FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2006

FRUTAROM INDUSTRIES LTD.

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(Unaudited)

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PRICEWATERHOUSECOOPERS

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20 November, 2006

The Board of Directors
Frutarom Industries Ltd.
Haifa

Re: Review of condensed unaudited interim consolidated
financial statements for the nine and three-month periods ended 30 September 2006

At your request, we have reviewed the accompanying consolidated condensed balance sheet of Frutarom Industries Ltd. (hereafter - the company) and its subsidiaries as of 30 September 2006 and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the nine and three-month periods then ended.

We conducted our review in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. Inter alia, these procedures included: reading of the aforementioned financial statements, reading of minutes of meetings of shareholders, the Board of Directors and its committees, and making inquiries of company officers responsible for financial and accounting matters.

We were furnished with the reports of other certified public accountants on their review of the interim financial statements as of 30 September 2006 of consolidated subsidiaries, whose assets constitute approximately 3.16% of the consolidated totals, and whose revenues for the nine and three-month periods ended 30 September 2006 constitute approximately 6.3% and 6.54% of total consolidated revenues for the periods, respectively.

Since our review was limited in scope and did not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the abovementioned consolidated condensed interim financial statements.

During our review, including reading the reports of other auditors, as above, nothing came to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards, applicable to interim financial reporting (IAS 34).

Sincerely,

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

30 SEPTEMBER 2006

	30 September		31 December
	2006	**2005**	**2005**
	U.S. dollars in thousands		
	(Unaudited)		**(Audited)**
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	28,080	26,693	33,723
Short-term investments	3,215		
Accounts receivable:			
Trade	54,134	44,163	40,289
Other	8,370	4,493	6,756
Prepaid expenses and advances to suppliers	4,100	2,426	2,206
Inventories	52,541	43,394	46,886
T o t a l current assets	150,440	121,169	129,860
NON-CURRENT ASSETS:			
Property, plant and equipment	99,805	91,008	87,905
Intangible assets	38,528	12,342	10,804
Deferred income tax assets	5,863	2,352	3,319
Other non-current assets	1,948	3,953	1,978
T o t a l non-current assets	146,144	109,655	104,006
T o t a l assets	296,584	230,824	233,866

____________________) Chairman of the Board
Dr. John Farber

____________________) President and CEO
Ori Yehudai

____________________) Executive Vice
Alon Granot) President and CFO

Date of approval of the financial statements: 20 November, 2006.

	30 September		31 December
	2006	2005	2005
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Bank credit and loans	716	1,192	289
Accounts payable:			
Trade	23,047	16,491	17,895
Other	28,644	23,907	22,162
Provisions	947	727	547
T o t a l current liabilities	53,354	42,317	40,893
NON-CURRENT LIABILITIES:			
Retirement benefit obligations	8,665	8,004	7,775
Deferred income tax liabilities	8,513	5,839	7,390
Other liabilities	19,349		
T o t a l non-current liabilities	36,527	13,843	15,165
T o t a l liabilities	89,881	56,160	56,058
SHAREHOLDERS' EQUITY:			
Share capital	16,427	16,399	16,399
Additional paid-in capital	92,791	91,441	91,666
Currency translation differences	1,047	(3,510)	(5,160)
Retained earnings:			
Unappropriated	98,338	71,060	73,929
Appropriated			2,005
Cost of company shares held by subsidiary	(1,900)	(726)	(1,031)
T o t a l shareholders' equity	206,703	174,664	177,808
Total shareholders' equity and liabilities	296,584	230,824	233,866

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2006	**2005**	**2006**	**2005**	**2005**
	U.S. dollars in thousands				
	(Unaudited)		**(Unaudited)**		**(Audited)**
SALES	214,615	191,198	71,282	59,396	243,803
COST OF SALES	134,389	116,242	44,356	36,358	149,285
GROSS PROFIT	80,226	74,956	26,926	23,038	94,518
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:					
Selling, marketing, research and development - net	35,227	33,029	12,280	10,707	43,818
General and administrative	17,289	13,868	5,865	4,437	18,217
OTHER INCOME – net	1,573	695	466	19	1,255
OPERATING PROFIT	29,283	28,754	9,247	7,913	33,738
FINANCIAL EXPENSES – net	336	432	82	57	416
PROFIT BEFORE TAXES ON INCOME	28,947	28,322	9,165	7,856	33,322
TAXES ON INCOME	4,565	6,349	2,183	1,095	6,475
NET INCOME FOR THE PERIOD	24,382	21,973	6,982	6,761	26,847

	U.S. Dollars				
EARNINGS PER SHARE:					
BASIC	0.43	0.40	0.12	0.12	0.49
DILUTED	0.43	0.39	0.12	0.12	0.48

The accompanying notes are an integral part of these condensed financial statements.

