FRUTAROM INDUSTRIES LTD.

2007 CONSOLIDATED FINANCIAL STATEMENTS

FRUTAROM INDUSTRIES LTD.

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REPORT OF THE AUDITORS

To the shareholders of

FRUTAROM INDUSTRIES LTD.

We have audited the accompanying consolidated financial statements of Frutarom Industries Ltd. (hereafter - the Company) and its subsidiaries; balance sheets as of 31 December 2007, 2006 and 2005 and the related consolidated income statements, changes in shareholders' equity and cash flows statements for each of the three years in the period ended on these days. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of certain consolidated companies, whose assets included in consolidation constitute approximately 11%, 4% and 4% of total consolidated assets as of 31 December 2007, 2006 and 2005, and whose revenues included in consolidation constitute approximately 11%, 7%, and 7% of total consolidated revenues for the years ended 31 December 2007, 2006 and 2005, respectively. The financial statements of the above consolidated companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for these companies, is based on reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2007, 2006 and 2005 and the results of operations, changes in shareholders' equity and cash flows statements for each of the years in the period ended on these days, in accordance with International Financial Reporting Standards and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

Haifa, Israel
17 March 2008

FRUTAROM INDUSTRIES LTD.

BALANCE SHEETS

	Note	As of 31 December 2007	2006	2005
		U.S. dollars in thousands		
A s s e t s				
CURRENT ASSETS:				
Cash and cash equivalents	19	31,942	18,417	33,723
Short term investments	5a	1,279	3,260	
Accounts receivable:	16			
Trade		78,006	53,968	40,289
Other		11,995	10,038	6,756
Prepaid expenses and advances to suppliers		3,637	3,662	2,206
Inventories	17	90,452	59,754	46,886
T o t a l current assets		217,311	149,099	129,860
NON-CURRENT ASSETS :				
Property, plant and equipment - net	8	135,607	101,655	86,108
Intangible assets - net	2f,9	190,150	60,172	12,601
Deferred income tax assets	14e	3,745	3,833	3,319
Other non-current assets	18	1,898	1,938	1,978
T o t a l non-current assets		331,400	167,598	104,006
T o t a l non-current assets		548,711	316,697	233,866

Dr. John J. Farber
Chairman of the Board

Ori Yehudai
President and CEO

Alon Granot
Executive Vice President and CFO

Date of approval of the financial statements by the Board of Directors: 17 March 2008.

	Note	As of 31 December 2007	2006	2005
		U.S. dollars in thousands		
Liabilities and Equity				
CURRENT LIABILITIES:				
Bank credit and loans	10	44,221	673	289
Accounts payable:	20			
Trade		38,797	27,500	17,895
Other		96,412	27,997	22,162
Provisions	21	440	946	547
Total current liabilities		179,870	57,116	40,893
NON-CURRENT LIABILITIES:				
Loans and credit from banks (net of current maturities)	10	82,579		
Retirement benefit obligations	11	11,518	7,499	7,775
Deferred income tax liabilities	14e	22,209	12,241	7,390
Others	5	1,420	22,708	
Total non-current liabilities		117,726	42,448	15,165
COMMITMENTS AND CONTINGENT LIABILITIES	12			
Total liabilities		297,596	99,564	56,058
EQUITY:	14			
Share capital		16,466	16,434	16,399
Capital surplus		94,392	93,116	91,666
Currency translation differences	2c	17,638	5,716	(5,160)
Retained earnings		125,279	103,658	75,934
Net of - cost of Company shares held by subsidiary		(2,660)	(1,791)	(1,031)
Total shareholders' equity		251,115	217,133	177,808
Total shareholders' equity and liabilities		548,711	316,697	233,866

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

INCOME STATEMENTS

	Note	Year ended 31 December		
		2007	**2006**	**2005**
		U.S. dollars in thousands, except for per share data		
SALES		368,261	287,247	243,803
COST OF SALES	22a	237,506	181,370	149,285
GROSS PROFIT		130,755	105,877	94,518
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:				
Selling, marketing, research and development - net	22b	66,898	48,518	43,818
General and administrative	22c	29,525	22,418	18,217
OTHER INCOME - net	22d	194	2,114	1,255
OPERATING PROFIT		34,526	37,055	33,738
FINANCIAL EXPENSES - net	22e	2,923	445	416
PROFIT BEFORE TAX INCOME		31,603	36,610	33,322
TAXES EXPENSES	14f	7,410	6,908	6,475
NET INCOME		24,193	29,702	26,847
		U.S dollars		
EARNINGS PER SHARE:	2u			
BASIC		0.42	0.52	0.49
DILUTED		0.41	0.51	0.48

