FRUTAROM INDUSTRIES LTD.
DIRECTORS REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING SEPTEMBER 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, at above the industry average, through both internal growth in its core activities and strategic acquisitions. These acquisitions continue the implementation of the Frutarom Group's strategy for rapid growth. Today Frutarom is already considered to be 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 manpower. Frutarom has considerable experience in successfully implementing mergers and is working to integrate the acquired activities with its existing activity and to extract the greatest synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling and cost savings and to improve margin. In accordance with this strategy, over the year Frutarom has made seven acquisitions:

- Gewurzmuller Group – On October 11, following the date of the balance sheet, Frutarom entered into an agreement to acquire 100% of the share equity of the German companies Gewurzmuller GmbH and Blessing Biotech GmbH (respectively "Gewurzmuller" and "Blessing Biotech," together the "Gewurzmuller Group"), for a cash consideration of US$ 67 million (about Euro 47.3 million). The acquisition agreement determines a future payment mechanism such that the final payment to be made will reflect the Gewurzmuller Group's value based on an average multiple of 7.1 on the EBITDA that the Group achieves during the twelve months ending December 31, 2007. The Gewurzmuller Group's sales turnover for 2006 totaled US$ 65 million (about Euro 46 million). The acquisition is being financed by long term bank loans. The results of the Gewurzmuller Group's activity will be consolidated into Frutarom's results as of October 11, 2007. For further information on the acquisition of the Gewurzmuller Group, refer to "Events Following the Balance Sheet Date" below.

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

- RAD Natural Technologies Ltd. - On Thursday, November 15, 2007, Frutarom acquired through its subsidiary Frutarom Ltd. the activity of RAD Natural Technologies Ltd. ("RAD"). RAD researches, develops, produces and sells unique natural plant extracts with anti-oxidant activity for use in food, dietary supplements and cosmetic products. RAD possesses unique knowhow, which is protected by patents, in this field. RAD's sales for 2006 totaled US$ 1.2 million and US$ 0.9 million for the first six months of 2007.

- Belmay Limited and Jupiter Flavours 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. In 2006, Belmay's sales totaled US$ 15.1 million. On April 19, 2007, Frutarom also 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 Frutarom) into one site and expects to complete the process during the fourth quarter of this year and to achieve the greatest efficiency and annual operational savings of over US$ 3.0 million.

- Raychan Be'erot Yitzhak Food Industries Ltd. and Adumim Food Additives Ltd. – Upon receiving the approval of the Israeli Anti Trust Commissioner on August 15, 2007, the acquisition of Raychan Be'erot Yitzhak Food Industries Ltd. ("Raychan") and Adumim Food Additives Ltd. ("Adumim") was completed. Raychan Be'erot Yitzhak Food Industries Ltd. ("Raychan").

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

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

- Abaco – On July 3, 2007, 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 cash consideration of US$ 4.0 million and will also assume Abaco's debt in the amount of US$ 1.1 million. In 2006 Abaco had sales totaling US$ 3.2 million. The process of integrating Abaco's activity with Frutarom USA's activity is expected to be completed during the fourth quarter of 2007.

The results of Frutarom's activity and its margin for the first nine months of the year, and particularly during the third quarter, were considerably influenced by the acquisitions made by Frutarom in the last year. The acquisitions contributed to the growth in sales, but at this point in time have not contributed to profit and, as expected, have affected margin. The margin currently achieved by the acquired activities is still lower than Frutarom's margin and than the margin that the activities are expected to achieve upon completion of their consolidation and merger with Frutarom's existing activity. Frutarom is in the advanced stages of completing the consolidation and merger of the acquired activities and companies, as planned, and upon completion of the process will save many expenses and achieve improvement in Frutarom's profit margin. Completion of the merger of three sites in England into one site following the acquisitions of Belmay and Jupiter will, in Frutarom's estimation, yield annual operational savings of over US$ 3.0 million starting in 2008. Completing the merger of Abaco with the Fine Ingredients Division's activity in the United States and the merger of Raychan's and Adumim's activity with the Flavors Division's activity in Israel and its transfer to Frutarom's existing plants in Israel, while achieving substantial operational savings, is also expected to contribute to improving margin in 2008. Frutarom estimates that as of the first quarter of 2008, the acquisitions will not only contribute to the growth trend in sales, but also to growth in profit while improving margin.