(Continued) -1

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	Share Capital	Additional paid in capital	Currency translation differences	Retained earnings Unappropriated	Retained earnings Appropriated	Cost of company shares held by subsidiary	Total
			U.S. dollars in thousands				
BALANCE AT 1 JANUARY 2006 (audited)	16,399	91,666	(5,160)	73,929	2,005	(1,031)	177,808
CHANGES DURING THE 9 MONTHS ENDED 30 SEPTEMBER 2006 (unaudited):							
Net income not recognized in net profit - changes in currency translation			6,207				6,207
Net income				24,382			24,382
Total recognised income for 9 months ended 30 September 2006							30,589
Plans for allotment of company shares to employees of subsidiary:							
Purchase of company shares by a subsidiary						(1,135)	(1,135)
Receipts in respect of allotment of company shares to employees						83	83
Recognition of compensation related to the plan						183	183
Allotment of shares and options to senior employees:							
Allotment of share capital to senior employees	28	112					140
Recognition of compensation related to employee stock and options grants		1,013					1,013
Dividend paid (Note 5)				27	(2,005)		(1,978)
BALANCE AT 30 SEPTEMBER 2006 (unaudited)	16,427	92,791	1,047	98,338	-,-	(1,900)	206,703

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	Share capital	Additional paid in capital	Currency translation differences	Unappropriated retained earnings	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands					
BALANCE AT 1 JULY 2006 (unaudited)	16,427	92,393	1,779	91,356	(1,201)	200,754
CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2006 (unaudited):						
Net income not recognised in the net profit - changes in currency translation			(732)			(732)
Net income				6,982		6,982
Total recognised income for 3 months ended 30 September 2006						6,250
Plans for allotment of company shares to employees of subsidiary -						
purchase of company shares by a subsidiary					(756)	(756)
Recognition of compensation related to the plan					57	57
Allotment of shares and options to senior employees - recognition of compensation related to employee stock and options grants		398				398
BALANCE AT 30 SEPTEMBER 2006 (unaudited)	16,427	92,791	1,047	98,338	(1,900)	206,703

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	Share capital	Additional paid in capital	Currency translation differences	Retained earnings: Unappropriated	Retained earnings: Appropriated	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands						
BALANCE AT 1 JANUARY 2005 (audited)	13,961	17,642	5,039	41,332	1,740	(1,061)	78,653
Derecognition of the balance of recognized negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3 (Note 1c)				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 DURING THE 9 MONTHS ENDED 30 SEPTEMBER 2005 (unaudited):							
Net income not recognized in net profit - changes in currency translation			(8,549)				(8,549)
Net income				21,973			21,973
Total recognised income for 9 months ended 30 September 2005							13,424
Issuance of share capital	2,416	73,451					75,867
Plans for allotment of company shares to employees of subsidiary:							
Receipts in respect of allotment of company shares to employees						56	56
Recognition of compensation related to the plan						279	279
Allotment of shares and options to senior employees:							
Allotment of share capital to senior employees	22	89					111
Recognition of compensation related to employee stock and options grants		259					259
Dividend paid				24	(1,740)		(1,716)
BALANCE AT 30 SEPTEMBER 2005 (unaudited)	16,399	91,441	(3,510)	71,060	-,-	(726)	174,664

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	Share capital	Additional paid in capital	Currency translation differences	Unappropriated retained earnings	Cost of company shares held by subsidiary	Total
			U.S. dollars in thousands			
BALANCE AT 1 JULY 2005 (unaudited)	16,394	91,219	(2,815)	64,299	(806)	168,291
CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2005 (unaudited):						
Net income not recognised in profit - changes in currency translation			(695)			(695)
Net income				6,761		6,761
Total recognised income for 3 months ended 30 September 2005						6,066
Issuance of share capital		56				56
Plans for allotment of company shares to employees of subsidiary:						
Receipts in respect of allotment of company shares to employees					9	9
Recognition of compensation related to the plan					71	71
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	5	21				26
Recognition of compensation related to employee stock and options grants		145				145
BALANCE AT 30 SEPTEMBER 2005 (unaudited)	16,399	91,441	(3,510)	71,060	(726)	174,664

