2004**	**2003**	**2005**	**2004**	**2005**	**2004**	**2003**
Discount rates	5.75%	5.75%	6%	4%	4.75%	3%	3.75%	3.75%
Projected rates of remuneration growth				2%	3%	0.80%	2%	2%
Expected rates of return on plan assets		6.75%	6.75%	5%	3%	3.40%	4%	4%

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. **Commitments**:

1) Lease Commitments:

Some of the premises, warehouses and a site in the U.K. occupied by the Company are rented under various operating lease agreements. The lease agreements for the premises expire on various dates between 2005 and 2013.

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

Minimum lease commitments of the Company and its subsidiaries under the above leases, at rates in effect on 31 December 2005, are as follows:

	$ in thousands
Year ending 31 December:	
2006	1,258
2007	730
2008	571
2009	349
2010	349
2011-2013	1,048
	4,305

Rental payments for the premises in Israel and in the U.K. are payable in U.S. dollars and in the U.K. in Pounds Sterling, respectively.

Rental expenses totaled $ 1,877 thousands, $ 1,426 thousands and $ 1,298 thousands, in the years ended 31 December 2005, 2004, and 2003, respectively. The rental expenses for 2005 include $ 456 thousands in respect of premises for which the rental agreements are renewed every year.

2) Royalty Commitments:

(a) Frutarom Ltd. and the Ben Gurion University (hereafter – the University) entered into agreement for cooperation in the biotechnology field. Under the agreement, Frutarom Ltd. will produce and market certain products based on unique knowledge developed by the University and will pay the University (for a period of 15 years) royalties at the rate of 1%-3% of the sale of products developed. The Company paid royalties amounting to $ 11 thousands, $ 6 thousands, and $ 6 thousands, in the years ended 31 December 2005, 2004 and 2003, respectively.

(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 Company (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 2005 is $ 577 thousands.

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 11c), 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 serve as the trustee for those GDRs.

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

In consideration, the bank agreed to undertake the expenses arising from the said raise of capital ($ 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 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.

Since not all the suspending conditions specified in the agreement are under the control of the Company, and in light of the uncertainties concerning this matter, the Company included in its accounts relating to issuance of the GDRs, and recognised a liability to the bank in an amount that is equal to the total amount paid by the bank in respect of capital raise expenses (Note 19).

Should the Company not be required to reimburse the expenses as above, the said amount would be credited to Company's shareholders' equity.

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 Company'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. The Company's management believes, based on its legal counsel's opinion, that the claim is a vexatious and frivolous claim, has no factual basis, that the facts included therein concerning Frutarom are in themselves erroneous, and that the chances that the application will be allowed and that the claimants will prevail in the claim are remote.

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

(b) A number of claims and third party notices have been filed against the Company. 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 Company was among those responsible. 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. Company 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 Company is immaterial, due to the large number of defendants, the very small quantity of effluents discharged by the Company during the relevant years (about 0.01% of total effluents discharged by the other defendants); due to the fact that effluents discharged by the Company cannot cause the damages allegedly caused and due to the period during which effluents were discharged by the Company compared with the other defendants. Commencing in 2000, the Company discontinued discharge of all effluents to the Kishon River.

Set forth below are the claims filed against the Company 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 Company 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 Company 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 Company 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) Claims in the total amount of $ 2 million have been lodged against the Company and other parties by the owners of passengers and fishing vessels operating in the Haifa Bay and in the Kishon River for damages allegedly caused to the vessels due to discharge of industrial effluents to the Kishon River and for loss of profits due to the said discharge of effluents. The parties to those claims have recently reached a compromise, and the amounts the Company bore in respect of the claims were immaterial.

NOTE 10 – COMMITMENTS AND CONTINGENT LIABILITIES:

(4) 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 Company and other parties third party notices; in those notices the 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 Company and the other parties will be required to indemnify them in respect of those expenses.