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
BALANCE AT 1 JANUARY 2005		13,961	17,642	5,039	43,072	(1,061)	78,653
Derecognition of the balance of recognised negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3 (Note 2f)					7,731		7,731
BALANCE AT 1 JANUARY 2005 – after the effect of the transition provisions of IFRS 3		13,961	17,642	5,039	50,803	(1,061)	86,384
CHANGES IN 2005:							
Net income not recognised in the net profit - changes in currency translation differences	2c			(10,199)			(10,199)
Net income					26,847		26,847
Total recognised income for 2005							16,648
Issuance of share capital	13b	2,416	73,451				75,867
Plan for allotment of Company shares to employees of subsidiary:	2p						
Purchase of Company shares by subsidiary						(383)	(383)
Receipts in respect of allotment of Company shares to employees	13c3)					92	92
Recognition of compensation related to the plan	13c3)					321	321
Allotment of shares and options to senior employees:	13d;13c3)						
Allotment of share capital to senior employees		22	89				111
Recognition of compensation related to employee stock and option grants			484				484
Dividend	13e				(1,716)		(1,716)
BALANCE AT 31 DECEMBER 2005 - brought forward		16,399	91,666	(5,160)	75,934	(1,031)	177,808

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
BALANCE AT 31 DECEMBER 2005 - brought forward		16,399	91,666	(5,160)	75,934	(1,031)	177,808
CHANGES IN 2006:							
Net income not recognised in the net profit - changes in currency translation differences	2c			10,876			10,876
Net income					29,702		29,702
Total recognised income for 2006							40,578
Plan for allotment of Company shares to employees of subsidiary:	2p						
Purchase of Company shares by subsidiary						(1,135)	(1,135)
Receipts in respect of allotment of Company shares to employees	13c3)					146	146
Recognition of compensation related to the plan	13c3)					229	229
Allotment of share and options to senior employees	13d;13c3)						
Allotment of share capital to senior employees		35	141				176
Recognition of compensation related to employee stock and options grants			1,309				1,309
Dividend	13e				(1,978)		(1,978)
BALANCE AT 31 DECEMBER 2006 - brought forward		16,434	93,116	5,716	103,658	(1,791)	217,133

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
		U.S. dollars in thousands					
31 DECEMBER 2006 - brought forward		16,434	93,116	5,716	103,658	(1,791)	217,133
CHANGES IN 2007:							
Net income not recognized in the net profit - changes in currency translation differences	2c			11,922			11,922
Net income					24,193		24,193
Total recognised income for 2007							36,115
Plan for allotment of Company shares to employees:	2p						
Purchase of Company shares by subsidiary						(1,194)	(1,194)
Receipts in respect of allotment of Company shares to employees	13c3)					234	234
Recognition of compensation related to the plan	13c3)					91	91
Allotment of shares and options to senior employees:	13d;13c3)						
Allotment of share capital to senior employees		32	167				199
Recognition of compensation related to employee stock and option grants			1,109				1,109
Dividend	13e				(2,572)		(2,572)
BALANCE AT 31 DECEMBER 2007		16,466	94,392	17,638	125,279	(2,660)	251,115

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CASH FLOWS

	Note	2007	2006	2005
		Year ended 31 December		
		U.S. dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash generated from operations	23	24,032	36,389	34,431
Interest received (paid)		867	400	222
Income tax paid		(8,908)	(5,340)	(2,203)
Net cash provided by operating activities		15,991	31,449	32,450
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(14,685)	(10,056)	(10,100)
Acquisition of subsidiaries - net of cash acquired	5	(91,108)	(34,390)	
Acquisition of operations - net of cash acquired	5	(8,427)		
Reimbursement in respect of acquisition of operation	5	2,389	2,218	4,598
Proceeds from sale of property, plant and equipment		708	426	4,095
Purchase of intangible assets		(2,820)	(3,820)	(2,233)
Collection of long-term receivable				2,439
Capitalised lease fees	17			(382)
Short-term marketable securities - net		2,199	7	
Net cash used in investing activities		(111,744)	(45,615)	(1,583)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of share capital, net of issuance costs				75,867
Receipts from senior employees in respect of allotment of shares		199	176	111
Receipt of long-term bank loans and credit		89,483		
Repayment of long-term bank loans and credit		(2,166)	(304)	(33,585)
Receipt of short-term bank loans and credit - net		20,521		
Repayment of long-term credit in connection with the acquisition of Flachsmann				(1,170)
Purchase of Company shares by subsidiary - net of receipts in respect of the shares		(960)	(989)	(291)
Repayment of long-term credit in connection with the acquisition of IFF				(39,468)
Dividend paid		(2,572)	(1,978)	(1,716)
Net cash provided by (used in) financing activities		104,505	(3,095)	(252)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		10,433	(15,979)	29,604
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,744	33,723	4,119
EXCHANGE GAINS (LOSSES) ON CASH AND CASH EQUIVALENTS		1,681	1,282	(1,011)
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	19	28,177	17,744	33,723

