FRUTAROM INDUSTRIES LTD.
DIRECTORS REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING SEPTEMBER 30, 2006[1]

General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were listed on the London Stock Exchange Official List. Frutarom develops, produces and markets flavors and fine ingredients used to produce food, beverages, flavors, fragrances, pharma/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia, and produces, markets and sells over 15,000 products to more than 5,000 customers in over 120 countries. Frutarom operates two divisions: the Flavors Division and the Fine Ingredients Division.

In recent years Frutarom has implemented a strategy for achieving rapid growth, above industry average, through both internal growth in its core activities and strategic acquisitions. In accordance with this strategy, at the beginning of the year Frutarom acquired 70% of the share equity of the Nesse group, which develops, produces, markets and sells innovative, unique solutions that include savory flavors and unique functional raw materials. This acquisition strengthens Frutarom's technological capabilities and product portfolio for customers in the savory field, and supports Frutarom's continued growth and positioning in Western and Eastern Europe as a leading flavors supplier. In addition, at the beginning of October this year, Frutarom acquired 100% of the share equity of the Acatris Health Group, which operates from Holland, Belgium and the United States. Acatris Health develops, produces and markets unique and innovative botanical ingredients for the dietary supplement and functional food markets possessing scientifically proven health properties. The acquisition of Acatris Health helps to strengthen Frutarom's positioning as a leading supplier of unique, natural ingredients and extracts with proven health benefits and contributions. For more information, refer to Events Following the Balance Sheet Date.

Frutarom focuses on large multinational customers as well as mid-size and local customers, offering each customer the same superior service and tailor made products. Frutarom concentrates on developed markets such as Western Europe and the United States, as well as fast growing emerging markets such as the CIS, Eastern Europe, Asia, and South and Central America, where growth rates are higher than the global average. Frutarom offers its customers a wide product portfolio comprised mostly of natural and innovative, value-added products such as natural functional food ingredients, and continues to invest substantial resources in the Company's research and development activities.

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

As in the past six consecutive years, during the third quarter of 2006 the trend of growth in sales continued. Frutarom's sales for the third quarter totaled US$ 71.3 million, growing 20.0% compared with the same quarter of 2005. Gross profit for the quarter rose 16.9% to total US$ 26.9 million compared with US$ 23.0 million in the same quarter of 2005. Gross margin reached 37.8% compared with 38.8% for the same period of 2005. Operating profit rose 16.9% to total US$ 9.2 million in the third quarter compared with US$ 7.9 million in the same quarter of 2005. Operating margin was 13.0%, similar to the same quarter of 2005, when operating margin totaled 13.3%. Profit before tax rose 16.7% to total US$ 9.2 million compared with US$ 7.9 million in the same quarter last year. Taxes on income for the third quarter of 2006 totaled US$ 2.2 million (23.8% of profit before tax) compared with US$ 1.1 million (13.9% of profit before tax) for the same quarter last year. The increase in the rate of taxes on income as a percentage of profit before tax derives from the one time tax benefit of US$ 1.0 million recorded in the third quarter of 2005 for previous periods. Net profit grew to total US$ 7.0 million compared with US$ 6.8 million in the same quarter last year. Net margin reached 9.8% compared with 11.4% during the same quarter in 2005, when Frutarom enjoyed a one time tax benefit, as mentioned.

Profit per share during the third quarter was US$ 0.12, as in the same quarter of 2005.

Frutarom's sales for the first nine months of 2006 totaled US$ 214.6 million, growing 12.2% compared with the first nine months of 2005. Gross profit for the period rose 7.0% to total US$ 80.2 million compared with US$ 75.0 million in the same period of 2005. Gross margin reached 37.4% compared with 39.2% for the same period of 2005. Operating profit totaled US$ 29.3 million compared with US$ 28.8 million in the same period in 2005. Operating margin was 13.6% compared with 15.0% for the same period of 2005. Most of the erosion in gross and operating margin is due to the erosion in margin during the second quarter, which resulted mostly from fluctuations, which the Company believes to be temporary in nature, in prices of raw materials used by the Company in its production. Profit before tax rose 2.2% to total US$ 28.9 million compared with US$ 28.3 million in the same period of 2005. Taxes on income for the first nine months of 2006 totaled US$ 4.6 million (15.8% of profit before tax) compared with US$ 6.3 million (22.4% of profit before tax) in the same period last year. The decline in the rate of taxes on income as a percentage of profit before tax for the first three quarters of the year is due to one time influences that contributed to reducing the tax rate during the period, as will be further detailed below. Net profit rose 11.0% to reach US$ 24.4 million compared with US$ 22.0 million for the same period last year and net margin reached 11.4%, similar to the same period in 2005, when net margin totaled 11.5%.
Profit per share during the first nine months of the year was US$ 0.43 compared with US$ 0.40 during the same period last year.