(5) On 15 January 2004, Israel Shipyards Ltd. lodged a claim in the amount of $ 4.8 million against the Company and 11 other entities for economic damages allegedly caused as a result of the discharge of effluents to the Kishon River.

(c) In addition to the aforementioned, subsidiaries of the Company are a party to legal procedures in the ordinary course of business; in the opinion of Company's management the said legal procedures do not materially affect the Company's financial position. Some of the claims are covered by insurance policies and in respect of the other claims, the Company has fully provided in its accounts.

3) On 1 June 2003, the amendment to Section 15 of the Documents Stamp Duty Law, 1961 (hereafter – the Stamp Duty Law) came into effect. The amendment added one type of document to the list of documents included in Section 15 to the Stamp Duty Law, and removed from the said list of documents other types of documents.

The Stamp Duty Law is a technical law that levies a tax at a certain amount or rate on documents specified in the schedule to the said law. In the summer of 2004, the Tax Authorities started sending to certain companies, specific demands to present certain agreements. In September 2004, a petition has been filed to the High Court of Justice, requesting the Court to issue warrants, which prohibit, inter alia, the Tax Authorities to demand from the public to provide it with agreements; the petition also requests that the said order will oblige the Tax Authorities to publish in public their interpretive position concerning this issue before attempting the enforcement of the law in accordance with the Tax Authorities' interpretation to the said amendment.

In September 2005, the said petition was rejected and the petitioners agreed to this rejection.

As of the date of issuance of the financial statements, the company did not receive any request from the Tax Authorities to provide it with any documents concerning the said matter.

In the opinion of Company's management and its legal advisors, the Company has legal arguments against a potential demand for payment of stamp tax under the said law in respect of documents signed subsequent to 1 June 2003 through August 2004 (date in which the change in enforcement policy regarding the law was published in public).

NOTE 11 – SHAREHOLDERS' EQUITY:

a. Share Capital:

1) Composed of ordinary shares of NIS 1 par value, as follows:

	Number of shares in thousands	
	31 December	
	2005	2004
Authorized	100,000	60,000
Issued and paid	56,976	46,276

Company registered shares are quoted on the TASE at NIS 35.30 per share as of 31 December 2005. Commencing February 2005 the GDRs are also quoted on the LSE.

2) Ordinary Company shares of NIS 1 par value, held by its subsidiary – Frutarom Trust Ltd. - and included in the breakdown of shares presented above constitute 1.42% (819,339 shares) and 1.72% (807,679 shares) of the balance of ordinary issued and paid shares of this type as of 31 December 2005 and 2004, respectively.

b. Capital Raise:

1) On 22 February 2005, the Company completed a public offering in 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 of Global Depositary Receipts (hereafter – GDRs) in the official list of the UK Listing Authority; each GDR represents one Company share; the price per share was $ 7.63.

The allocation 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 as above. 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 allocation, 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.

2) In July 2003, the Company completed a private placement in which it raised $ 11,632 thousands (net of issuance costs amounting to $ 104 thousands) from institutional investors, as against issuance of 5,135 thousands ordinary shares of NIS 1 par value.

NOTE 11 – SHAREHOLDERS' EQUITY (continued):

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 the shares to senior employees of the Company.

The rights to purchase the shares are granted to the employees twice a year. The senior employees have the right to exercise the shares they were granted at the end of the vesting period. The vesting period of the shares 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% of the average price paid by the subsidiary upon purchase of Company shares.

In 2003, due to changes in the Israeli Tax Ordinance, the Company's Board of Directors approved a new employee share option plan (the "2003 Plan"), which replaces the 1996 Plan. The terms of the shares granted under the 2003 Plan, during year the 2003, are similar to the terms of the shares granted under the 1996 Plan.

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 2005:

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 $
2000	6,425		0.29-0.30
2001	35,107		0.26-0.28
2002	155,050		0.36-0.38
2003	84,277	60,076	0.74-1.28
2004	48,325	115,939	1.45-1.76
2005		189,973	2.43-2.49
	329,184	365,988	

As of 31 December 2005, 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 $ 928 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 23a2).