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)
FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	Share capital	Additional paid in capital	Currency translation differences	Retained earnings: Unappropriated	Retained earnings: Appropriated	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands						
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				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			(10,199)				(10,199)
Net income				26,847			26,847
Total recognised income for 2005							16,648
Issuance of share capital	2,416	73,451					75,867
Plan for allotment of company shares to employees of subsidiary:							
Purchase of company shares by subsidiary						(383)	(383)
Receipts in respect of allotment of company shares to employees						92	92
Recognition of compensation related to the plan						321	321
Allotment of shares and options to senior employees:							
Allotment of share capital to senior employees	22	89					111
Recognition of compensation related to employee stock and option grants		484					484
Dividend				24	(1,740)		(1,716)
Appropriation for distribution of dividend declared subsequent to balance sheet date				(2,005)	2,005		-,-
BALANCE AT 31 DECEMBER 2005	16,399	91,666	(5,160)	73,929	2,005	(1,031)	177,808

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2006	2005	2006	2005	2005
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Note 9)	24,911	28,463	13,611	13,862	34,431
Interest paid	218	(82)	(40)	89	222
Income tax paid	(2,815)	(1,579)	(1,204)	(771)	(2,203)
Net cash provided by operating activities	22,314	26,802	12,367	13,180	32,450
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(8,643)	(8,166)	(3,028)	(2,908)	(12,001)
Purchase of other assets		(332)		(332)	(332)
Collection of long-term receivable					2,439
Capitalized leased fees					(382)
Acquisition of subsidiary – net of cash acquired (Note 2)	(20,261)				
Reimbursement in respect of acquisition of operations	2,218	2,505	2,218	2,505	4,598
Proceeds from sale of property, plant and equipment	363	227	105	131	4,095
Acquisition of short-term marketable securities – net	(70)		(35)		
Net cash used in investing activities	(26,393)	(5,766)	(740)	(604)	(1,583)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Issuance of share capital, net of issuance costs		75,867		56	75,867
Receipts from senior employees in respect of allotment of shares	140	111		26	111
Repayment of long-term bank loans and credit	(303)	(32,882)	(4)	(6,498)	(33,585)
Repayment of long-term credit in connection with the acquisition of Flachsmann					(1,170)
Repayment of long-term credit in connection with the acquisition of IFF		(39,468)			(39,468)
Purchase of company shares by subsidiary – net	(1,052)	56	(756)	9	(291)
Dividend paid	(1,978)	(1,716)			(1,716)
Net cash provided by (used in) financing activities	(3,193)	1,968	(760)	(6,407)	(252)
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	913	(556)	129	(224)	(1,011)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,359)	22,448	10,996	5,945	29,604
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,723	4,119	16,368	20,622	4,119
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 8)	27,364	26,567	27,364	26,567	33,723

The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 SEPTEMBER 2006

(UNAUDITED)

1. General:

a) The interim financial statements as of 30 September 2006 and for the nine and three-month periods then ended (hereafter – the interim statements) were prepared in condensed form in accordance with IAS 34 -"Interim Financial Reporting."

b) Except as mentioned in c) below, the accounting policies applied in preparation of the interim financial statements are consistent with those used in the 2005 annual financial statements; nevertheless, the interim statements do not include all the information and explanations required for annual financial statements, and should be read in conjunction with the 2005 annual financial statements.
Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the entire year; changes in the said estimate, as well as changes in the amount of the tax saving to be utilized in the following years, are included as an expense for the current quarter.

c) Basis of preparation

In 2006, the Group adopted the standards mentioned below, which are relevant to its operations:

IAS 19 Actuarial gains and losses, group plans and disclosures.
IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
IAS 39 (Amendment), The Fair Value Option.
IAS 39 and IFRS4 (Amendment) Financial Guarantee Contracts.
IAS 21 (Amendment) Net investment in a foreign operation.
IFRS 6, Exploration for and evaluation of mineral resources.
IFRIC 4, Determining whether an Arrangement contains a Lease.
IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.
IFRIC 6, Liabilities arising from participation in a specific market – waste electrical and electronic equipment.

The adoption of the abovementioned standards did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

IFRIC 7, Applying the Restatement Approach under IAS 29, effective for annual periods beginning on or after 1 March 2006.
IFRIC 8, Scope of IFRS 2, effective for annual periods beginning on or after 1 May 2006.
IFRIC 9, Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006.
IFRS 7, Financial instruments: Disclosures, effective for annual periods beginning on or after 1 January 2007.

