FRUTAROM INDUSTRIES LTD.
DIRECTORS REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING JUNE 30, 2007[1]

General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were also 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 the industry average, through both internal growth in its core activities and strategic acquisitions. In accordance with this strategy, in recent months Frutarom has made several acquisitions:

- Belmay Limited – On April 1, 2007, Frutarom completed the acquisition of 100% of the share equity of Belmay Limited ("Belmay") in England in consideration for US$ 17.1 million. Belmay is a leading flavors company in the English market that develops, produces and markets flavors for the food and beverage industry. Belmay has subsidiaries in Singapore, Norway and Denmark. In 2006 Belmay's sales totaled US$ 15.1 million.

- Jupiter Flavours Limited – On April 19, 2007, Frutarom acquired 100% of the share equity of the English company Jupiter Flavours Limited ("Jupiter"), which develops, produces and markets flavors. In consideration, Frutarom paid US$ 2.8 million. The acquisition agreement also determines a deferred future payment of up to US$ 0.6 million based on the results Jupiter is expected to achieve.

The Belmay and Jupiter acquisitions established Frutarom's position as the leading flavors producer in the British market. The process of integrating the acquired activities with Frutarom's existing activity in England and in the world is proceeding as planned. Frutarom is in the process of merging the three sites (Belmay, Jupiter and Kettering) into one in order to achieve the greatest efficiency and annual operational savings of over US$ 3 million. The assumptions on which the acquisitions were based have been confirmed regarding the achievement of efficiency and savings and Frutarom's position following the acquisition as the leading flavors producer in the English market, which will support profitable and long term growth.

[1] Prepared in accordance with the consolidated financial reports of the Company as at June 30, 2007, which were prepared in accordance with the IFRS.

- Raychan Be'erot Yitzhak Food Industries Ltd. - On December 25, 2006, Frutarom signed an agreement to acquire 100% of the share equity of Raychan Be'erot Yitzhak Food Industries Ltd. ("Raychan"). Raychan develops, produces and markets flavor compounds and markets ingredients for the food industry. The consideration for the acquisition is US$ 1.0 million plus the assumption of Raychan's debt in the amount of approximately US$ 1.2 million. The final approval of the Israeli Anti Trust Commissioner was obtained on August 15, 2007. Raychan's activity is highly synergetic with Frutarom's activity and is expected to expand Frutarom's offering of savory products and solutions and functional ingredients in Israel and worldwide. Frutarom intends to utilize the many cross selling opportunities inherent in the acquisition and to sell Raychan's products to Frutarom's existing customers in markets where Raychan was less active to date (such as Eastern Europe and Turkey). The acquisition will improve the service and quality that Frutarom provides to its customers in this field, in Israel or elsewhere. Frutarom intends to complete the integration of Raychan's activity with the activity at Frutarom's existing sites in Haifa and Acco within the next few months, thereby maximizing efficiency and operational savings.

- Adumim Food Additives Ltd. – On June 28, 2007, Frutarom signed an agreement to acquire the assets of Adumim Food Additives Ltd. ("Adumim"). Adumim is a public company listed on the Tel Aviv Stock Exchange with two main fields of activity: the development, production and marketing of ingredients and unique fine ingredients for the food and functional food industries and the development and production of dietary additives containing medicinal plant extracts, vitamins and minerals. According to the terms of the agreement, Frutarom will purchase Adumim's assets (excluding real estate, debtors and cash balances) in consideration for approximately US$4.3 million. Adumim's sales for 2006 totaled approximately US$ 5.5 million. On August 15, 2007, the approval of the Israeli Anti Trust Commissioner to this transaction was obtained. Frutarom intends to integrate Adumim's activity with the activity at Frutarom's site in Haifa to achieve maximum efficiency and operational savings.