The accompanying notes are an integral part of the financial statements.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION:

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

Frutarom Indusrties Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control. The Group operates principally in two divisions: the Flavors Division and the Fine Ingredients Division. The Group develops, manufactures, markets and sells flavors and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products. The Company has production facilities in Europe, North America, Israel, and Asia (see also a list of subsidiaries in Note 27); The Company has 25 research and development laboratories and it sells and markets its products principally through its 45 sales and marketing offices. Segment information for the reporting years is presented in Note 7.

The Company is a limited liability company incorporated and domiciled in Israel. The address of its registered office is 25 Heshaish St., Haifa Bay. The Company's controlling shareholder is ICC Industries Inc.

The Company's shares have been listed on the Tel-Aviv Stock Exchange (the "TASE") since 1996; since February 2005, Company's shares are also listed through Global Depository Receipts in the official list of the London Stock Exchange (hereafter - LSE) (b. below).

b. In February 2005, the Company has completed an offering in which it raised capital in the total amount of $ 76 million (net of issuance expenses at the amount of $ 5 million) as against the issuance of Company shares and listing Global Depositary Receipts (hereafter – GDRs) in the official list of the London Stock Exchange (Note 13b).

c. Acquisitions made by the group:

1) In January 2006, the Group acquired 70% of the control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Krause GmbH (hereafter together - Nesse), in consideration for € 18.4 million ($ 22.3 million) paid in cash and additional Success fee payments aggregate to approximately $ 21.6 million dollars (Note 5a).

2) In October 2006, the Group 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. (hereafter together - Acatris), in consideration for € 10.5 million ($ 13.3 million) paid in cash (Note 5b).

3) In April 2007 the Group acquired, 100% of the issued and paid share capital of the U.K. company Belmay Limited (hereafter – Belmay), in consideration for $ 17.8 million.

NOTE 1 – GENERAL INFORMATION (continued):

As to the data included in the consolidated financial statements as a result of the consolidation for the first time, of Belmay (commencing 1 April 2007) (Note 5c)

4) In April 2007, the Group acquired, 100% of the issued and paid share capital of the U.K. company Jupiter Flavours Limited (hereafter – Jupiter). The acquisition was made in consideration for $ 3.6 million.

   As to the data included in the consolidated financial statements as a result of the consolidation for the first time, of Jupiter (commencing 19 April 2007) (Note 5d)

5) In July 2007, the Group purchased 100% of the ownership of the American companies Abaco Manufacturing Llc and Abaco Incorporated (hereafter - Abaco) in consideration for $ 5.1 million.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Abaco (commencing 3 July 2007) (Note 5g)

6) In August 2007, the Group signed a purchase agreement for the acquisition of 100% of the share capital of Reichan Beerot Itzhak Food Industries Ltd. (hereafter - Reichan) in consideration for $ 1 million.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Reichan (commencing 27 August 2007) (Note 5e)

7) In August 2007, the Group signed an agreement to purchase the operations and assets of Adumim Food Supplements Ltd. (hereafter - Adumim).

   The consideration of the acquisition in the amount of $ 4,250 thousands was paid upon the completion of the transaction subject to compliance with conditioning terms.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Adumim (commencing 30 August 2007) (Note 5f)

8) In October 2007, the Group signed an agreement for the acquisition of 100% of the share capital of the German companies Gewurzmuller GmbH and Blessing Biotech GmbH (hereafter - The Gewurzmuller Group).

   The consideration of the acquisition was approximately € 66.4 million (approximately $ 94 million) which also includes future payment.

   As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of the Gewurzmuller Group (commencing 11 October 2007) (note 5h)

9) In November 2007, the Group acquired the operations and assets of Rad Natural Technologies Ltd. (hereafter - Rad).

NOTE 1 – GENERAL INFORMATION (continued):

In accordance with the agreement, the Group acquired the operations and assets of Rad which include fixed assets, inventories, agreements, orders, goodwill, intellectual property and expenses in advance (the Group did not undertake Rad's liabilities) in consideration for a cash payment of U.S. $ 4.1 million which was financed by a bank credit and additional future consideration estimated at $ 1.4 million.

As to the data included in the consolidated financial statements as a result of the consolidation, for the first time, of Rad (commencing 15 November 2007) (note 5i)

As to further details regarding those acquisitions (Note 5).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Preparation:

1) The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the Israeli Securities (Preparation of Annual Financial Statements), Regulations, 1993.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in (Note 4).