Management does not expect the standards to be relevant for the group.

d) In October 2006, the company acquired 100% of the issued and paid share capital of the U.S. company Acatris Inc., of the Dutch company, Acatris Specialties Holdings B.V. and of the Belgian company, Acatris Belgium N.V., in consideration for € 10.5 million ($ 13.3 million) paid in cash (Note 10).

e) The company's activity is subject to seasonal fluctuations, with generally higher sales in the first half of a given year and lower sales in the second half of a given year (in particular in the fourth quarter).
Many of the company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yogurts, for which demand generally increases during the summer months. As a result, sales of certain flavors and fine ingredients produced by the company are higher in the first half of the year than in the second half.

2. Acquisition of Nesse

On 17 January, 2006, the company acquired, through a subsidiary, 70% of the shares that confer ownership and control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Kranse GmbH (hereafter – Nesse).

Nesse is an international group engaged in the development, production, marketing and sale of savory solutions, which include non-sweet flavors and specialty functional ingredients.
In consideration for the acquisition, the 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, compared with the average operating profits of Nesse during the years 2003 – 2004 (hereafter – the success fee payment).

The company has an option to acquire (call option) the remaining 30% of Nesse's share capital and Nesse has the option to sell (put option) this percentage of share capital to the 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.

Based on the unique terms of the options, as above, the company fully consolidated (100%) the assets and liabilities of Nesse as of that date, while including the whole liability resulting from the future exercise of the call option.

The total cost of purchase, included in these financial statements, in the amount of € 38,809 thousands ($ 40,858 thousands), comprises of the present value of the liabilities, based on company's estimation, in respect of the success fee payment and in respect of the exercise of the call option, as described above, in the amount of € 3,274 thousands ($ 3,956 thousands) and € 11,657 thousands ($ 14,087 thousands), respectively; and of purchase expenses in the total amount of € 468 thousands ($ 566 thousands).

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. The cost of purchase was allocated to acquired tangible and intangible assets and to the acquired liabilities, based on their fair value at date of acquisition.
The intangible assets recognized include: product formulas in the amount of € 3,260 thousands ($ 3,939 thousands), customer relations in the amount of € 1,370 thousands ($ 1,656 thousands) and goodwill in the amount of € 17,506 thousands ($ 21,155 thousands). Product formulas and customer relations are amortised on a straight-line basis over 20 years and 10 years, respectively. Goodwill is not amortised but subject to annual impairment test.

As a result of the acquisition, in the first quarter of 2006, the financial statements of Nesse were consolidated for the first time, commencing 17 January, 2006, with those of the company; the consolidated statement of income includes the results of operations of Nesse, commencing 1 January 2006, in accordance with the purchase agreement.

Set forth below are Nesse's data included in the consolidated financial statements as of 30 September2006:

	30 September, 2006
	U.S. dollars in thousands
	Unaudited
Balance sheet:	
Current assets:	
Cash and cash equivalents	2,200
Short-term investments*	3,189
Accounts receivable:	
Trade	4,323
Other	1,548
Inventories	3999
Long-term loans (see Note 10)	3,170
Deferred income tax assets	26
Fixed assets – net	5,611
Intangible assets	27,673
Current liabilities:	
Bank credit and loans	(648)
Accounts payable:	
Trade	(1,901)
Other	(2,421)
Non-current liabilities:	
Retirement benefit obligations	(254)
Deferred income tax liabilities	(36)
Other liabilities**	(19,349)
	27,130

* Includes marketable securities, which the company classifies at fair value through profit or loss.
** Includes the liability to purchase the remaining 30% under the put and call options at the amount of € 11.8 million ($ 15 million) and the liability for the success fee payment at the amount of € 3.3 million ($ 4.2 million). The liabilities are presented at present value; annual capitalization rate – 2.86%.

The acquired operations contributed revenues of $ 26,097 thousands, and net income of $ 3,592 thousands to the company for the period from 1 January 2006 to 30 September 2006.