Summary of the Company's Activity

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

Leffingwell & Associates estimates that in 2004, the global market for flavors, fragrances and fine ingredients amounted to approximately US$ 17.7 billion. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 15.0 billion in 2005.

SRI Consultants estimates that global sales in the flavor and fine ingredients markets in which Frutarom operates will grow at an annual rate of between 2% and 4% from 2005 to 2008, with a significantly higher growth rate expected in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America due to the expected increases in GNP and changes in consumer preferences in these markets. In addition, according to SRI Consultants, the market for functional food ingredients, on which Frutarom focuses and views as an important element of its rapid growth strategy, is expected to grow in the next several years at a higher rate than other segments, with sales expected to grow at an annual rate of 9% in Europe and the United States.

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

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

- **The Fine Ingredients Division** develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, citrus products, aroma chemicals, and natural gums and stabilizers. The Division’s products are sold principally to the food, beverage, flavor and fragrance, pharma/nutraceutical and personal care industries. The Fine Ingredients Division has experienced growth in recent years as a result of both internal growth and several successful strategic acquisitions. The internal growth in the Fine Ingredients Division's sales is mainly the result of the development of new, innovative value-added products with higher than average margin and its focus on multinational, mid-sized and local customers worldwide.

Most of the Division's products are natural products, which enjoy a higher demand than non-natural products. Frutarom operates to expand the natural product portfolio it offers to its customers, with particular emphasis on the functional food area.

The activities of Frutarom's two Divisions are greatly complementary and synergetic. This synergy is expressed in several main fields: (1) sales and marketing - one salesperson handling each customer; Fine Ingredients Division products intended for the food and beverage market are sold through the Flavors Division's sales force; (2) research and development - the knowhow and familiarity of the Flavors Division's team with the needs of the food and beverage market enable the Fine Ingredients Division to develop and produce new and innovative products for the food and beverage industry; (3) operations - the majority of Frutarom's production sites are jointly utilized by the two Divisions; (4) raw materials - although the majority of raw materials produced by the Company are sold to third parties, some specialty fine ingredients are exclusively used by the Flavors Division to produce certain unique flavors, giving Frutarom a competitive advantage.

Frutarom will continue to invest considerable efforts and resources in successfully implementing its rapid growth strategy of recent years. The strategy combines rapid internal growth of the more profitable core activity at higher than industry average rates, with strategic acquisitions of companies, knowhow and activities in fields in which the Company is active, in order to strengthen its positioning as one of the leading global companies in the field of flavors and fine ingredients.

Results of Activity in the Third Quarter of 2006

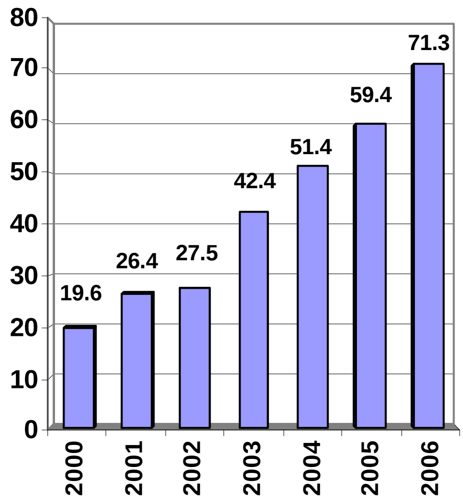
Following is a summary of the profit and loss report for the third quarter (US$ millions):

	2005	2006	Change (%)
Sales	59.4	71.3	20.0%
Gross profit	23.0	26.9	16.9%
R&D, Selling, Administration, General and Other income	15.1	17.7	16.9%
Operating profit	7.9	9.2	16.9%
EBITDA	10.2	11.8	15.3%
Profit before tax	7.9	9.2	16.7%
Net profit	6.8	7.0	3.3%

Sales

Frutarom's sales during the third quarter of 2006 totaled US$ 71.3 million, showing growth of 20.0% compared with the same quarter of 2005.