An additional, important influence on the results of Frutarom's activity and margin is the ongoing upward trend in most raw materials prices used by Frutarom in its production, with an even more significant increase in the prices of many natural raw materials, which are the majority of the raw materials used by Frutarom. During the third and fourth quarters Frutarom has and will continue to act determinedly to raise the selling prices of its products in order to adjust them to the continued rise in raw materials prices, just as its many customers in the global food industry are doing.

As in the past seven consecutive years, during the third 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 third quarter of 2007 totaled US$ 87.7 million, growing 23.0% compared with the same quarter of 2006 (sales grew by 20.0% excluding the impact of the strengthening European currencies, in which a significant portion of Frutarom's sales are made, against the US dollar). Gross profit for the quarter rose 17.1% to reach US$ 31.5 million, compared with US$ 26.9 million in the same quarter last year. Gross margin reached 36.0%, compared with 37.8% for the same period last year. Operating profit reached US$ 8.3 million, compared with US$ 9.2 million in the same quarter last year. Operating margin reached 9.5% compared with 13.1% in the same period last year. Profit before tax totaled US$ 6.6 million, compared with US$ 9.2 million in the same quarter of 2006. Net profit totaled US$ 5.9 million compared with US$ 7.0 million for the third quarter last year. Net margin reached 6.7%, compared with 9.8% during the same quarter in 2006.

Frutarom's sales for the first nine months of 2007 totaled US$ 260.0 million, growing 21.1% compared with the same period of 2006. Gross profit for the nine month period totaled US$ 94.2 million compared with US$ 80.2 million in the same period of 2006. Gross margin reached 36.2% compared with 37.4% for the same period in 2006. Operating profit totaled US$ 27.2 million compared with US$ 29.3 million in the same nine month period of 2006 and operating margin reached 10.4% compared with 13.6% for the same period last year. Profit before tax totaled US$ 25.3 million compared with US$ 28.9 million in the same period of 2006. Net profit stood at US$ 19.4 million compared with US$ 24.4 million for the same period last year and net margin reached 7.4% compared with 11.4%.

Excluding one-time expenses and income during the first nine months of the year and in the same period in 2006, operating profit rose to total US$ 28.4 million compared with US$ 27.6 million in the first nine months of 2006; operating margin stood at 10.9% compared with 12.9% during the same period last year. Net profit for the first nine months of 2007 reached US$ 19.0 million compared with US$ 20.6 million during the first nine months of 2006, and net margin stood at 7.3% compared with 9.6% during the same period last year.

Profit per share during the third quarter was US$ 0.10, compared with US$ 0.12 per share in the same quarter of last year. Profit per share during the first nine months reached US$ 0.34 compared with US$ 0.43 during the first nine months of 2006.

Summary of the Company's Activity

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

SRI Consultants estimates that the global market for flavors, fragrances and fine ingredients amounts to approximately US$ 18.6 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. 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 2007 by SRI Consultants, global sales in the flavor and fine ingredients markets in which Frutarom operates will grow at an annual rate of between 3% and 4% from 2006 to 2011. The growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America is expected to 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, essential oils, unique citrus products, aroma chemicals, and natural gums and stabilizers. The Division's products are sold principally to the food, beverage, flavor, fragrance, pharma/nutraceutical and personal care industries. The Fine Ingredients Division has experienced growth in recent years as a result of both internal growth and several successful strategic acquisitions. The internal growth in the Fine Ingredients Division's sales is mainly the result of the development of new, innovative value-added products with higher than average margin and its focus on multinational, mid-sized and local customers worldwide. Most of the Division's products are natural products, which enjoy a higher demand than non-natural products. Frutarom works to expand the natural product portfolio it offers its customers, with particular emphasis on the functional food area.