Assets and liabilities of Nesse, at the date of acquisition:

	Fair value	Acquiree's carrying amount
	U.S. dollars in thousands	
Cash and cash equivalents	2,729	2,729
Short-term investments	2,997	2,997
Receivables:		
Trade	4,230	4,787
Other	2,245	2,245
Inventories	2,520	2,835
Property, plant and equipment – net	5,706	4,987
Goodwill*	21,155	
Intangible assets	5,595	
Deferred tax assets	349	
Bank credit and loans	(742)	(742)
Accounts payable:		
Trade	(1,949)	(1,949)
Other	(3,414)	(3,414)
Retirement benefit obligations – pensions	(156)	21
Deferred tax liabilities	(215)	
	41,050	14,496

* Goodwill arising from the purchase of Nesse is allocated to the products and to the geographical spread of the purchased business, which are complementary to those of the company; the activity of the purchased business and the activity of the company overlap only to a small extent so that the company will utilise the synergy by using the skillful workforce of Nesse and Nesse's market spread for cross selling.

The amount of $ 20,261 thousands, presented in the cash flow statements, does not include the amount of liabilities in respect of the success fee payment and in respect of the future exercise of the call option, as above, and does not include accrued purchase expenses.

3. Acquisition of European Food Systems Business from International Flavors & Fragrances Inc. in Europe in 2004:

On 17 May 2004 and 29 October 2004, the company purchased the Food Systems Business ("FS") of International Flavors and Fragrances IFF Inc. ("IFF") in Switzerland, Germany and France.

The results of the purchase of the German and Swiss operations and the French operations for the periods starting 17 August and 2 November 2004, respectively, were included in the consolidated income statement for the year ended 31 December 2004.

As of 31 December 2004, the net cost of acquisition of the German and Swiss operations and of the French operations amounted to $ 31.8 million and $ 3.2 million, respectively; this cost included purchase expenses and was net of adjustments related to the purchase – $ 2.6 million and $ 0.6 million, respectively – based on company's management estimation.

On 5 September 2005, the company and IFF signed an agreement pursuant to which, the cost of acquisition of the German and Swiss operations was reduced by approximately $ 3.5 million and the cost of the acquisition of the French operations was reduced by approximately $ 1.4 million.

As a result of the abovementioned adjustment, the company reduced the goodwill arising from the purchase of the German and Swiss operations by approximately $ 0.9 million and increased the negative goodwill, which arose from the purchase of the French operations by approximately $ 0.6 million. The increase in negative goodwill has been directly carried to income.

According to the said agreement, the company received from IFF, during September 2005, an amount of $ 2.5 million in cash. The remaining balance was set off against the company's debt to IFF, in accordance with the agreement.

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 approximately $ 2.1 million.
As a result of the abovementioned adjustment, the company reduced the goodwill arising from the purchase of the operations by approximately $ 1.3 million and a negative goodwill in the amount of approximately $ 0.8 million was created for the company. The amount of negative goodwill was carried directly to income.

As of 30 September 2006, in accordance with the earn-out mechanism mentioned above, the purchase price of the Swiss and German operations was to be reduced again by approximately $ 1.6 million. However, due to the fact that in 2005 the company wrote-off all the goodwill arising from the purchase of the operations, the amount was carried directly to income (presented among other income for the period).

4. Allotment of Options to Senior Employees

On 2 January 2006, the company's Board of Directors approved, as part of the 2003 Plan, the allotment of 725,000 non-marketable options ("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 from 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.

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 4.35%-4.45% and an expected average option life until exercise of one year, two years, three years and four years.

5. Dividend

On 14 March 2006, the company's Board of Directors resolved to distribute a dividend of NIS 0.16 per share. The total amount of dividend - $ 2,005 thousands - was distributed to the shareholders on 24 April 2006.

6. Taxes on Income:

a) During the reported period, a consolidated company operating in Germany, which holds 70% of the shares of Nesse, and other shareholders of Nesse signed a "consolidated tax filing" agreement, wereunder commencing January 1, 2007 the subsidiary and Nesse shall be assessed for tax purposes in Germany on a consolidated basis; this would enable the consolidated company to offset its carryforward tax losses as against profits generated by Nesse, should such profits be generated. In light of the said agreement, the consolidated company changed its assessments as to its ability to utilize its carryforward tax losses and included in its accounts, for the first time, a tax asset in respect of its carryforward tax losses. As a result of the above, the group's tax expenses for the reported period decreased by $ 1.5 million.

b) Further to the disclosure included in the company's 2005 financial statements regarding the Investment Centre's recognition of two of the company's approved enterprises as R&D intensive and labor-intensive companies, the Investment Centre granted such status to another approved enterprise of the company; approved enterprises that have been granted the said status are entitled to tax benefits based on the Investment Centre's base turnover procedure (an erosion of the base turnover at a rate of 10% commencing in the first year of operation). The company has accordingly recorded in its books a tax benefit in respect of previous years in the total amount of $ 1 million.