Sales Development in the Third Quarter of 2000-2006 (US$ millions)



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

A. The integration of Nesse's activity, which was acquired and consolidated as of January 2006, with the Frutarom Group's global activity.

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

C. Growth in the sales of the Fine Ingredients Division, deriving mainly from the intoduction of new products with higher than average margin.

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

E. Strengthening of the West European currencies (in which most of Frutarom's sales are made) against the US dollar contributed 3% to the growth in sales.

The increase in sales was offset by the following factors:

A. Decrease in sales of food systems products due to the planned improvement in product mix that will be achieved by shifting from products with lower than average margin to unique products with high added value and higher than average margin.

B. Decline, compared with the same period in 2005, in the prices of natural products sold by Frutarom's Fine Ingredients Division to the food, flavor and fragrance industries (mainly grapefruit oil and natural gums) and in the selling prices of flavor compounds produced by the Flavors Division using these same natural ingredients. The decline in the prices of these raw materials, compared with the same period in 2005, is due to their steady supply this year compared with a severe shortage (as a result of especially severe weather conditions in their growing areas) which led to unusual price rises last year.

Sales Breakdown by Fields of Activity in the Third Quarter of 2000–2006 (in % and US$ millions)

		2000	2001	2002	2003	2004	2005	2006
Flavors Division	Sales	6.6	10.1	11.8	21.1	28.1	36.2	47.6
	%	33.6%	38.1%	42.8%	49.8%	54.7%	61.0%	66.8%
Fine Ingredients Division	Sales	11.6	15.1	14.7	20.3	22.1	22.7	23.9
	%	59.0%	57.2%	53.4%	48.0%	43.0%	38.2%	33.6%
Trade & Marketing	Sales	1.7	1.5	1.5	1.6	1.8	1.6	1.8
	%	8.8%	5.6%	5.4%	3.7%	3.5%	2.8%	2.5%
Inter Division	Sales	-0.3	-0.2	-0.5	-0.6	-0.6	-1.1	-2.1
	%	-1.4%	-0.8%	-1.6%	-1.5%	-1.2%	-2.0%	-2.9%
Total Sales		19.6	26.4	27.5	42.4	51.4	59.4	71.3

Gross Profit

Gross profit during the third quarter of 2006 grew 16.9% to reach US$ 26.9 million compared with US$ 23.0 million in the third quarter of 2005. Gross margin was 37.8% compared with 38.8% during the same period in 2005. The decline in gross profit during the quarter derives mainly from the influences, which the Company reported in its report for the second quarter and which it believes to be temporary in nature, of changes in the prices of raw materials used in Frutarom's production. These influences, which were expressed mainly during the second quarter, weakened —as expected—during the current quarter.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 17.7 million (24.8% of sales) in the third quarter of 2006, compared with US$ 15.1 million (25.5% of sales) during the same period of 2005. The increase in expenses is mainly the result of the addition of Nesse's activity, which was acquired in January 2006, the growth in activity, and the strengthening in the West European currencies against the US dollar.

In accordance with the agreement for the acquisition of the Food Systems activity from IFF, during the third quarter the Company recorded income of US$ 0.5 million under other income for monies expected from IFF in accordance with the earn out mechanism in the agreement. At the same time, the Company recorded reorganization expenses, mainly for the site in Emmerich (Germany) acquired from IFF, in view of agreements with the employees and the reduction in personnel that are expected to lead to lower operating expenses in the coming years.

Operating Profit

During the third quarter of 2006, operating profit rose 16.9% to a total of US$ 9.2 million compared with US$ 7.9 million in the same quarter of 2005. Operating margin for the period reached 13.0% compared with 13.3% during the same period in 2005.

Finance Expenses

Finance expenses for the third quarter of 2006 totaled US$ 0.1 million (0.1% of sales), similar to the finance expenses in the same period in 2005.

Profit before Tax

Profit before tax for the third quarter of 2006 rose 16.7% to a total of US$ 9.2 million (12.9% of sales) compared with US$ 7.9 million (13.2% of sales) during the same period in 2005.