NOTE 11 – SHAREHOLDERS' EQUITY (continued):

The changes in the number of rights for shares outstanding and their related weighted average exercise prices are as follows:

	2005		2004		2003	
	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	0.87	763,961	0.51	909,699	0.32	920,828
Granted	2.46	191,613	1.69	203,669	1.04	219,168
Forfeited	0.74	(67,019)	0.46	(32,621)	0.35	(32,771)
Exercised	0.51	(193,383)	0.32	(316,786)	0.26	(197,526)
At 31 December	1.33	695,172	0.87	763,961	0.51	909,699

The following table summarises information about share rights outstanding at 31 December 2005:

Share rights outstanding			Share rights exercisable		
Range of exercise prices	Number outstanding at 31 December 2005	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 31 December 2005	Weighted average remaining contractual life
$		Years	$		Years
0.29	2,592	0.25	0.29	2,592	0.25
0.30	3,833	0.75	0.30	3,833	0.75
0.26	10,596	1.25	0.26	10,596	1.25
0.28	24,511	1.75	0.28	24,511	1.75
0.36	31,896	2.25	0.36	31,896	2.25
0.38	123,154	2.75	0.38	123,154	2.75
0.74	73,724	3.25	0.74	41,047	3.25
1.28	70,629	3.75	1.28	43,230	3.75
1.45	89,743	4.25	1.45	24,124	4.25
1.76	74,521	4.75	1.76	24,200	4.75
2.43	89,773	5.25			
2.49	100,200	5.75			
	695,172			329,183	

3) On 21 December 2003, the Company's Board of Directors resolved to issue 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 allotted 900 thousands shares to senior employees, as part of the said resolution. The market value of Company's shares at date of allotment was NIS 19.64.

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).

NOTE 11 – SHAREHOLDERS' EQUITY (continued):

In consideration of the shares, the employees paid NIS 5 per share, using a non-recourse loan they received for that purpose from the Company. In case that an employee as above 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.

Through 31 December 2005, the employees repaid a total of $ 222 thousands out of the loans they were granted (2005 - $ 111 thousands, 2004 - $ 111 thousands).

In June 2005, a senior employee resigned 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 23a2).

d. Allotment of Options to Senior Employees

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. The market value of the Company's shares at date of allotment was NIS 20.94. On 16 June 2004, the Tel-Aviv Stock Exchange approved the registration of 150,000 Company shares of NIS 1 par value, which will arise from exercise of the said options.

NOTE 11 – SHAREHOLDERS' EQUITY (continued):

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 (as the employee is also entitled to dividend); 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 fourty 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).
As to allotment of options to senior employees on 2 January 2006 – Note 24b.

Effective 1 January, 2004, the Company early adopted IFRS 2 (issued – 2004) – Share Based Payments. Accordingly the Company is applying fair value accounting, to recognise compensation costs, relating to the employee services, that will be received for the grant of shares and options, as above (Note 2).

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 2k). The subsidiary's share in the dividend is $ 23 thousands, $ 19 thousands, and $ 20 thousands in 2005, 2004 and 2003, 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.
As to dividend declared subsequent to balance sheet date – Note 24c.

NOTE 12 –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.

2) Tax rates

   The income of the Company and its Israeli subsidiaries (other than income from "approved 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

NOTE 12 –TAXES ON INCOME (continued):

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 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 Company 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 gains 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 42%.
Company incorporated in Germany– tax rate of 40%.
Company incorporated in the UK – tax rate of 30%.
Company incorporated in the Switzerland – tax rate of 24% (commencing 2006 – 22%).

c. 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, the Company is entitled to various tax benefits.

The main tax benefits available to the Company are:

1) Reduced tax rates

During the 10-year period of benefits, commencing in the first year in which the Company 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:

(a) 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, for each year).