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

Frutarom will continue to invest considerable efforts and resources in successfully implementing 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 Third Quarter of 2007

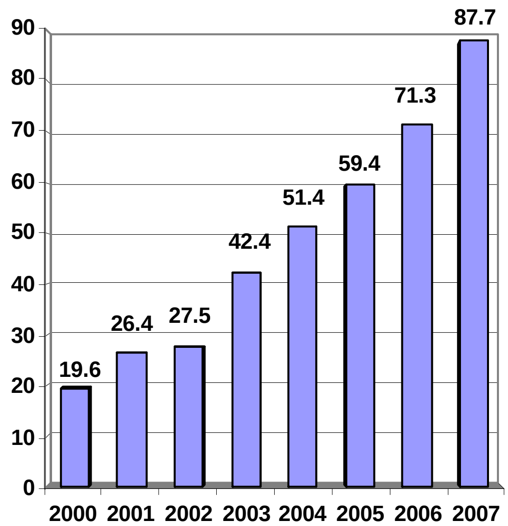
Following is a summary of the profit and loss report for the third quarter of the year (US$ millions):

	2007	2006	Change (%)
Sales	87.7	71.3	23.0%
Gross profit	31.5	26.9	17.1%
R&D, Selling, Administration, General and Other income	23.2	17.7	31.3%
Operating profit	8.3	9.2	-9.9%
EBITDA	11.5	11.8	-2.7%
Profit before tax	6.6	9.2	-27.9%
Net profit	5.9	7.0	-15.7%

Sales

Frutarom's sales during the third quarter of 2007 totaled US$ 87.7 million, showing growth of 23.0% compared with the same quarter of 2006. Sales grew by 20.0% when excluding the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar.

Sales Development in the Third Quarters of 2000-2007 (US$ millions)



The following factors were the major contributors to the increase in sales:

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

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

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

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

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

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

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

		2000	2001	2002	2003	2004	2005	2006	2007
Flavors Division	Sales	6.6	10.1	11.8	21.1	28.1	36.2	47.2	57.6
	%	33.6%	38.1%	42.8%	49.8%	54.7%	61.0%	66.3%	65.7%
Fine Ingredients Division	Sales	11.6	15.1	14.7	20.3	22.1	22.7	23.9	28.1
	%	59.0%	57.2%	53.4%	48.0%	43.0%	38.2%	33.6%	32.0%
Trade & Marketing	Sales	1.7	1.5	1.5	1.6	1.8	1.6	1.8	3.3
	%	8.8%	5.6%	5.4%	3.7%	3.5%	2.8%	2.5%	3.7%
Inter Division	Sales	-0.3	-0.2	-0.5	-0.6	-0.6	-1.1	-1.7	-1.3
	%	-1.4%	-0.8%	-1.6%	-1.5%	-1.2%	-2.0%	-2.4%	-1.4%
Total Sales		19.6	26.4	27.5	42.4	51.4	59.4	71.3	87.7

The results of Frutarom's activity and its margin for the third quarter were considerably influenced by the acquisitions made by Frutarom in the last year. The acquisitions have contributed to the growth in sales, but as expected, at this point in time have not contributed to profit and have affected margin. Frutarom is in the advanced stages of completing the consolidation and merger of the acquired activities and companies, as planned, and upon completion of the process will save many expenses and achieve improvement in Frutarom's profit margin. Frutarom estimates that as of the first quarter of 2008, the acquisitions will not only contribute to the growth trend in sales, but also to growth in profit while improving margin.