c) In August 2005, Amendment No. 147 to the Income Tax Ordinance was published, which made a further revision to the corporate tax rates prescribed by Amendment No. 140, enacted in July 2005. As a result of the aforementioned amendments, the corporate tax rates for 2005 and thereafter are as follows: 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and for 2010 and thereafter – 25%

7. Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
9 months ended 30 September 2006 (unaudited):					
Revenues	142,276	71,991	4,659	(4,311)	214,615
Segment results	22,880	6,413	226		29,519
Unallocated expenses					(236)
Results from operations					29,283
9 months ended 30 September 2005 (unaudited):					
Revenues	*119,586	*69,792	4,973	(3,153)	191,198
Segment results	*20,646	*8,032	255		28,933
Unallocated expenses					(179)
Results from operations					28,754
3 months ended 30 September 2006 (unaudited):					
Revenues	47,610	23,945	1,801	(2,074)	71,282
Segment results	7,291	1,924	111		9,326
Unallocated expenses					(79)
Results from operations					9,247
3 months ended 30 September 2005 (unaudited):					
Revenues	*36,210	*22,660	1,637	(1,111)	59,396
Segment results	*5,480	*2,471	36		7,987
Unallocated expenses					(74)
Results from operations					7,913
Year ended 31 December 2005 (audited):					
Revenues	*151,427	*89,768	6,326	(3,718)	243,803
Segment results	*24,269	*9,460	238		33,967
Unallocated expenses					(229)
Results from operations					33,738

* Reclassified.

8. Cash and cash equivalents

Cash and bank overdrafts at the end of the reported periods; include the following for the purposes of the cash flow statement:

	9 and 3 months ended 30 September		Year ended 31 December
	2006	2005	2005
	U.S. dollars in thousands		
Cash and cash equivalents	28,080	26,693	33,723
Bank overdrafts	(716)	(126)	
	27,364	26,567	33,723

9. Cash Flows from Operations:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2006	2005	2006	2005	2005
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
Net income	24,382	21,973	6,982	6,761	26,847
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortisation	6,758	6,458	2,088	2,100	8,330
Recognition of compensation related to the plan and to employee stock and option grants	1,196	538	455	216	805
Liability for employee rights upon retirement – net	237	431	(9)	90	293
Deferred income taxes - net	(1,427)	650	(277)	161	1,298
Loss (income) from sale of fixed assets	(19)	(70)	(49)	(112)	328
Other	411	83	139	(2)	83
Provisions	400	(407)	18	(181)	(596)
Negative goodwill arising from the acquisition of IFF (Note 3)	(1,646)	(593)	(557)		(1,496)
	5,910	7,090	1,808	2,272	9,045
Changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(8,961)	(2,790)	(1,333)	7,552	944
Other	(1,374)	(1,307)	(499)	1,064	(1,375)
Decrease in accounts payable:					
Trade	2,553	(626)	1,897	(5,762)	(998)
Other	4,226	6,001	4,468	1,453	5,530
Decrease (increase) in inventories	(1,825)	(1,878)	288	522	(5,562)
	(5,381)	(600)	4,821	4,829	(1,461)
Cash flows from operating activities	24,911	28,463	13,611	13,862	34,431
Non-cash transations -					
change in excess of cost of acquisition	212		212		

10. Subsequent event

Acquisition of Acatris

On October 1, 2006, the company acquired, through a consolidated company, 100% of the issued and paid share capital of the U.S. company Acatris Inc., of the Dutch company, Acatris Specialities Holdings B.V., and of the Belgian company, Acatris Belgium N.V. (hereafter together – Acatris).

Acatris has multinational operations centered in the Netherlands and Belgium and is a member of the Dutch Royal Schouten Group N.V. Acatris develops, manufactures and markets innovative and unique botanical ingredients; Acatris Health's LifeLine product range includes Linumlife, Fenulife, and Soylife, which are strong reputable product brands and enjoy both licenses and patents that effectively promote and protect the sales of these clinically-proven natural health ingredients. Actaris' extensive customers' base includes hundreds of leading companies in the food supplement, functional food, natraceuticals and cosmetics markets, largely in Western Europe and the U.S.A.

At date of acquisition, the company paid a cash amount of € 10.5 million as consideration for the acquisition.

The cost of the acquisition is to be allocated to acquired tangible assets and liabilities based on their fair value at date of acquisition and to goodwill. The determination of the fair value of the assets and liabilities is subject to the completion of appraisals performed for the company.