- Abaco – On July 3, 2007, following the date of the balance sheet, Frutarom acquired 100% of the ownership of Abaco Manufacturing LLC and Abaco Incorporated ("Abaco"). Abaco is an American company that develops, produces and markets unique ingredients for the flavors and fragrances industry. Frutarom paid a consideration of US$ 4.0 million in cash and will also assume Abaco's debt in the amount of US$ 1.1 million. In 2006, Abaco had sales totaling US$ 3.2 million. Immediately following completion of the acquisition, Frutarom began the process of integrating Abaco's activity with Frutarom USA's activity in order to exploit and utilize the considerable synergy, both operational and commercial, that exists between Frutarom and Abaco's activities in order to best extract the cross selling opportunities and maximize cost savings. To date, the merger of the operations is proceeding as planned.

These acquisitions continue the implementation of the Frutarom Group's strategy for rapid growth. Today, Frutarom is already considered one of the ten largest companies in the world in the field of flavors and fragrances. The acquisitions support the ongoing strengthening and positioning of Frutarom as a leading producer of flavors and ingredients and contribute to Frutarom's personnel by the addition of quality employees, particularly in the fields of research, sales and marketing. Frutarom is working to integrate the acquired activities with its existing activity and to extract maximum synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling and cost savings and to significantly improve the margins of the acquired activities. Frutarom continues acting to identify and execute additional strategic acquisitions of companies and activities in its field.

Frutarom focuses on large multinational customers as well as mid-size and local customers, offering each one the same superior service and tailor made products. Frutarom concentrates on developed markets such as Western Europe and the United States, as well as fast growing emerging markets such as the CIS, Eastern Europe, Asia, and South and Central America, where growth rates are higher than the global average. Frutarom offers its customers a wide product portfolio comprised mostly of natural and innovative, value-added products, such as natural functional food ingredients, and continues to invest substantial resources in the Company's research and development activities. As part of these research and development activities and to expand its offering of natural, innovative and unique products, Frutarom is cooperating with universities, research institutes and start-ups in Israel and elsewhere in the world. In the last year, Frutarom initiated several such collaborations: exclusive cooperation with D-Herb, of the NGT technological incubator in Nazareth, Israel, to produce and market a unique herbal extract that is used to reduce and stabilize glucose levels in diabetes patients; exclusive cooperation with Magnetika Interactive Ltd., to produce, market and sell products enriched with Omega-3 fatty acid produced from the Salvia sclarea plant; exclusive cooperation with CapsiVit Biotechnology Ltd. to commercialize unique knowhow developed by the Vulcani Institute to produce a natural extract from the *Capsicum annuum L.* plant as a highly bio-available source of carotenoids and particularly capsanthin; and an exclusive cooperation with Ramot at Tel Aviv University Ltd. to commercialize unique knowhow developed by researchers from Tel Aviv University to produce an innovative extract with anti viral properties from cinnamon; and others. These agreements strengthen and broaden the pipeline of new and innovative products that Frutarom intends to launch in the coming years.

As in the past seven consecutive years, during the second quarter of 2007 Frutarom also achieved growth in sales while attaining double digit internal growth, significantly higher than the market. Frutarom's sales for the second quarter of 2007 totaled US$ 91.7 million, growing 26.8% compared with the same quarter of 2006 (sales grew by 23.6% excluding the impact of the strengthening European currencies, in which most of Frutarom's sales are made, against the US dollar. Gross profit for the quarter rose 25.0% to reach US$ 32.8 million, compared with US$ 26.3 million in the same quarter last year. Gross margin reached 35.8%, compared with 36.3% for the same period last year. Operating profit reached US$ 8.5 million, compared with US$ 9.7 million in the same quarter last year. Operating margin reached 9.3% compared with 13.4% in the same period last year. Profit before tax totaled US$ 8.6 million compared with US$ 9.1 million in the same quarter of 2006. Net profit totaled US$ 5.9 million compared with US$ 8.6 million for the second quarter last year. Net margin reached 6.5%, compared with 11.9% during the same quarter in 2006.