Gross Profit

Gross profit grew 17.1% during the third quarter of 2007 to reach US$ 31.5 million compared with US$ 26.9 million in the same quarter of 2006. Gross margin was

36.0% during the period compared with 37.8% during the same period in 2006. Gross profit and margin were influenced by the acquisitions whose merger as mentioned above is not yet complete, and from the continued upward trend in the prices of most raw materials used by Frutarom in its production, with an even more significant increase in many natural products, which are the majority of the raw materials that Frutarom used in production. During the third and fourth quarters Frutarom has and will continue to act determinedly to raise the selling prices of its products in order to adjust them to the continued rise in raw materials prices, just as many of its customers in the global food industry are doing.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 23.2 million (26.5% of sales) in the third quarter of 2007, compared with US$ 17.7 million (24.7% of sales) during the same period of 2006, when income of US$ 0.5 million was recorded in accordance with the acquisition agreement and its earn out mechanism for the Food Systems activity from IFF. Offsetting this, during the third quarter of the year capital gains of about US$ 0.3 million were recorded for the sale of assets in Scandinavia. The growth in expenses is partially due to the addition of the activities acquired and the fact that their merger with Frutarom's activities is not yet been completed and therefore, the expected savings have yet to be achieved. Growth in the core activities and expenses recorded due to implementation of the ERP system at the Company's sites in Israel and Switzerland, which will be completed before the end of the current year, also contributed to the growth in expenses.

<u>Operating Profit</u>

During the third quarter of 2007, operating profit totaled US$ 8.3 million compared with US$ 9.2 million in the same quarter of 2006. Operating margin for the period reached 9.5% compared with 13.1% during the same period in 2006. Operating and gross margin were both also influenced, as stated, by the acquisitions whose merger is not yet complete and upon whose completion the expected operational savings will be achieved, and by price rises in raw materials.

<u>Finance Expenses</u>

Finance expenses for the third quarter of 2007 totaled US$ 1.7 million (2.0% of sales), compared with US$ 0.1 million (0.1% of sales) in the same period in 2006. Finance expenses grew as a result of loans taken to finance the acquisitions made in England (Belmay and Jupiter), Israel (Raychan and Adumim) and the USA (Abaco), and loans taken to finance working capital due to the growth in activity. Finance expenses were also recorded for translation differences in the amount of US$ 0.9 million.

<u>Profit before Tax</u>

Profit before tax for the third quarter of 2007 totaled US$ 6.6 million (7.5% of sales) compared with US$ 9.2 million (12.9% of sales) during the same period in 2006.

<u>Taxes on Income</u>

Taxes on income in the third quarter of 2007 totaled US$ 0.7 million (11.1% of profit before tax), compared with US$ 2.2 million (23.8% of profit before tax) during the same period in 2006. The decrease in taxes on income derives from the expected reduction in the tax rate in Germany as of January 1, 2008, which resulted in a decrease in deferred taxes in Germany and the recording of a one-time decrease (in the amount of US$ 0.7 million), as well as from a reduction in taxes in Israel in the amount of US$ 0.5 million as a result of the revaluation of the New Israeli Shekel against the US dollar, and the influence of the Income Tax Law (Inflationary Adjustments) 5745 - 1985.

Net Profit

Net profit for the third quarter of 2007 totaled US$ 5.9 million, compared with US$ 7.0 million in the same quarter of 2006. Net margin was 6.7% compared with 9.8% for the same quarter in 2006.

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

	Q1 2006	Q2 2006	Q3 2006	Q4 2007	Q1 2007	Q2 2007	Q3 2007
Sales	71.0	72.3	71.3	72.6	80.5	91.7	87.7
Gross profit	27.0	26.3	26.9	25.7	29.8	32.8	31.5
Selling, Marketing, R&D, Administration, General and Other income	16.7	16.6	17.7	17.9	19.4	24.3	23.2
Operating profit	10.4	9.7	9.2	7.8	10.4	8.5	8.3
EBITDA	13.1	12.5	11.8	11.4	13.3	11.9	11.5
Finance expenses	-0.3	0.6	0.1	0.1	0.2	-0.1	-1.7
Profit before tax	10.7	9.1	9.2	7.7	10.1	8.6	6.6
Net Profit	**8.8**	**8.6**	**7.0**	**5.3**	**7.6**	**5.9**	**5.9**

Frutarom’s business is subject to seasonal fluctuations, generally reflected in 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 expected to reduce the effect of seasonality. The products of Acatris Health, acquired in October 2006, also contribute to modifying seasonality in sales. The acquisition in October 2007 of the Gewurzmuller group, which is also active in the savory field, will also contribute to moderating the seasonality in Frutarom's sales.