NOTE 12 –TAXES ON INCOME (continued):

(b) Tax exemption on income from certain approved or benefited enterprises in respect of which Frutarom Ltd. has elected the "alternative benefits" (involving waiver of investment grants); the length of the exemption period is two or four years, after which the income from these enterprises is taxable at a decreased rate (see 1a above) for an additional eight or six years, respectively.
In the event of distribution of cash dividends 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)).

The proportion of the taxable income entitled to benefits of reduced tax rates is calculated on the basis of the ratio between the turnover of the “approved enterprise” or the “benefited enterprise” and the whole turnover of Frutarom Ltd. The turnover applicable to the “approved enterprise” is calculated, as a general rule, by taking the increase resulting from the comparison of the turnover with its “base” turnover, which is prescribed as being the turnover during the last year before the activation of the “approved enterprise”, or such other basis as is stipulated in the instrument of approval.

In 2003, Frutarom Ltd. addressed the Investment Centre, requesting to recognise the Company 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. Frutarom Ltd.’s request regarding the other two approved enterprises, has not yet been granted.

The period of benefits in respect of those of the abovementioned enterprises, which were activated, expires in the years 2005 through 2011.

The period of benefits in respect of those of the abovementioned enterprises, which have not yet been activated will expire, under the restrictions placed by the law, in 2016 at the latest.

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.

NOTE 12 –TAXES ON INCOME (continued):

Company's management believes that as of 31 December 2005, the Company 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.

NOTE 12 – 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	In respect of carryforward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2003 – brought forward	6,443	(1,816)	(493)	(341)	(579)	(329)	-,-	2,885
Changes in 2004:								
Adjustment to purchase price of Flachsmann (Note 4b)		(23)						(23)
Addition to deferred taxes in respect of acquisition of the FS from IFF (Note 4a)			(1,082)		274			(808)
Differences from translation of foreign currency financial statements of subsidiaries	226	(179)	(109)		39	(34)		(57)
Amounts carried to income	(89)	233	(138)	(83)	(504)	(142)		(723)
Balance at 31 December 2004	6,580	(1,785)	(1,822)	(424)	(770)	(505)	-,-	1,274

NOTE 12 – TAXES ON INCOME (continued):

	In respect of balance sheet items							
			Provisions for employee rights					
	Depreciable fixed assets	Negative goodwill	Severance pay	Vacation and recreation pay	Inventories	Other	In respect of carryforward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2004 – brought forward	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 (Note 1c)		1,785						1,785
Changes in 2005:								
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	6,455	-,-	(2,046)	(402)	(285)	349	-,-	4,071

NOTE 12 –TAXES ON INCOME (continued):

e. Deferred Taxes (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	
	2005	**2004**
	U.S. dollars in thousands	
Deferred tax assets:		
Deferred tax asset to be recovered within 12 months	1,701	1,846
Deferred tax asset to be recovered after more than 12 months	1,618	1,111
	3,319	2,957
Deferred tax liabilities:		
Deferred tax liability to be recovered within 12 months	1,363	
Deferred tax liability to be recovered after more than 12 months	6,027	4,231
	7,390	4,231
	4,071	1,274

4) The deferred taxes in respect of Company activities in Israel are computed at the tax rate of 28% (2004 – 29%). 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 Company did not recognise deferred income tax assets of $ 1,511 thousands in respect of losses relating to a German subsidiary amounting to $ 4,523 thousands that can be carried forward against future taxable income.

   Deferred income tax liabilities of approximately $ 5,600 thousands in 2005 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 12 –TAXES ON INCOME (continued):

f. Taxes on Income Included in The Income Statements:

1) As follows:

	2005	2004	2003
	U.S. dollars in thousands		
For the reported year:			
Current	6,877	5,632	3,806
Deferred, see e. above:			
In respect of a change in tax rates, Note 12a2)(a)	(115)	(40)	
For the reported year	1,413	(683)	(181)
	8,175	4,909	3,625
For previous years	(1,700)		(90)
T o t a l	6,475	4,909	3,535

Current taxes (consolidated) are computed at an average tax rate of 20.11%, 21.6%, and 30.1% for the years 2005, 2004, and 2003, respectively.