Following the acquisitions of Belmay and Jupiter and the integration of the three sites into one during the second quarter of the year, one-time reorganization expenses in the amount of US$ 1.1 million were recorded. Frutarom estimates that integrating the sites in the UK will achieve the greatest efficiency, and annual operational savings of over US$ 3 million. During the second quarter of 2006, one-time income of US$ 1.1 million in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in this agreement was recorded, as was a one-time tax benefit in Germany. Excluding these one-time expenses and income, gross profit in the second quarter of 2007 reached US$ 33.0 million compared with US$ 26.3 million. Operating profit reached US$ 9.7 million compared with US$ 8.6 million in the second quarter of 2006 and net profit for the second quarter of 2007 reached US$ 6.7 million compared with US$ 6.2 million in the second quarter of 2006.

Profit per share during the second quarter was US$ 0.10, compared with US$ 0.15 per share in the same quarter of last year. Excluding one-time expenses and income, profit per share for the second quarter of 2007 rose to reach US$ 0.12 compared with US$ 0.11 in the same quarter last year.

Frutarom's sales for the first half of 2007 totaled US$ 172.2 million, growing 20.1% compared with the same half of 2006. Gross profit for the six month period totaled US$ 62.6 million compared with US$ 53.3 million in the same half of 2006. Gross margin reached 36.4% compared with 37.2% for the same period of 2006. Operating profit totaled US$ 18.9 million compared with US$ 20.0 million in the same half of 2006. Operating margin reached 11.0% compared with 14.0% for the same period last year. Profit before tax totaled US$ 18.7 million compared with US$ 19.8 million in the same half of 2006 and net profit stood at US$ 13.5 million compared with US$ 17.4 million for the first half last year. Net margin reached 7.9% compared with 12.1% during the same half in 2006. Excluding the one-time expenses and income during the first half of this year and the parallel half year, gross profit reached US$ 62.8 million compared with US$ 53.3 million in the first half of 2006; operating profit was US$ 20.1 million for the first half of the year compared with US$ 18.9 million for the first half of 2006 and net profit for the first half of 2007 reached US$ 14.3 million compared with US$ 13.8 million in the first half of 2006.

Profit per share during the first half was US$ 0.23 compared with US$ 0.31 during the same six month period of 2006. When the one-time expenses and income are deducted, profit per share for the first half of 2007 reached US$ 0.25 compared with US$ 0.24 in 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 the global market for flavors, fragrances and fine ingredients amounts to approximately US$ 18 billion. Frutarom does not operate in the market for fragrance compounds, but does operate in the market for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 15 billion. Based on Leffingwell & Associates' data, Frutarom is ranked as one of the top ten companies in its field for 2006.

According to an estimate published in 2004 by SRI Consultants and IAL Consultants, 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. The growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America is expected to be considerably higher due to the expected increases in GNP and changes in consumer preferences in these markets. According to SRI Consultants, the market for functional food ingredients in Europe and the United States is expected to grow at a higher annual rate of 9% in the next several years. Frutarom regards its activity in the functional food ingredients market as an important element in its rapid growth strategy.

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

- **The Flavors Division** develops, produces, markets and sells flavor compounds and food systems used mainly 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.

Frutarom will continue to invest considerable efforts and resources in successfully implementing the rapid growth strategy that it has successfully implemented in order to strengthen its positioning as one of the leading global companies in the field of flavors and fine ingredients and to realize its vision:

“To be the Preferred Partner for Tasty and Healthy Success.”