Taxes on Income

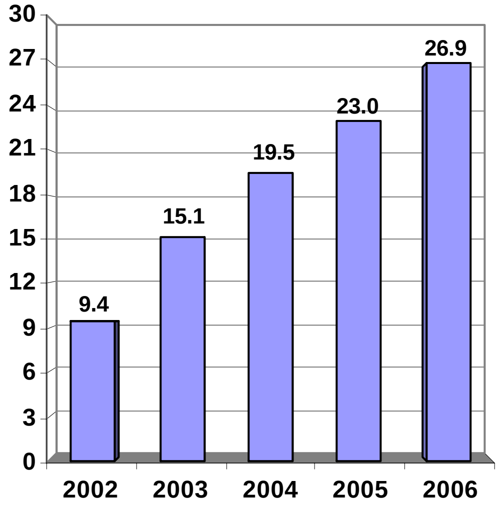
Taxes on income in the third quarter of 2006 totaled US$ 2.2 million (23.8% of profit before tax), compared with US$ 1.1 million (13.9% of profit before tax) during the same period in 2005, in which a one time tax benefit of US$ 1.0 was recorded for previous periods upon receipt of approval as a plant characterized by high technological turnover.

Net Profit

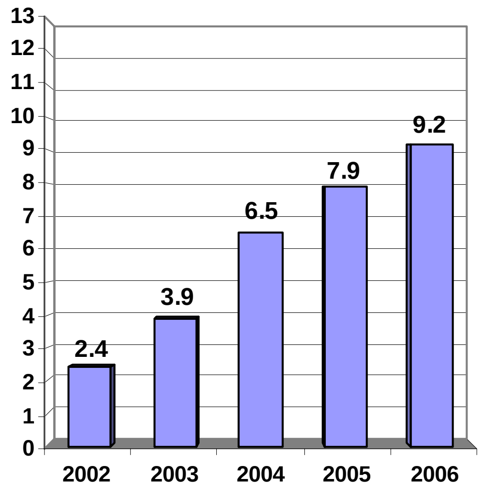
Net profit for the third quarter of 2006 totaled US$ 7.0 million compared with US$ 6.8 million in the same quarter of 2005. Net margin was 9.8% compared with 11.4% in the same quarter in 2005, when the Company enjoyed tax benefits, as stated.

Profit Development in the Third Quarter of 2002-2006 (US$ millions)

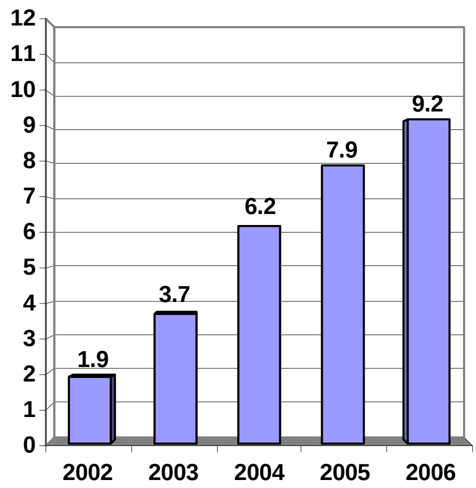
Gross Profit



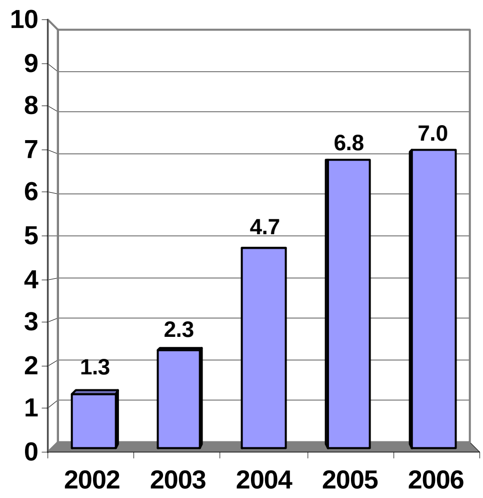
Operating Profit



Profit before Tax



Net Profit



Summary of quarterly profit and loss (US$ millions):