2) Adoption of new standards:

(a) Standards, amendments and interpretations effective in 2007:

1) IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

2) IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date.

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

3) IFRIC 11, 'IFRS 2 – Group and treasury share transactions. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.

(b) Standards, amendments and interpretations effective in 2007 but not relevant. The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

1) IFRS 4, 'Insurance contracts'

2) IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies.

3) IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2.

4) IFRIC 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.
The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Groups' accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

1) IAS 27 (Amendment) – Consolidated and Separate Financial Statements (effective 1 July 2009).

The amendments to the Standard relate, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary.
The most significant changes of IFRS 3 (Revised) and IAS 27 (Amended) are:

- IFRS 3 (Revised) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;

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

- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;

2) IFRS 3 (Revised) Business Combinations (effective 1 July 2009). IFRS 3 (Revised) replaces IFRS 3. IFRS 3 (Revised) establishes principles and requirements for how an acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

3) IAS 1 (Revised) Presentation of Financial Statements (effective 1 January 2009). IAS 1 (Revised) replaces IAS 1 (Amended 2005), it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. IAS 1 (Revised) requires that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity it also changed the titles of the financial statements.

4) IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, it appears likely that the number of reportable segments would not change, as well as the manner in which the segments are reported would not change.

5) IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but it is not expected to have any material impact on the group's accounts.

6) IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension

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

asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

(d) Standards amendments and interpretations to existing standards that are not yet effective and not relevant for the Group's operations.
The following Standards, amendments and interpretations to existing standards have been published and are mandoatry for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

1) IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

2) IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

b. Principles of Consolidation:

1) Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority

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

interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2) As part of the condensed company data, the investment in Frutarom Ltd. is presented at cost (Note 26).

c. Foreign Currency Translation:

1) Functional and Presentation Currency.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Translation of transactions and balances.

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

3) Group Companies.

The results and financial position of all the Company's entities (none of which has the currency of hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates) in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences, are recognised as a separate component of shareholders' equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4) Information regarding foreign currency rates:

	NIS	Pound Sterling	Euro	Swiss Frank
Exchange rate at December 31:				
2007	3.846	0.4988	0.6794	1.1266
2006	4.225	0.5097	0.7579	1.2197
2005	4.603	0.5796	0.8444	1.3159
Increase (decrease) during the year:	%	%	%	%
2007	(9.0)	(2.1)	(10.4)	(7.6)
2006	(8.2)	(12.1)	(10.2)	(7.3)
2005	6.8	(11.8)	(15.2)	(16.3)

d. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is organised and managed on a worldwide basis into two major operating activities: the Flavors division, the Fine Ingredients division. Another operating activity is the Trade and Marketing division. Each division is considered to be a business segment.

e. Property, Plant and Equipment:

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	%
Buildings	2.7-4
Machinery and equipment	6.6-10
Vehicles and forklifts	15; 20
Computers	20-33
Office furniture and equipment	6-20

Leasehold improvements are amortised by the straight-line method over the terms of the lease, which are shorter than the estimated useful life of the improvements.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

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

f. Intangible Assets:

1) Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

   Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

   Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in which it operates (note 2g).

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

2) Know-how and Product formulas are initially recorded at their acquisition cost and amortised on a straight-line basis over 10-20 years (mainly 20 years), commencing in the year in which they are first utilized.

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

4) Acquired trademarks are shown at purchase cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).

5) Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

   Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

   Computer software development costs recognised as assets are amortised over their estimated useful lives.

g. Impairment of Non-financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).
Non-financial assets, other than goodwill, that were subject to impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Financial Assets:

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

1) Financial assets at fair value through profit or loss.
   Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

2) Loans and receivables
   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2j).

   Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

   Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

   The fair values of quoted investments are based on current bid prices.

   The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in (Note 2j).

i. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the moving average method, except for purchased products for which the first-in, first-out (FIFO) method is used.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.
Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

j. Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

k. Cash Equivalents

Cash and cash equivalents includes all highly liquid investments, which include short-term bank deposits with original maturity of three months or less and bank overdrafts. Band overdrafts are shown within current liabilities on the balance sheet.

L. Share Capital

Ordinary shares are classified as equity.

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

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

m. Trade Payables

Trade payables are recognised initially at fair value and subsequently non-current balances are measured at amortised cost using the effective interest method.

n. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

o. Deferred Income Taxes:

1) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

   Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

   Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

   Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2) Taxes, which would apply in the event of disposal of investments in subsidiaries, have not been taken into account in computing the deferred taxes, as it is the Group's policy to hold these investments, not to realise them.