Results of Activity in the Second Quarter of 2007

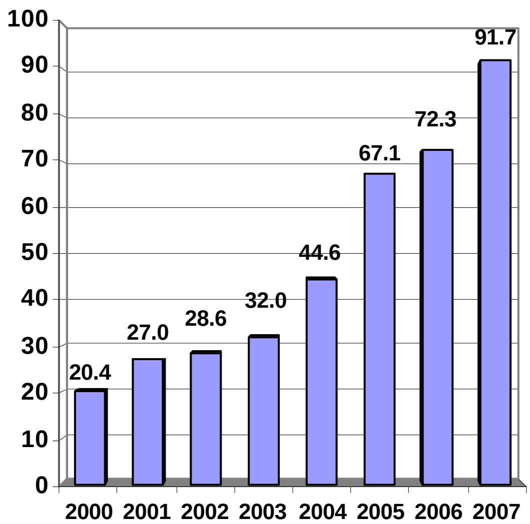
Following is a summary of the profit and loss report for the second quarter (US$ millions):

	2007	2006	Change (%)
Sales	91.7	72.3	26.8%
Gross profit	32.8	26.3	25.0%
R&D, Selling, Administration and General income	24.3	16.6	46.5%
Operating profit	8.5	9.7	-12.0%
EBITDA	11.8	12.4	-4.3%
Profit before tax	8.6	9.1	-5.7%
Net profit	5.9	8.6	-31.1%

Sales

Frutarom's sales during the second quarter of 2007 totaled US$ 91.7 million, showing growth of 26.8%, compared with the same quarter of 2006. Sales grew by 23.6% when the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar is excluded.

Sales Development in the Second Quarter of 2000-2007 (US$ millions)



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

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

B. Growth in sales of the Fine Ingredients Division's core activity products, derived mainly from the introduction of new, innovative products with higher margins than the average, that have been developed by Frutarom's research and development laboratories.

C. The integration of Acatris's activity, which was acquired and consolidated with the Frutarom Group's global activity as of October 2006.

D. The merger of Belmay and Jupiter, which were acquired and consolidated with the Frutarom Group's global activity as of April 2007.

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

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

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

		2000	2001	2002	2003	2004	2005	2006	2007
Flavors Division	Sales	6.6	10.9	11.9	15.7	23.7	43.1	49.5	61.7
	%	32.2%	40.4%	41.7%	49.1%	53.1%	64.2%	68.4%	67.3%
Fine Ingredients Division	Sales	12.6	15.1	15.5	15.2	19.7	23.7	22.5	28.9
	%	61.8%	55.9%	54.4%	47.4%	44.2%	35.3%	31.1%	31.5%
Trade & Marketing	Sales	1.6	1.4	1.6	1.7	1.9	1.5	1.5	2.1
	%	7.8%	5.2%	5.7%	5.5%	4.2%	2.2%	2.1%	2.3%
Inter Division	Sales	-0.3	-0.4	-0.5	-0.6	-0.8	-1.2	-1.1	-1.0
	%	-1.8%	-1.5%	-1.7%	-1.9%	-1.8%	-1.8%	-16%	-1.1%
Total Sales		20.4	27.0	28.6	32.0	44.6	67.1	72.3	91.7

Gross Profit

Gross profit grew 25.0% during the second quarter of 2007 to reach US$ 32.8 million compared with US$ 26.3 million in the same quarter of 2006. Gross margin was 35.8% during the period compared with 36.3% during the same period in 2006. The growth in expenses is partially due to one-time reorganization expenses in Frutarom's activity in the UK following the acquisition of Belmay and Jupiter and the integration of the three sites into one in order to achieve maximum efficiency and annual operational savings estimated at over US$ 3 million, as well as the implementation of the ERP computer project in Israel and Switzerland. The upward trend in raw materials prices continued in the second quarter of the year. Frutarom is seeking to adjust the selling prices of its products to this price increase to improve the Company's gross margin.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 24.3 million (26.5% of sales) in the second quarter of 2007, compared with US$ 16.6 million (22.9% of sales) during the same period of 2006, when income of US$ 1.1 million in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in the agreement was recorded. The growth in expenses is partially due to the addition of the activities acquired, one-time reorganization expenses in the Company's activity in the UK, the growth in the scope of activity, and one-time expenses recorded due to implementation of the ERP system at the Company's sites in Israel and Switzerland.