Results of Activity in the First Nine Months of 2007

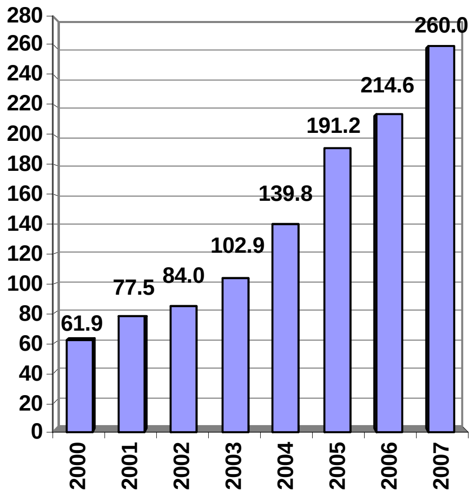
Following is a summary of the profit and loss report for the first nine months of the year (US$ millions):

	2007	2006	Change (%)
Sales	260.0	214.6	21.1%
Gross profit	94.2	80.2	17.4%
R&D, Selling, Administration, General and Other income	66.9	50.9	31.4%
Operating profit	27.2	29.3	-7.1%
EBITDA	36.6	37.2	-1.8%
Profit before tax	25.3	28.9	-12.5%
Net profit	19.4	24.4	-20.5%

<u>Sales</u>

Frutarom's sales during the first nine months of 2007 totaled US$ 260.0 million, showing growth of 21.1% compared with the same nine month period in 2006. Sales grew by 18.0% when the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar is excluded.

<u>Sales Development in the First Nine Months of 2000-2007 (US$ millions)</u>



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

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

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

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

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

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

		2000	2001	2002	2003	2004	2005	2006	2007
Flavors Division	Sales	19.9	30.0	34.9	49.7	70.8	119.6	141.5	169.2
	%	32.2%	38.7%	41.6%	48.3%	50.6%	62.5%	65.9%	65.1%
Fine Ingredients Division	Sales	38.0	44.1	45.6	49.8	65.6	69.8	72.0	86.1
	%	61.3%	56.9%	54.3%	48.4%	46.9%	36.5%	33.5%	33.1%
Trade & Marketing	Sales	5.1	4.4	4.7	5.1	5.3	5.0	4.7	7.9
	%	8.2%	5.6%	5.6%	5.0%	3.8%	2.6%	2.2%	3.1%
Inter Division	Sales	-1.1	-1.0	-1.2	-1.7	-1.9	-3.2	-3.5	-3.4
	%	-1.7%	-1.3%	-1.5%	-1.7%	-1.4%	-1.6%	-1.6%	-1.3%
Total Sales		61.9	77.5	84.0	102.9	139.8	191.2	214.6	260.0

Gross Profit

Gross profit grew 17.4% to reach US$ 94.2 million during the first nine months of 2007, compared with US$ 80.2 million in the same period of 2006. Gross margin for the period reached 36.2% compared with 37.4% during the same period in 2006. Gross profit and margin were influenced, as mentioned above, by price rises in raw materials and by the acquisitions whose merger is not yet complete, and upon whose completion the expected operational savings will be achieved.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 66.9 million (25.8% of sales) in the first nine months of 2007, compared with US$ 50.9 million (23.8% of sales) during the same period of 2006. The increase in expenses is partially due to the addition of the acquired activities (Acatris in October 2006 and Belmay and Jupiter in April 2007); the one-time expenses in the amount of US$ 1.1 million for reorganization in Frutarom England's activity; the growth in core activities; and expenses recorded for the implementation of the ERP system in the Company's sites in Israel and Switzerland, which will be completed before the end of the year. Offsetting this last year was one-time income in the amount of US$ 1.7 million recorded in accordance with the agreement and earn out mechanism for the acquisition of the Food Systems from IFF.