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

4) As stated in Note 14c, upon distribution of dividends from tax-exempt income of "approved enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had Frutarom Ltd. not been exempted from payment thereof. The amount of the related tax is charged as an expense in the income statements, when such dividend is distributed.

   Frutarom Ltd. does not intend to distribute dividends out of tax-exempt income, as above.

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

p. Employee Benefits:

1) Pension Obligations.

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In 2006, as part of a restructuring plan in a German subsidiary, it was agreed with employees' work council to terminate the define benefit plan and to commence making deposits with a defined contribution plan for some of the employees. As to the effect of the said transition on the financial statements (Note 11c).

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

2) Share-Based Compensation.

The group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

3) Bonus Plans.

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

q. Research and Product Development Costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success – considering its commercial and technological feasibility – and only if the cost can be measured reliably.

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

Participation from government departments for development of approved projects is recognised as a reduction of expense, as the related costs are incurred, in case that the Group estimates that it would not be required to refund such participation. In case that the Group estimates it would be required to refund government participation, the participation would be presented in the balance sheet among liabilities.

r. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise termination of activities acquired and employee termination payments. Provisions are not recognised for future operating losses.

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

s. Revenue Recognition Policy

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

The Group manufactures and sells a range of products. Sales of goods are recognised when a Group entity has delivered products to the client, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the client’s acceptance of the products. Delivery does not occur until the products have left Group's plants, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are occasionally sold with volume discounts; customers have a right to return faulty products. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 66 days, which is consistent with the market practice.

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

t. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

u. Earnings Per Share

Basic:
Basic earnings per share is calculated by dividing the profit attributed to equity holders of the Company using the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by subsidiary (Notes 2L).

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

Year end 31 December:	Basic in thousands	Diluted in thousands
2007	56,921	57,812
2006	56,883	57,789
2005	55,671	56,784

Fully diluted:
Diluted earnings per share is calculated adjusting average number of shares outstanding to assume conversion of all dilutive potential shares. A calculation is done, for that purpose, to determine the number of shares that could have been acquired at fair value (determined as average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued, assuming the exercise of the share options.

v. Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's Board of Directors.

NOTE 3 – FINANCIAL RISK MANAGEMENT:

a. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Risk management is carried out under policies approved by the board of directors and senior management. These policies cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity. Group policies also cover areas such as cash management and raising short and long-term debt.

The Group's business is characterised by considerable dispersion. Through its two divisions, the Group produces thousands of products intended for hundreds of customers throughout the world, using hundreds of raw materials purchased from a wide range of suppliers worldwide. As stated, the Group is not significantly dependent on any of its customers, products or suppliers.

Discussions on implementing the risk management policy as relates to currency exposure and interest are conducted by the Group's management once each quarter.

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

1) Market Risk.

(a) Foreign Exchange Risk.

1. General

The Group operates globally and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in U.S. dollars.
Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. Most of the Group's subsidiaries generate their income primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale are in foreign currencies. Similarly, transaction exposure arises on net balances of monetary assets held in foreign currencies. The fact that raw materials purchases for the Group's production are also conducted in various currencies reduces currency exposure. The Group's subsidiaries manage this exposure locally. In addition,

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

Group management monitors total world-wide exposure with the help of comprehensive data received on a quarterly basis.

Generally, the Group does not take external hedging measures nor does it use derivative financial instruments for protecting itself from currency fluctuations.

Translation exposure arises from the consolidation of the Foreign Currency denominated financial statements of the Company's subsidiaries. The effect on the Company's consolidated shareholders' equity is shown as a currency translation difference

At 31 December 2007 and 2006, if the U.S. dollar had weakened/strengthened by 1% against the below currencies with all other variables held constant, post-tax profit for the year would have been changed as follows:

	2007			
	U.S. dollars in thousands			
	NIS	**Pound sterling**	**Euro**	**Swiss franc**
Financial asset/liabilities, net	(16,179)	3,758	4,480	(1,828)
Exchange gains/losses:				
Impact of strengthened by 1%	124	(29)	(34)	14
Impact of weakened by 1%	(124)	29	34	(14)

	2006			
	U.S. dollars in thousands			
	NIS	**Pound sterling**	**Euro**	**Swiss franc**
Financial asset/liabilities, net	(3,943)	481	7,632	3
Exchange gains/losses:				
Impact of strengthened by 1%	32	(4)	(62)	*
Impact of weakened by 1%	(32)	4	62	*

* Represents amounts less than $ 1 thousand.