Operating Profit

During the second quarter of 2007, operating profit totaled US$ 8.5 million compared with US$ 9.7 million in the same quarter of 2006. Operating margin for the period reached 9.3% compared with 13.4% during the same period in 2006. Operating and gross margin were both also influenced by the current margin of Belmay and Jupiter which is, as expected, lower than Frutarom's. This level of margin does not reflect the profitability expected once the reorganization process in the UK activity is completed, the synergy is utilized and the expected savings are achieved.

Excluding one-time reorganization expenses in the Company's activity in the UK and income in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in the agreement that was recorded, operating profit reached US$ 9.6 million in the second quarter of 2007 compared with US$ 8.6 million in the same quarter in 2006, and operating margin reached 10.5% compared with 11.9% in 2006.

Finance Expenses

Finance expenses for the second quarter of 2007 totaled US$ 0.1 million (0.1% of sales), compared with US$ 0.6 million (0.8% of sales) in the same period in 2006.

Profit before Tax

Profit before tax for the second quarter of 2007 totaled US$ 8.6 million (9.4% of sales) compared with US$ 9.1 million (12.6% of sales) during the same period in 2006.

Excluding one-time expenses and income, profit before tax for the second quarter of 2007 reached US$ 8.6 million compared with US$ 9.1 million in the same quarter last year.

Taxes on Income

Taxes on income in the second quarter of 2007 totaled US$ 2.7 million (31.3% of profit before tax), compared with US$ 0.5 million (5.9% of profit before tax) during the same period in 2006, when tax arrangements were made in Germany following the Nesse acquisition in January 2006 and a one-time decrease (in the amount of US$ 1.5 million) was recorded in the Company's tax expenses.

Net Profit

Net profit for the second quarter of 2007 totaled US$ 5.9 million compared with US$ 8.6 million in the same quarter of 2006. Net margin was 6.5% compared with 11.9% for the same quarter in 2006.

Excluding one-time expenses and income, net profit for the quarter totals US$ 6.7 million compared with US$ 6.2 million in the same period in 2006. During the second quarter of 2007, one-time reorganization expenses in the Company's activity in the UK in the amount of US$ 1.1 million, which are expected to yield annual operational savings of over US$ 3 million, were recorded. During the second quarter of 2006, income in the amount of US$ 1.1 million was recorded in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in the agreement, and the one-time tax benefit in Germany.

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

	Q1 2006	Q2 2006	Q3 2006	Q4 2007	Q1 2007	Q2 2007
Sales	71.0	72.3	71.3	72.6	80.5	91.7
Gross profit	27.0	26.3	26.9	25.7	29.8	32.8
Selling, Marketing, R&D, Administration, General and Other income	16.7	16.6	17.7	17.9	19.4	24.3
Operating profit	10.4	9.7	9.2	7.8	10.4	8.5
EBITDA	13.1	12.5	11.8	11.4	13.3	11.9
Finance expenses	-0.3	0.6	0.1	0.1	0.2	-0.1
Profit before tax	10.7	9.1	9.2	7.7	10.1	8.6
Net Profit	8.8	8.6	7.0	5.3	7.6	5.9

Frutarom's business is subject to seasonal fluctuations, generally with higher sales and profitability (due to product mix) in the first half of a given year and lower sales 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 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 steadily decreased in recent years as the Company has increased its sales of products such as savory, 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 reduce the effect of seasonality. The products of Acatris Health, acquired in October 2006, also contribute to modifying seasonality in sales.