Operating Profit

During the first nine months of 2007, operating profit totaled US$ 27.2 million compared with US$ 29.3 million in the same period of 2006. Operating margin for the period reached 10.4% compared with 13.6% during the same period in 2006. Operating and gross margin were influenced by the acquisitions whose merger, as mentioned above, is not yet complete, and by price rises in raw materials. Excluding the one-time expenses for reorganization in Frutarom's activity in England and the one-time income recorded in the first nine months of 2006 in accordance with the agreement and earn out mechanism for the acquisition of the Food Systems from IFF, operating profit reached US$ 28.4 million in the first nine months of 2007 compared with US$ 27.6 million in the same period last year.

Finance Expenses

Finance expenses for the first nine months of 2007 totaled US$ 1.9 million (0.8% of sales), compared with expense of US$ 0.3 million (0.2% of sales) in the same period in 2006. Finance expenses grew as a result of loans taken to finance the acquisitions made in England (Belmay and Jupiter), Israel (Raychan and Adumim) and the USA (Abaco), and loans taken to finance working capital due to the growth in activity.

Profit before Tax

Profit before tax for the first nine months of 2007 totaled US$ 25.3 million (9.7% of sales) compared with US$ 28.9 million (13.5% of sales) during the same period in 2006.

Taxes on Income

Taxes on income in the first nine months of 2007 totaled US$ 5.9 million (23.4% of profit before tax) compared with US$ 4.6 million (15.8% of profit before tax) during the same period in 2006, when a one-time tax benefit in the amount of US$ 1.0 million was recorded in recognition of the Company's plants in Israel being characterized by high technological turnover and a one time tax reduction (about US$ 1.5 million) was received for tax arrangements made in Germany following the Nesse acquisition. Offsetting this was a one-time tax benefit of US$ 0.7 million for the expected significant reduction in the tax rate in Germany as of January 1, 2008, which led to a decrease in deferred taxes in Germany, in addition to a tax reduction in Israel in the amount of US$ 0.5 million as a result of the revaluation of the Shekel against the dollar, and the influence of the Income Tax Law (Inflationary Adjustments) 5745 - 1985.

Net Profit

Net profit for the first nine months of 2007 totaled US$ 19.4 million compared with US$ 24.4 million in the same period of 2006. Net margin reached 7.4% compared with 11.4% in the first nine months of 2006. Excluding the one-time expenses and income mentioned above, net profit for the first nine months of 2007 reached US$ 19.0 million compared with US$ 20.6 million in the same period last year.

Financial Status

Total assets on September 30, 2007 amounted to US$ 389.7 million compared with US$ 296.6 million at September 30, 2006 and US$ 316.7 million at December 31, 2006.

The Company's current assets totaled US$ 178.3 million compared with US$ 150.4 million at September 30, 2006, and US$ 149.1 million at December 31, 2006.
Fixed assets minus accumulated depreciation and net other assets totaled US$ 205.0 million on September 30, 2007, compared with US$ 138.3 million at the end of the second quarter last year and US$ 161.8 million at December 31, 2006.

The growth in overall 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; the addition of Abaco's assets, acquired in July 2007; the addition of Raychan's and Adumim's assets, acquired in September 2007; and the growth in activity.

Liquidity

The cash flow from current activities achieved by Frutarom during the third quarter of 2007 totaled US$ 5.2 million compared with US$ 12.4 million in the same quarter of 2006 due to the accelerated growth in sales and the substantial growth in activity, which led to growth in working capital.

The cash flow from current activities achieved by Frutarom during the first nine months of 2007 totaled US$ 5.8 million compared with US$ 22.3 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, and due to tax payments for previous years.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity at September 30, 2007 totaled US$ 242.6 million (62.3% of the balance sheet) compared with US$ 206.7 million (69.7% of the balance sheet) at September 30, 2006. Most of the increase in shareholders' equity resulted from the net profit achieved during the period. The shareholders equity balance also increased due to a change in the US dollar exchange rate against other currencies that are the main activity currency for the autonomous subsidiaries, which influenced the currency translation differences equity fund. 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 third 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$ 33.7 million, which was used mainly to finance acquisitions. During the same period last year, the Company had US$ 0.7 million at its disposal.