The change is primarily as a result of foreign exchange gains/losses on translation of foreign currencies - denominated trade receivables, financial assets at fair value through profit or loss and foreign exchange losses/gains on translation of foreign currencies -denominated borrowings. Profit is more sensitive to movement in foreign currencies exchange rates in 2007 than 2006 because of the increased amount of foreign currencies denominated borrowings.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

2. Linkage of Monetary Balances:

Foreign currency denominated monetary balances included in the Company's consolidated balance sheet at 31 December 2007, are summarised below:

	Dollars	NIS	Pound sterling	Euro	Swiss francs	Other currencies	Total
	U.S. dollars in thousands						
Assets:							
Current assets:							
Cash and cash equivalents	7,613	422	382	21,538	664	1,323	31,942
Short term investments				1,279			1,279
Accounts receivable:							
Trade	21,233	10,662	10,544	27,118	6,592	1,857	78,006
Other	1,772	3,356	570	3,637	2,421	239	11,995
	30,618	14,440	11,496	53,572	9,677	3,419	123,222
Liabilities:							
Current liabilities:							
Bank credit and loans		2,052	20,864	1,095	3,023	8	27,042
Trade	7,151	7,556	4,594	13,446	4,971	1,079	38,797
Other	2,400	8,344	4,450	72,864	8,307	47	96,412
Provisions	259	181					440
Non-current liabilities:							
Bank credit and loans	8,014	12,486	28	76,293	2,937		99,758
Retirement benefit obligations	480			10,275	763		11,518
Others	1,420						1,420
	19,724	30,619	29,936	173,973	20,001	1,134	275,387

Some of the above balances are included in the balance sheets of subsidiaries in U.K., Belgium, Germany and Switzerland, which their functional currency is the Pound Sterling, Euro and Swiss Frank, respectively.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

(b) Raw Material Price Risks

Many of the raw materials used by the Group are natural products, which are seasonal. The Group purchases these for stock, generally during the season. Purchases are made out of season when necessary, sometimes at higher prices. The Group does not normally make future transactions. The Group is exposed to price changes in raw materials it uses in accordance with global price trends for these materials. The Group's Purchasing Department maintains an ongoing follow up on material prices. Selling prices of the Group's products are adjusted, as needed and as possible to significant and lengthy fluctuations in raw material prices.

2) Interest Rate Risk

As the group regularly has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to interest rate risk.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit of a 0.1% shift would be a maximum change of $ 32 thousands (2006- $ 1 thousand). The simulation is done on a quarterly basis.

Based on the simulations performed, the impact on post tax profit of a 0.5% shift would be a maximum change of $ 159 thousands (2006- $ 3 thousand). The simulation is done on a quarterly basis.

3) Credit Risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Company.

Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and accounting monitoring procedures.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

Groups sales are made to a large number of customers in Europe, U.S.A., Israel, Asia, and other countries (Note 7b3)).

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

The provision for impairment of trade receivables is determined on basis of a periodic test of all amounts due.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

The table below shows the credit limit received by the Group and balance of the three major counterparties at the balance sheet date:

	31 December 2007		31 December 2006	
	Credit limit	**Balance**	**Credit limit**	**Balance**
	U.S. dollars in thousands			
Bank A	69,530	69,530	-,-	-,-
Bank B	20,864	20,864	3,200	-,-
Bank C	30,000	12,481	-,-	-,-
	120,394	102,875	3,200	-,-

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

According to an understanding with several banks the Group has a right to receive additional credit in respect of future acquisitions in order to fulfill its strategy, according to the term stipulated by the bank.

4) Liquidity Risk.

The Company's subsidiaries must have sufficient availability of cash to meet their obligations. Individual companies are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies and guidelines.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

	At 31 December 2007			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings	47,817	55,510	32,720	
Trade and other payables	135,649		1,420	
	183,466	55,510	34,140	-,-

	At 31 December 2006			
	Less than 1 year3	**Between 1 and 2 years3**	**Between 2 and 5 years3**	**Over 5 years3**
Borrowings	673			
Trade and other payables	56,443	23,463		
	57,116	23,463	-,-	-,-

b. Capital risk management

Group's objective is to maintain, as possible, stable capital structure, which according to Group's management its current capital structure, is stable.

Consistent with others in the industry, the group monitors capital, including others also, on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	U.S. dollars in thousands	
Total borrowings (Note 10)	126,800	673
Less: cash and cash equivalents (Note 10)	(31,942)	(18,417)
Net debt	94,858	(17,744)
Total equity	251,115	217,133
Total capital	345,973	199,389
Gearing ratio	27.4%	

The increase in the gearing ratio during during 2007 is attributed mainly to receiving loans in respect of acquisitions made during 2007 as part of the Group's growing strategy.