Results of Activity in the First Half of 2007

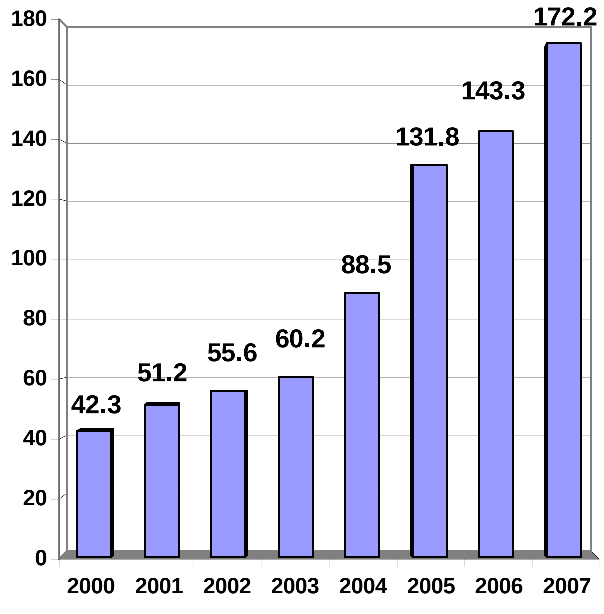
Following is a summary of the profit and loss report for the first half (US$ millions):

	2007	2006	Change (%)
Sales	172.2	143.3	20.1%
Gross profit	62.6	53.3	17.5%
R&D, Selling, Administration and General income	43.7	33.3	31.5%
Operating profit	18.9	20.0	-5.8%
EBITDA	25.1	25.4	-1.2%
Profit before tax	18.7	19.8	-5.4%
Net profit	13.5	17.4	-22.3%

Sales

Frutarom's sales during the first half of 2007 totaled US$ 172.2 million, showing growth of 20.1% compared with the same six month period in 2006. Sales grew by 16.2% when the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar is excluded.

Sales Development in the First Half of 2000-2007 (US$ millions)



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

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

B. Growth in sales of the Fine Ingredients Division's core activity products.

C. The integration of Acatris's activity, which was acquired and consolidated with the Frutarom Group's global activity as of October 2006.

D. The merger of Belmay and Jupiter, which were acquired and consolidated with the Frutarom Group's global activity as of April 2007.

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

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

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

		2000	2001	2002	2003	2004	2005	2006	2007
Flavors Division	Sales	13.4	20.0	22.7	28.4	42.6	83.4	94.2	111.6
	%	31.7%	39.1%	40.9%	47.2%	48.1%	63.3%	65.7%	64.8%
Fine Ingredients Division	Sales	26.5	29.0	30.5	29.3	43.6	47.1	48.0	58.0
	%	62.6%	56.6%	54.8%	48.7%	49.3%	35.7%	33.5%	33.7%
Trade & Marketing	Sales	3.1	2.9	3.3	3.5	3.6	3.3	2.9	4.7
	%	7.3%	5.7%	5.8%	5.8%	4.1%	2.5%	2.0%	2.7%
Inter Division	Sales	-0.7	-0.7	-0.8	-1.1	-1.3	-2.0	-1.8	-2.1
	%	-1.7%	-1.4%	-1.5%	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%
Total Sales		42.3	51.2	55.6	60.2	88.5	131.8	143.3	172.2

Gross Profit

Gross profit grew 17.5% during the first half of 2007 to reach US$ 62.6 million compared with US$ 53.3 million in the same period of 2006. Gross margin for the period reached 36.4% compared with 37.2% during the same period in 2006. The upward trend in raw materials prices continued in the second quarter of the year. Frutarom is seeking to improve the Company's gross margin by adjusting the selling prices of its products to this price increase.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 43.7 million (25.4% of sales) in the first half of 2007, compared with US$ 33.3 million (23.2% of sales) during the same period of 2006. The increase in expenses is partially due to the addition of the Acatris activity, acquired in October 2006; the addition of the Belmay and Jupiter activities, acquired in April 2007; reorganization expenses in the Company's activity in the UK; the growth in the scope of activity; and the one-time expenses recorded for the implementation of the ERP system at the Company's sites in Israel and Switzerland. During the second quarter of 2006, income was recorded in the amount of US$ 1.1 million in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in the agreement.