Credit from Suppliers and to Customers (Quarterly Average)

During the third quarter of 2007, the average credit from suppliers and other creditors was US$ 66.0 million (compared with US$ 50.0 million during the same quarter of 2006). During the third quarter of 2007, the Company granted average credit of US$ 68.0 million to its customers (compared with US$ 53.2 million during the same quarter of 2006). Most of the growth in suppliers' and customers' credit results primarily from the acquisitions and from the sharp growth in activity.

Disclosures about Market Risk

The Company's activity is characterized by significant decentralization 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 third 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 executive vice presidents and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president 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 presentation of the Company's financial results and of the division managers, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors report and submit them to the securities authorities and stock exchanges. All of the members of the Board of Directors were present at the Board meeting held on November 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

Acquisition of the Gewurzmuller Group

On October 11, following the date of the balance sheet, Frutarom entered into an agreement to acquire 100% of the share equity of the Gewurzmuller group for a cash consideration of US$ 67.0 million (about Euro 47.3 million). The acquisition agreement determines a future payment mechanism such that the final payment to be made will reflect the Gewurzmuller Group's value based on an average multiple of 7.1 on the EBITDA that the Group achieves during the twelve months ending December 31, 2007. The Gewurzmuller Group's sales turnover for 2006 totaled US$ 65.0 million (about Euro 46.0 million). The acquisition is being financed by long term bank loans.

Gewurzmuller was established in 1896 and today is a leading international group with an excellent reputation in its field. The Gewurzmuller group, which employs 190 people, develops, produces and markets unique and innovative savory solutions, including savory flavors, seasoning compounds and functional ingredients for the food industry, with special emphasis on the fields of processed meat and convenience food. Blessing Biotech develops, produces and markets starter cultures, which are natural products based on microbiological processes, mainly fermentation of microorganisms and enzymes, and which are used to manufacture food, especially meat, dairy and baked goods. Starter cultures enable food manufacturers to control flavor, color, texture and shelf life.

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

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

Upon completing the acquisition, Frutarom began implementing a plan to merge the Gewurzmuller group's activity with Frutarom's and to extract the greatest advantage from the cross selling opportunities and operational synergy between its activities and the Gewurzmuller Group's activities in Germany and elsewhere in order to achieve optimal operational efficiency and savings.

Acquisition of RAD

On November 15, Frutarom acquired the activity of RAD Natural Technologies (“RAD”), which researches, develops, produces markets, distributes and sells unique natural plant extracts with anti-oxidant activity for use in food, dietary supplements and cosmetic products. RAD possesses unique knowhow, which is protected by patents, in this field. RAD's sales for 2006 totaled US$ 1.2 million and US$ 0.9 million for the first six months of 2007.

In accordance with the acquisition agreement, Frutarom acquired RAD's assets, including fixed assets, inventory, agreements, orders, goodwill, intellectual property and prepaid expenses (Frutarom will not assume RAD's liabilities), in consideration for a cash payment of US$ 4.1 million, which was financed with bank loans. The acquisition agreement also determines an earn out mechanism for a future payment, such that RAD will be entitled to an additional payment if the accumulated sales for RAD's products in 2008 and 2009 are more than US$ 4 million. If the accumulated sales for RAD's products in 2008 and 2009 exceed US$ 11.1 million, the maximum additional payment to which RAD will be entitled will be US$ 4.9 million.

RAD's activity is synergetic with and complements Frutarom's activity and expands the range of natural health and taste solutions that Frutarom offers its customers worldwide. RAD has an impressive pipeline of projects together with its varied customers throughout the world, including large, multinational leaders in their fields. RAD's products, which are protected by patents, will be integrated with the offering of products produced and marketed by Frutarom's Flavors Division. Frutarom will act to extract the greatest advantage included in the acquisition and to sell RAD's products to Frutarom's customers in the 120 countries in which it operates and thereby maximize the existing synergy.

The Board of Directors of the Company held seven 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
Chairman of the Board

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Ori Yehudai
President & CEO

November 20, 2007