NOTE 12 –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 12d above) and the actual tax expense:

	2005	2004	2003
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	33,322	20,665	11,569
Theoretical tax expense in respect of this income – at 34% (2004 – 35%; 2003 – 36%)	11,329	7,233	4,165
Less – tax benefits arising from approved enterprise status	(1,239)	(708)	(528)
	10,090	6,525	3,637
Increase (decrease) in taxes resulting from:			
Different tax rates applicable to foreign subsidiaries	(2,173)	(1,240)	(246)
Computation of deferred taxes at a rate which is different from the theoretical rate	62	202	140
Increase in taxes resulting from adjustment to deferred tax balances due to changes in tax rates (Note 12a2)a) above)	(115)	(40)	
Disallowable deductions	160	898	44
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	(839)	(1,331)	
Difference between the basis of measurement of income reported for tax purposes and the basis of measurement of income for financial reporting purposes – net*	1,028		
Other	(38)	(105)	50
Taxes on income for the reported year	8,175	4,909	3,625

* 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 most of the companies – see a1) above – and the changes in the NIS/dollar exchange rate.

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 13 - LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

a. Restrictions and Covenants:

The terms of the long-term bank credit received by a subsidiary in U.S. (revolving credit facilities –Note 8a), in respect of which there is no outstanding balance as of 31 December 2005, place certain restrictions and covenants.

b. To secure long-term bank loans and credit and short-term bank credit granted to subsidiaries of the Company in Israel, the U.S.A., U.K. and Switzerland, the subsidiaries have registered floating charges on their assets.

NOTE 14 – ACCOUNTS RECEIVABLE:

	31 December	
	2005	**2004**
	U.S. dollars in thousands	
a. Trade:		
Open accounts	37,537	41,097
Related parties	526	719
	38,063	41,816
Cheques collectible	2,226	1,917
	40,289	43,733
The item includes – provision for impairment of receivables	1,726	2,186
b. Other:		
Employees	153	149
Related parties	355	530
Government institutions	2,144	2,081
Adjustments to purchase price of the FS (Note 4a)	2,071	3,535
Sundry	2,033	996
	6,756	7,291

NOTE 15 – INVENTORIES

	31 December	
	2005	2004
	U.S. dollars in thousands	
Raw materials and supplies	22,624	21,126
Products in process	1,903	1,547
Finished products	20,755	18,840
	45,282	41,513
Inventories for commercial operations – purchased products	1,604	2,256
	46,886	43,769

NOTE 16 – OTHER NON-CURRENT ASSETS

Composed as follows:

	31 December	
	2005	2004
	U.S. dollars in thousands	
Prepaid expenses – net(a)	1,978	1,636
Long-term receivable(b)		2,773
Deferred charges(c)		349
	1,978	4,758

(a) Prepaid expenses in respect of leasehold right in land:

(1) The Company 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 2005, in respect of the said lands amount to $ 1,365 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 Sagie 2000 industrial zone. 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 2005, in respect of the said land amount to $ 231 thousands.

(b) Long-term receivable is in respect of sale of assets by a subsidiary in Switzerland; the balance was linked to the Swiss Franc and bear annual interest of 7% per year that was paid every quarter. The debt was due in 2006. The balance was repaid in one installment during 2005.

(c) Deferred charges are in respect of issuance of Company shares in the LSE in February 2005 (Note 11b). These costs were charged to shareholders' equity on the date of issuance, as mentioned above.