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued):

c. Fair Value of Financial Instruments:

The fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying value. The fair value of long-term receivables and long-term loans and other long-term liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates.

The carrying amounts and fair values of the financial instruments are as follows:

	Carrying amounts 31 December			Fair values 31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands			U.S. dollars in thousands		
Assets:						
Current assets:						
Accounts receivable:						
Trade	78,006	53,968	40,289	78,006	53,968	40,289
Other	11,995	10,038	6,756	11,995	10,038	6,756
	90,001	64,006	47,045	90,001	64,006	47,045
Liabilities:						
Current liabilities:						
Bank credit and loans (net of current maturities)	27,042	673		27,042	673	
Accounts payable:						
Trade	38,797	27,500	17,895	38,797	27,500	17,895
Other*	95,161	27,997	22,162	95,161	27,997	22,162
Non-current liabilities:						
Loans and credit from banks (including current maturities)	99,758		289	99,758		289
Other*	1,420	22,708		1,288	22,227	
	262,178	78,878	40,346	262,046	78,397	40,346

* The fair values are based on cash flows discounted using a rate based on borrowings rate of 5% for non-current liabilities.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS:

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a. Taxes on income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes.

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

b. Severance pay

The present value of Group liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include the long-term yield rate on the relating severance pay funds and the rate of discount. Changes in those assumptions shall influence the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long-term historical yields.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued):

The assumption regarding the required rate of discount is determined by the external actuaries at the end of each year. This rate of discount shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The liquidity of the market of high-quality corporate bonds is sufficient to serve as basis for determining the rate of discount. Therefore, in determining this rate the Group uses interest rate in the currency in which the benefits will be paid.

Other key assumptions relating to pension liabilities, such as future payroll raise are based on existing rates of payroll inflation.

c. Provision for contingent liabilities

Provision for legal contingent liabilities are recorded in the books of accounts in accordance with Group management's judgment regarding the reasonability that the cash flows shall indeed by used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash outflows that would be required to meet the existing liabilities.

d. Provision for impairment in respect of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

e. As for Accounts receivable trade and others (Note 2j and 3a3).

NOTE 5 – BUSINESS COMBINATIONS:

a. Acquisition of Nesse in 2006

On 17 January, 2006, the Group acquired, 70% of the shares that confer ownership and control in GewürzMühle Nesse GmbH and in GewürzMühle Nesse Gebr. Krause GmbH.

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 Group paid, at date of acquisition, a total in cash of € 18.41 million ($ 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).

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued):

The Group 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 Group; 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 Group 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 under current liabilities.

The total cost of purchase, included in these financial statements (prior to acquisition costs), in the amount of € 54,614 thousands ($ 80,365 thousands), comprises of the present value of the liabilities, based on Group'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 € 4,566 thousands ($ 5,517 thousands) and € 13,364 thousands ($ 16,150 thousands), respectively; and of purchase expenses in the total amount of € 136 thousands ($ 164 thousands).
The increase in the present value of the liability in respect of the period of time that elapsed is recognised as interest expenses.

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 and in the period of two years ending in the quarter in which the option will be exercised as above. The Group updates its projections every cut-off date. 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 € 5,433 thousands ($ 6,566 thousands), customer relations in the amount of € 2,283 thousands ($ 2,759 thousands) and goodwill in the amount of € 20,784 thousands ($ 30,584 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.
In accordance with the said purchase agreement, the group updated the cost of acquisition; as a result, the amount of goodwill increased in 2007 by € 1.4 million ($ 1.9 million) (2006 - $ 2.3 million).

During 2006, 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

NOTE 5 – BUSINESS COMBINATIONS (continued):

losses. As a result of the above, the Group's tax expenses for 2006 decreased by $ 1.5 million.

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
Deferred tax assets	413	63
Property, plant and equipment – net	5,706	5,706
Goodwill*	21,158	
Intangible assets	9,325	
Bank credit and loans	(742)	(742)
Accounts payable:		
Trade	(1,949)	(1,949)
Other	(3,420)	(3,414)
Retirement benefit obligations – pensions	(156)	(156)
Deferred tax liabilities	(4,009)	(278)
	41,047	14,823

* 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 Group; the activity of the purchased business and the activity of the Group overlap only to a small extent so that the Group will utilise the synergy by using the skillful workforce of Nesse and Nesse's market spread for cross selling.

The amount of $ 21,014 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.

b. Acquisition of Acatris in 2006

On October 1, 2006, the Group acquired, 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.
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

NOTE 5 – BUSINESS COMBINATIONS (continued):

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 ($ 13.3 million) as consideration for the acquisition (prior to acquisition costs).