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006
Sales	64.7	67.1	59.4	52.6	71.0	72.3	71.3
Gross profit	25.0	26.9	23.0	19.6	27.0	26.3	26.9
Selling, Marketing, R&D, Administration, General and Other income	15.7	15.4	15.1	14.6	16.7	16.6	17.7
Operating profit	9.3	11.6	7.9	5.0	10.4	9.7	9.2
EBITDA	11.8	13.5	10.2	7.1	12.9	12.4	11.8
Finance expenses	0.2	0.2	0.1	--	-0.3	0.6	0.1
Profit before tax	9.1	11.4	7.9	5.0	10.7	9.1	9.2
Net Profit	**6.8**	**8.4**	**6.8**	**4.9**	**8.8**	**8.6**	**7.0**

Frutarom's business is characterized by seasonal fluctuations, generally with higher sales and profitability (due to product mix) in the first half of a given year and lower sales and profitability during the second half of a given year. A substantial portion of the Company's products are used by its customers in the manufacture of beverages, ice cream and yogurt, for which demand generally increases markedly during the summer months. As a result, sales of certain flavors and fine ingredients produced by Frutarom rise in the first half of the year, as manufacturers of beverages, ice cream and yogurt restock their inventories and increase production in advance of rising demand during the summer months.

The impact of seasonality on the Company's results has weekend in recent years as the Company has increased its sales of products such as savory flavors, and natural functional food ingredients and natural pharma/nutraceutical extracts, which are intended for the pharma/nutraceutical industries and generally have lower seasonality in demand. A major portion of Nesse's sales (Frutarom acquired 70% of Nesse's share capital in January 2006) are intended for the savory field and thus also expected to reduce the effect of seasonality. The products of Acatris Health, whose acquisition was completed at the beginning of October of this year, are also expected to contribute to modifying the seasonal fluctuations in sales.

Results of Activity in the First Nine Months of 2006

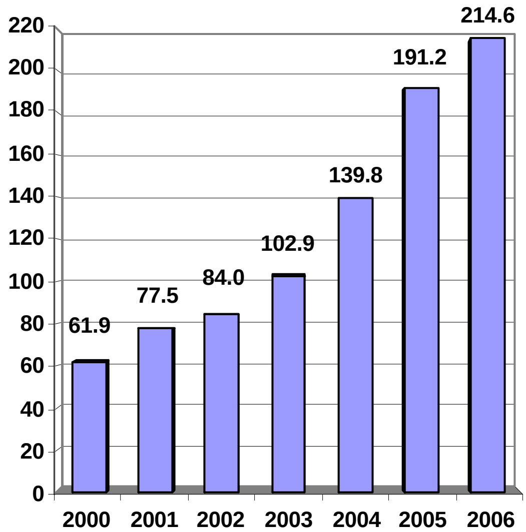
Following is a summary of the profit and loss report for the first nine months (US$ millions):

	2005	2006	Change (%)
Sales	191.2	214.6	12.2%
Gross profit	75.0	80.2	7.0%
R&D, Selling, Administration, General and Other income	46.2	50.9	10.3%
Operating profit	28.8	29.3	1.8%
EBITDA	35.8	37.2	4.2%
Profit before tax	28.3	28.9	2.2%
Net profit	22.0	24.4	11.0%

Sales

Frutarom's sales during the first nine months of 2006 totaled US$ 214.6 million, showing growth of 12.2% compared with the same period in 2005.

Sales Development in the First Nine Months of 2000-2006 (US$ millions)



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

A. The integration of Nesse's activity, which was acquired and consolidated as of January 2006, with the Frutarom Group's global activity.

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

C. Growth in the sales of the Fine Ingredients Division, deriving mainly from the intoduction of new products with higher than average margin.

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

The increase in sales was offset by the following factors:

A. Decrease in sales of food systems products due to the planned improvement in product mix that will be achieved by shifting from products with lower than average margin to unique products with high added value and higher margin than average.

B. A decline compared with the same period in 2005 in the prices of natural products sold by Frutarom's Fine Ingredients Division to the food, flavor and fragrance industries (mainly vanilla, grapefruit oil and natural gums), and in the selling prices of flavor compounds produced using these same natural ingredients. The decline in the prices of these raw materials, compared with the same period in 2005, is due to their steady supply this year compared with a severe shortage as a result of especially severe weather conditions in their growing areas which led to the unusual price rises last year.