NOTE 17 – CASH AND CASH EQUIVALENTS:

a. Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2005	2004	2003
	U.S. dollars in thousands		
Cash and cash equivalents	33,723	7,350	5,092
Bank overdrafts		(3,231)	(1,003)
	33,723	4,119	4,089

b. Classified by currency, linkage terms and interest rates, the cash and cash equivalents are as follows:

	Weighted interest rates as of 31 December 2005	31 December 2005	31 December 2004
		U.S. dollars in thousands	
In Dollars	3.63%	19,016	3,460
In Pounds sterling		1,932	1,051
In Euro	0.70%	8,877	813
In Swiss francs	1.57%	3,015	1,280
Other		883	746
		33,723	7,350

NOTE 18 – BANK CREDIT:

	31 December 2005	31 December 2004
	U.S. dollars in thousands	
a. Composed as follows:		
Bank overdrafts		3,231
Short term bank loans in respect of acquisition of the FS business from IFF (Note 4a)		41,519
Current maturities of long-term bank loans	289	5,605
	289	50,355

b. During 2005, the Company used the consideration it received in respect of the issuance of shares (Note 11b) to repay the remaining balance of short-term bank loans and credit.

NOTE 19 – ACCOUNTS PAYABLE:

		31 December	
		2005	2004
		U.S. dollars in thousands	
a.	Trade:		
	Open accounts	17,895	19,685
	Cheques payable		572
		17,895	20,257
b.	Other:		
	Payroll and related expenses	5,375	5,660
	Government institutions	8,159	7,230
	Liability to former shareholders of Flachsmann, (Note 4b)		1,325
	Provision for commissions and discounts	1,325	1,162
	Related company	124	108
	Income received in advance	164	103
	Liability to Bank of New York (Note 10b1))	810	
	Accrued expenses	3,438	1,238
	Customer advances	270	258
	Sundry	2,497	3,634
		22,162	20,718

NOTE 20 – PROVISIONS FOR LIABILITIES AND CHARGES:

2005:

	Restructuring from Flachsmann acquisition	Claims and litigations	Total
	U.S. dollars in thousands		
Balance at 1 January	633	560	1,193
Changes in Company organisation:			
Utilised during the year	(583)	(13)	(596)
Currency translation effects	(50)		(50)
Balance at 31 December	-,-	547	547

NOTE 20 – PROVISIONS FOR LIABILITIES AND CHARGES (continued):

2004:

	Restructuring from Flachsmann acquisition	Claims and litigations	Total
	U.S. dollars in thousands		
Balance at 1 January	1,433	551	1,984
Changes in Company organisation:			
Adjustment to purchase price of Flachsmann acquisition (Note 4b)	(220)		(220)
Additional provisions		9	9
Utilised during the year	(628)		(628)
Currency translation effects	48		48
Balance at 31 December	633	560	1,193

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 (Note 4b). 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 Company and potential litigations. Related estimated legal fees are also included in these provisions (Note 10b). It is expected that the said provisions will not be used during 2006.

NOTE 21 – INCOME STATEMENT ANALYSIS:

	2005	2004	2003
	U.S. dollars in thousands		
a. Cost of Sales:			
Industrial operations:			
Materials consumed	102,693	84,277	60,185
Payroll and related expenses	23,675	18,439	11,713
Depreciation and amortisation	7,232	5,523	3,861
Other production expenses	12,349	9,503	6,984
	145,949	117,742	82,743
Decrease (increase) in work in process and finished products inventories	(1,914)	(873)	1,176
	144,035	116,869	83,919
Commercial operations – cost of products sold	5,250	5,578	5,536
	149,285	122,447	89,455

NOTE 21 – INCOME STATEMENT ANALYSIS (continued):

	2005	2004	2003
	U.S. dollars in thousands		
b. Selling, Marketing, Research and Development Expenses - net:			
Payroll and related expenses	23,291	18,050	12,990
Transportation and shipping	6,817	4,605	3,732
Provisions for payment of commissions and royalties	3,820	3,408	1,941
Provision for impairment of trade receivables	62	556	827
Depreciation and amortisation	832	582	667
Travel and entertainment	3,210	1,539	1,148
Office rent and maintenance	2,386	2,487	2,170
Other	3,400	3,327	2,788
	43,818	34,554	26,263
The item includes expenses for product development and research activities, net*	11,956	9,744	7,208
* net of participation from government departments and others	165	220	178
c. General and Administrative Expenses:			
Payroll and related expenses	10,611	11,329	6,010
Depreciation and amortisation	266	265	188
Professional fees	1,524	1,232	983
Communication, office supplies and maintenance	3,070	1,999	2,364
Insurance for office holders and costs related to Board of Directors	130	108	126
Travel and entertainment	928	762	549
Other	1,688	2,174	886
	18,217	17,869	11,106
d. Other income – net:			
Capital loss on sale of fixed assets	328	24	2
Rental	(49)	(34)	(54)
Impairment of fixed assets		97	
Negative goodwill arising from the acquisition of IFF (Note 4a)	(1,496)		
Sundry	(38)	(189)	(21)
	(1,255)	(102)	(73)