Operating Profit

During the first half of 2007, operating profit totaled US$ 18.9 million compared with US$ 20.0 million in the same half of 2006. Operating margin for the period reached 11.0% compared with 14.0% during the same period in 2006. Operating and gross margin were also influenced by the current profitability of Belmay and Jupiter which is, as expected, lower than Frutarom's and does not reflect the profitability expected once the reorganization process in the UK activity is completed, the synergy is utilized and the expected savings are achieved.

Excluding one-time reorganization expenses in the Company's activity in the UK and the income recorded in accordance with the acquisition agreement for the Food Systems activity from IFF and with the earn out mechanism in the agreement, operating profit reached US$ 20.1 million in the first half of 2007 compared with US$ 18.9 million for the same period in 2006.

Finance Expenses

Finance expenses for the first half of 2007 totaled US$ 0.2 million (0.1% of sales), compared with expense of US$ 0.3 million (0.2% of sales) in the same period in 2006.

Profit before Tax

Profit before tax for the first half of 2007 totaled US$ 18.7 million (10.9% of sales) compared with US$ 19.8 million (13.8% of sales) during the same period in 2006.

Excluding the one-time expenses and income, profit before tax for the first half of 2007 totaled US$ 19.9 million compared with US$ 18.7 million during the same period in 2006.

Taxes on Income

Taxes on income in the first half of 2007 totaled US$ 5.2 million (27.8% of profit before tax) compared with US$ 2.4 million (12.0% of profit before tax) during the same period in 2006. During the first half of 2006, a one-time tax benefit in the amount of US$ 1.3 million was recorded in recognition of the Company's plants in Israel being characterized by high technological turnover and, during the second quarter, a one-time tax reduction (about US$ 1.5 million) was received for tax arrangements made in Germany following the Nesse acquisition in January 2006. Excluding these one-time items, taxes on income in the first half of 2007 totaled US$ 5.5 million compared with US$ 4.9 million during the same period in 2006.

Net Profit

Net profit for the first half of 2007 totaled US$ 13.5 million compared with US$ 17.4 million in the same period of 2006. Net margin reached 7.9% compared with 12.1% in the first half of 2006.

When the above mentioned one-time expenses and income are deducted, net profit reached US$ 14.3 million in the first half of 2007 compared with US$ 13.8 million for the same period in 2006.

Financial Status

Total assets on June 30, 2007 amounted to US$ 367.4 million compared with US$ 283.4 million at June 30, 2006, and US$ 316.7 million at December 31, 2006.

The Company's current assets totaled US$ 174.6 million compared with US$ 140.2 million at June 30, 2006, and US$ 149.1 million at December 31, 2006.

Fixed assets minus accumulated depreciation and net other assets totaled US$ 186.7 million on June 30, 2007, compared with US$ 138.2 million at the end of the second quarter last year and US$ 161.8 million at December 31, 2006.

The growth in overall assets, and particularly in fixed assets, resulted mainly from the addition of Acatris Health's assets following its acquisition in October 2006; the addition of Belmay's and Jupiter's assets, acquired in April 2007; and the growth in activity.

Liquidity

The cash flow from current activities achieved by Frutarom during the second quarter of 2007 totaled US$ 3.3 million compared with US$ 6.3 million in the same quarter of 2006 due to the accelerated growth in sales and in the scope of activity, which led to growth in working capital.

The cash flow from current activities achieved by Frutarom during the first half of 2007 totaled US$ 0.6 million compared with US$ 9.9 million in the same period of 2006 due, as stated, to the accelerated growth in sales and in the scope of activity, which led to growth in working capital.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity at June 30, 2007 totaled US$ 229.4 million (62.4% of the balance sheet) compared with US$ 200.8 million (70.8% of the balance sheet) at June 30, 2006. Most of the increase in shareholders' equity resulted from the net profit achieved during the period. A change in the US dollar exchange rate against other currencies that are the main activity currency for the autonomous subsidiaries influenced the currency translation differences equity fund, and increased the shareholders' equity balance. This item does not affect the profit and loss and the cash flow.