C. Weakening of the West European currencies (in which most of Frutarom's sales are made)against the US dollar.

Sales Breakdown by Fields of Activity in the First Nine Months of 2000-2006 (in % and US$ millions)

		2000	2001	2002	2003	2004	2005	2006
Flavors Division	Sales	19.9	30.0	34.9	49.7	70.8	119.6	142.3
	%	32.2%	38.7%	41.6%	48.3%	50.6%	62.5%	66.3%
Fine Ingredients Division	Sales	38.0	44.1	45.6	49.8	65.6	69.8	72.0
	%	61.3%	56.9%	54.3%	48.4%	46.9%	36.5%	33.5%
Trade & Marketing	Sales	5.1	4.4	4.7	5.1	5.3	5.0	4.7
	%	8.2%	5.6%	5.6%	5.0%	3.8%	2.6%	2.2%
Inter Division	Sales	1.1	-1.0	1.2	-1.7	-1.9	-3.2	-4.3
	%	-1.7%	-1.3%	-1.5%	-1.7%	-1.4%	-1.6%	-2.0%
Total Sales		61.9	77.5	84.0	102.9	139.8	191.2	214.6

Gross Profit

Gross profit grew 7.0% during the first nine months of 2006 to US$ 80.2 million compared with US$ 75.0 million in the same period of 2005. Gross margin was 37.4% during the period compared with 39.2% during the same period in 2005. The decline in profitability during the period derives mainly from the influences, which the Company believes to be temporary in nature, of price changes in raw materials used in

Frutarom's production, mainly during the second quarter of the year (and to a lesser extent during the third quarter). Rising fuel and energy prices resulted in a certain increase in the prices of synthetic raw materials used by both Divisions for their production. Frutarom continues to seek to increase the selling prices of its products, which has already been partially implemented in the third quarter. In parallel with the increase in synthetic raw materials prices, there was a significant decline in the prices of several natural raw materials (mainly grapefruit, vanilla and natural gums) sold by Frutarom's Fine Ingredients Division to the food, flavor and fragrance industries, and in the selling prices of flavor compounds produced by the Flavors Division using these raw materials. This price decrease also contributed to the erosion in margin. The Company estimates that the stabilization seen recently in these natural raw materials prices has already been partially expressed in the third quarter contributing to the positive trend.

<u>Selling and Marketing, Research and Development, Administration, General and Other Income</u>

Selling, marketing, research and development, administration, general and other income totaled US$ 50.9 million (23.7% of sales) in the first nine months of 2006, compared with US$ 46.2 million (24.2% of sales) during the same period of 2005. The increase in expenses is mainly the result of the addition of Nesse's activity, which was acquired in January 2006.

In accordance with the agreement for the acquisition of the Food Systems activity from IFF, during the first nine months of the year the Company recorded income of US$ 1.6 million (of which US$ 0.5 million was recorded during the third quarter) under other income for monies expected from IFF in accordance with the earn out mechanism in the agreement. This income is expected to grow to about US$ 2.2 million for the entire year of 2006. During the third quarter the Company recorded reorganization expenses, mainly for the site in Emmerich (Germany) acquired from IFF, in view of agreements with the employees and the reduction in personnel that are expected to lead to lower operating expenses in the coming years.

<u>Operating Profit</u>

During the first nine months of 2006, operating profit totaled US$ 29.3 million compared with US$ 28.8 million in the same period of 2005. Operating margin for the report period reached 13.6% compared with 15.0% during the same period in 2005. Operating margin eroded mainly due to the erosion in gross profitability during the second quarter for the reasons described above. As stated, the Company will continue to act to sustain the improvement trend in its profit margins.

Finance Expenses

Finance expenses for the first nine months of 2006 totaled US$ 0.3 million (0.2% of sales), compared with expense of US$ 0.4 million (0.2% of sales) in the same period in 2005.

Profit before Tax

Profit before tax for the first nine months of 2006 totaled US$ 28.9 million (13.5% of sales) compared with US$ 28.3 million (14.8% of sales) during the same period in 2005.

Taxes on Income

Taxes on income in the first nine months of 2006 totaled US$ 4.6 million (15.8% of profit before tax) compared with US$ 6.3 million (22.4% of profit before tax) during the same period in 2005. The decline in the income tax rate as a percentage of profit before tax for the first three quarters of the year is due to a one time reduction in the Company's tax expenses (US$ 1.5 million net compared to the same period last year), resulting from tax arrangements made in Germany following the Nesse acquisition in January 2006 (in the amount of US$ 1.5 million) and from tax benefits that the Company recorded during 2006 for previous years upon receipt of approval as a plant characterized by high technological turnover (US$ 1.0 million), and a US$ 1.0 million tax benefit recorded during the third quarter of 2005 for previous periods.