NOTE 21 – INCOME STATEMENT ANALYSIS (continued):

	2005	2004	2003
	U.S. dollars in thousands		
e. Financial Expenses – net:			
In respect of long-term loans and credit	512	1,351	987
In respect of exchange differences of trade receivables and trade payable balances – net	26	(322)	(490)
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other – net	(122)	318	499
	416	1,347	996

NOTE 22 – CASH FLOWS FROM OPERATIONS

	2005	2004	2003
	U.S. dollars in thousands		
Net income	26,847	15,756	8,034
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortisation	8,330	6,370	4,716
Recognition of compensation related to employee stock and option grants	805	2,730	237
Liability for employee rights upon retirement - net	293	660	278
Deferred income taxes - net	1,298	(723)	(181)
Loss from sale of fixed assets	328	24	2
Provisions	(596)	(619)	(132)
Negative goodwill arising from the acquisition of IFF (Note 4a)	(1,496)		
Other	83	193	(242)
	9,045	8,635	4,678
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	944	(12,683)	(2,845)
Other	(1,375)	(438)	(607)
Increase (decrease) in accounts payable:			
Trade	(998)	5,201	390
Other	5,530	5,930	4,120
Increase in inventories	(5,562)	(1,373)	(971)
	(1,461)	(3,363)	87
Cash flows from operating activities	34,431	21,028	12,799

NOTE 23 - RELATED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions with Related Parties:

1) Income (expenses):

	2005	2004	2003
	U.S. dollars in thousands		
Sales – affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan (hereafter "Fallek")	848	1,361	1,767
Other	90	126	125
	938	1,487	1,892

Goods are sold on the basis of the market prices with non-related parties.

	2005	2004	2003
Purchases:			
Affiliates (companies controlled by the controlling shareholder):			
Azur S.A. (hereafter – "Azur")	(328)	(382)	(367)
Electrochemistry Industries Ltd. (hereafter "EIL")			(56)
	(328)	(382)	(423)
Controlling shareholder	(182)	(215)	(251)
	(510)	(597)	(674)

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.

	2005	2004	2003
Dividend	(691)	(535)	(529)
Other income (expenses):			
Affiliates:			
Azur	(58)	(63)	(9)
EIL	12	(19)	145
Fallek	(12)	(16)	(22)
	(58)	(98)	114
Controlling shareholder:	(29)	(28)	(13)
	(87)	(126)	101
Benefits to related parties:			
Wages and salaries	(1,028)	*(883)	(590)
Director fees to 7 directors (in the Company)	(130)	(108)	(106)

* Not including benefit in respect of exercise and grant of shares in the year 2004 in the amount of $ 1,094 thousands.

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 2005, 2004, and 2003 under 1996 plan (Note 11c) and the exercise price stipulated by the plan, as known at time of the grant is $ 169 thousands, $ 116 thousands and $ 48 thousands, respectively.

NOTE 23 – "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 2005, 2004, and 2003, are $ 50 thousands, $ 35 thousands and $ 29 thousands, respectively.

As part of a Board resolution, a manager in the Company was granted, in 2004, rights to purchase 500 thousands shares; the fair value of shares that the Company allotted to a manager, computed using the Black & Scholes shares valuation model (based on the assumption as described in Note 11c3)), was estimated at the date of grant to $ 1,680 thousands (Note 11c3)).