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 second quarter of 2007, similar to the same period last year.

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

Short term credit from banks totaled US$ 23.9 million, which was used mainly to finance acquisitions. During the same period last year, the Company had US$ 2.0 million at its disposal.

Credit from Suppliers and to Customers (Quarterly Average)

During the second quarter of 2007 the average credit from suppliers and other creditors was US$ 59.2 million (compared with US$ 49.6 million during the same quarter of 2006). During the second quarter of 2007, the Company granted average credit of US$ 63.8 million to its customers (compared with US$ 52.6 million during the same quarter of 2006). Most of the growth in suppliers' and customers' credit results primarily from the acquisitions of Acatris Health, Belmay and Jupiter, and from the sharp growth in activity.

Distribution of Dividend

On May 1, 2007, the Company distributed a cash dividend that was declared by the Board of Directors on March 19, 2007, in the amount of NIS 0.18 per share, totaling NIS 10.4 million.

Disclosures about Market Risk

The Company's activity is not characterized by concentration of products and customers. 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.

There were no significant changes relating to market exposure and their management during the second quarter of 2007.

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 equity market, the Company agreed to the transfer of the information required to perform a sampling related to the peer review. The Company's consent was given subject to obtaining the auditor's commitment according to which before beginning a review of the material relating to the Company, the Company's auditor will certify that the accountants performing the review commit to maintaining all material transferred to them as part of the peer review procedure in confidence and to avoid any situation of conflict of interests.

Disclosure Regarding the Approval Process for the Financial Reports

The Company's financial reports are submitted for approval by the Board of Directors, the organ in charge of the Company's ultimate supervision. The Board of the Company has seven members, of whom six have accounting and financial expertise. The members of the Board receive the draft financial reports, the directors' report and the managerial report of the Company's management several days before the date of the Board meeting at which the reports are brought for their approval. The Company's auditors and members of the Company's senior management, including the president and CEO and the executive vice president and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president and CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the financial results of the Company, the Company's management answers questions and relates to the directors' comments. In addition, the executive vice presidents and global division managers present the status of their business and developments that occurred during the relevant period. Following presentations of the Company's financial results and by the division managers, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors' report and their submission to the securities authorities and stock exchanges. All of the members of the Board of Directors, except for one who was abroad, were present at the Board meeting held on August 20, 2007, when the reports were approved. All of the directors present voted in favor of approving the reports.

Events Following the Balance Sheet Date

On July 3, 2007, following the balance sheet date, Frutarom acquired 100% of the ownership in the American companies Abaco Manufacturing LLC and Abaco Incorporated ("Abaco"). Abaco develops, produces and markets unique ingredients for the flavors and fragrances industry. Frutarom paid a consideration of US$ 4.0 million in cash and will also assume Abaco's debt in the amount of US$ 1.1 million.

Abaco's activity is highly synergetic with the activity of Frutarom's Fine Ingredients Division, whose main development laboratories and production facilities are located in the USA, the UK and Israel. The acquisition is mainly expected to expand the activity of Frutarom USA, which is an important strategic market for the Frutarom Group, and the product portfolio offered by Frutarom's Fine Ingredients Division to its customers in the USA and worldwide.

On August 15, 2007 the Israeli Anti Trust Commissioner granted final approval for the acquisition of 100% of the share capital of Raychan by the Company. Completion of the transaction is expected within the next few days.

On August 15, 2007 the Israeli Anti Trust Commissioner granted approval for the acquisition of Adumim's assets by the Company. Completion of the transaction is expected within the next few days.

The Board of Directors of the Company held four meetings during the first half 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

August 20, 2007