Net Profit

Net profit for the first nine months of 2006 rose 11.0% to total US$ 24.4 million compared with US$ 22.0 million in the same period of 2005. Net margin reached 11.4% compared with 11.5% in the first nine months of 2005.

Financial Status

Total assets on September 30, 2006 amounted to US$ 296.6 million compared with US$ 230.8 million at September 30, 2005 and US$ 233.9 million at December 31, 2005.

The Company's current assets totaled US$ 150.4 million compared with US$ 121.2 million at September 30, 2005, and US$ 129.9 million at December 31, 2005.

Fixed assets minus accumulated depreciation and net other assets totaled US$ 138.3 million on September 30, 2006, compared with US$ 103.4 million at the end of the third quarter last year and US$ 98.7 million at December 31, 2005.

The growth in overall assets, and particularly in current assets, resulted mainly from the addition of Nesse's assets following its acquisition in January 2006.

Liquidity

The cash flow from current activities achieved by Frutarom during the third quarter of 2006 totaled US$ 12.4 million compared with US$ 13.2 million in the same quarter of 2005.

The cash flow from current activities achieved by Frutarom during the first nine months of 2006 totaled US$ 22.3 million compared with US$ 26.8 million in the same period of 2005.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity at September 30, 2006 totaled US$ 206.7 million (69.7% of the balance sheet) compared with US$ 174.7 million (75.7% of the balance sheet) at September 30, 2005. Most of the increase in shareholders' equity resulted from the net profit achieved during the period.

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

The Company did not require any long term credit from banks during the third quarter of 2006. During the same period last year, the Company had US$ 3.7 million at its disposal.

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

Short term credit from banks totaled US$ 0.7 million. During the same period last year, the Company had US$ 0.3 million at its disposal.

Credit from Suppliers and to Customers (Quarterly Average)

During the third quarter of 2006 the average scope of credit from suppliers and other creditors was US$ 50.0 million (compared with US$ 43.5 million during the same quarter of 2005). During the third quarter of 2006, the Company granted average credit of US$ 53.2 million to its customers (compared with US$ 46.3 million during the same quarter of 2005). Most of the growth in suppliers' and customers' credit results primarily from the acquisition of Nesse in January 2006.

Disclosures about Market Risk

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

The Company operates in a multi-currency environment. Currency exposure is reviewed as needed, on at least a quarterly basis. The Company does not generally take external hedging actions or use other financial instruments for protection against currency fluctuations. The Company's Chief Financial Officer is responsible for managing market risks as relates to exchange rates and interest. The Company's management and Board of Directors are updated on significant changes in the Company's level of exposure to various market risks and hold discussions on the subject as required.

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

Peer Review of the Auditors' Work

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

Events Following the Balance Sheet Date

On October 1, 2006, the Company acquired, through its subsidiaries, 100% of the issued share capital of Acatris Health in consideration for a cash payment of Euro 10.5 million upon signing the agreement and which was financed from Frutarom's own resources.

Acatris Health, which multinational activity centered in Holland, Belgium, and the USA, develops, produces and markets unique and innovative botanical ingredients possessing scientifically proven health values, many of which are supported by clinical trials. Acatris Health's leading LifeLine product range includes, among others, Fenulife, Soylife and Linumlife, which are protected by patents. The acquisition added to Frutarom's customer base hundreds of customers, including leaders in the food supplement, functional food, nutraceutical and cosmetic industries, mainly in Western Europe and the United States.

Acquiring Acatris Health is an important strategic acquisition for Frutarom that represents another step in the implementation of Frutarom's rapid growth strategy. This acquisition significantly strengthens the unique natural product portfolio offered to Frutarom's customers in the health fields and particularly in the fast growing nutraceuticals and functional food markets, and strengthens Frutarom's position as a leading global producer in these markets. Frutarom is acting to merge Acatris Health with its existing activities and to extract their extensive synergy. As of the fourth quarter of this year Acatris Health's activity is being merged into the global structure of Frutarom's Fine Ingredients Division and be combined with the natural health products activity of the Swiss company Flachsmann that was acquired by Frutarom in 2003.

The Board of Directors of the Company held six meetings during the first nine months of the year.

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

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

November 20, 2006