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 25b), was estimated at the date of grant to $ 773 thousands (Note 25b).

3) Indemnification and insurance for office holders

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 controlling shareholder - see Note 11b.

b. Balances with Related Parties:

	31 December	
	2005	**2004**
	U.S. dollars in thousands	
1) Current receivables from related parties and highest balance during the year -presented in the balance sheets among "other receivables" and "trade" under current assets - balance at balance sheet date -		
Affiliated:		
Fallek	526	719
Azur	318	479
Other	37	51
	881	1,249
2) Current payables to related parties (excluding current maturities of long-term liabilities):		
Parent company	124	95
Affiliates		13
	124	108

NOTE 24 – EVENTS AFTER THE BALANCE SHEET DATE

a. Acquisition of Nesse

On 17 January, 2006, the Company acquired, through a subsidiary, 70% of Nesse shares that confer ownership and control in this company.
Nesse is an international group engaged in the development, production, marketing and sale of innovative and unique savory solutions, which include non-sweet flavors and specialty functional ingredients. Nesse's extensive customers base includes hundreds of food manufacturers, mainly from Western and Eastern Europe. In consideration for the acquisition, the Company paid, at date of acquisition, a total in cash of € 18.41 million (app. $ 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.

The Company has an option to acquire the remaining 30% of Nesse's share capital and Nesse has the option to sell this percentage of share capital to the Company; 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.

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, as described above. The cost of purchase will be allocated to acquired tangible and intangible assets and to the acquired liabilities, based on their fair value at date of acquisition. The fair value of the assets and liabilities is subject to completion of the value assessments performed for the Company.

Based on the terms of the call option and put option as above, the Company has determined that it had acquired 100% control of Nesse. Accordingly, commencing 17 January 2006, the assets and liabilities of Nesse will be fully consolidated as of that date. The results of operations will be included in the Company's consolidated statement of income, commencing the said date.

b. Allotment of Options to Senior Employees

On 2 January 2006, the Company's Board of Directors approved, as part of the 2003 Plan (Note 11c) 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. The market value of the Company's shares at date of allotment was NIS 34.52.

NOTE 24 – EVENTS AFTER THE BALANCE SHEET DATE (continued):

On 31 January 2005, 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.

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 (as the employees are also entitled to dividend); 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.
As to the fair value of options granted to a manager – Note 23a2).

c. Dividend declared subsequent to balance sheet date

On 14 March 2006, the Company's Board of Directors resolved to distribute a dividend of NIS 0.16 per share. Total amount of dividend is $ 2,005 thousands; the dividend is to be distributed to the shareholders on 24 April 2006.

NOTE 25 – LIST OF CONSOLIDATED SUBSIDIARIES

Name of company	Country	Percentage of shareholding and control 31 December 2005 %	2004 %	Comments
Subsidiaries:				
Frutarom Ltd.	Israel	100	100	
Frutarom Trust L*td.	Israel	100	100	
Investees of Frutarom Ltd:				
Frutarom Trade and Marketing (1990)	Israel	100	100	
Galilee Essences Ltd.	Israel	100	100	Inactive company
Frutarom (UK) Ltd. (2)	England	100	100	
International Frutarom Corporation (1)	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 do Brazil	Brazil	100	100	

(1) Holds full ownership in Frutarom U.S.A Inc.

(2) Holds full ownership in:

a) Frutarom Switzerland Ltd., which holds full ownership in the following companies:

Name of company	Country	2005 %	2004 %	Comments
Frutarom Germany GmbH				
Frutarom Nordic Als				
Flachsmann Properties Ltd.				Inactive company
Flachsmann Canada Ltd.				Inactive company
Agro Flachsmann Kft. Baloszoa				Inactive company
Frutarom Belarus Ltd.				
Frutarom (Marketing) S.R.L.				
Frutarom France S.A.R.L.				
b) Turkish Holdings Ltd.	England	100	100	Inactive company (in the process of cancellation from records of the registrar of companies)