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The intangible assets recognized include: product formulas in the amount of € 1,108 thousands ($ 1,405 thousands), customer relations in the amount of € 353 thousands ($ 448 thousands) and goodwill in the amount of € 5,087 thousands ($ 6,451 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.

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

	Fair value	**Acquiree's Carrying Amount**
	U.S. dollars in thousands	
Cash and cash equivalents	46	46
Receivables:		
Trade	2,630	2,694
Other	461	461
Inventories	3,133	3,265
Deferred tax assets	67	
Property, plant and equipment – net	2,660	2,146
Goodwill	6,451	
Intangible assets	1,853	
Accounts payable:		
Trade	(1,499)	(1,499)
Other	(1,202)	(1,202)
Deferred tax liabilities	(1,025)	(211)
	13,575	5,700

c. Acquisition of Belmay in 2007

On 1 April 2007 the Group purchased 100% of the issued and paid up share capital of the English company Belmay in consideration for $ 17.8 million.

Belmay develops, produces and markets flavors for the food and beverage industry.

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 18,474 thousands. The intangible assets which were recognized include: Product formulas in the amount of £ 1,229 thousands ($ 2,402 thousands), customer relations in the amount of £ 1,159 thousands ($ 2,266 thousands) and goodwill in the amount of £ 4,662 thousands ($ 9,119 thousands). Product formulas and customer relations are amortized over an economic period of 20 years and 10 years, respectively. Goodwill is not amortized but it is examined for impairment on an annual basis.

Belmay's assets and liabilities as of the date of acquisition:

	Fair value	Acquired company's carrying amount
	U.S. dollars in thousands	
Cash and cash equivalents	430	430
Accounts receivable:		
Trade	2,648	2,648
Other	211	211
Inventories	1,062	1,062
Deferred income tax assets	147	147
Property, plant and equipment - net	4,251	4,251
Intangible assets - net	4,668	
Goodwill	9,119	
Bank credit and loans	(80)	(80)
Accounts payable:		
Trade	(1,320)	(1,320)
Other	(1,238)	(1,238)
Deferred income tax liabilities	(1,424)	(23)
	18,474	6,088

d. Acquisition of Jupiter in 2007

On 19 April 19 2007, the Group purchased 100% of the issued and paid up share capital of the English company Jupiter. Jupiter develops, produces and markets flavors. The company paid an amount of £ 1,477 thousands ($ 2.8 million) in cash for the acquisition. In addition, a future consideration not exceeding the amount of $ 600 thousands which was based on the expenses forecasted to be obtained by the company during the period ended 31 July 2007 was determined in the purchase agreement. The said amount of £ 300 thousands ($ 600 thousands) was paid during 2007.

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 3,614 thousands.

The intangible assets recognized include: product formulas in the amount of ₤ 249 thousands ($ 498 thousands), customer relations in the amount of ₤ 428 thousands ($ 856 thousands) and goodwill in the amount of ₤ 1,198 thousands ($ 2,396 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.

Jupiter's assets and liabilities as of the date of acquisition:

	Fair value	**Acquired company's carrying amount**
	In thousands	
Cash and cash equivalents	18	18
Trade receivables	406	406
Inventories	172	172
Deferred income tax assets	22	22
Property, plant and equipment - net	110	110
Intangible assets – net	1,354	
Goodwill	2,396	
Accounts payable:		
Trade	(238)	(238)
Other	(218)	(218)
Deferred income tax liabilities	(408)	
	3,614	272

e. Acquisition of Reichan in 2007

On 27 August 2007, the Group acquired 100% of the share capital of Reichan.

Reichan is engaged in developing, producing and marketing mixtures of flavors as well as in marketing raw materials for the food industry.

In consideration for the acquisition, the Company paid an amount of NIS 4,250 thousands (approximately $ 1,030 thousands).

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates approximately NIS 4,443 thousands (approximately $ 1,073 thousands).

NOTE 5 – BUSINESS COMBINATIONS (continued):

The cost of acquisition was attributed to assets (tangible and intangible) and to liabilities purchased according to their fair value on the date of acquisition. Goodwill is not amortized but is tested for impairment on an annual basis.

The intangible assets which were recognized include goodwill in the amount of NIS 10,801 thousands ($ 2,619 thousands). Goodwill is not amortised but subject to annual impairment test.

The operations of Reichan were merged with the Company's operations in the Acco plant.

Assets and liabilities of Reichan as of the date of acquisition:

	Fair value	Value in books of acquired company
	In thousands	
Cash and cash equivalents	1	1
Accounts receivable:		
Trade	1,632	1,632
Other	11	11
Inventories	362	362
Deferred income tax assets	20	20
Property, plant and equipment - net	187	187
Goodwill	2,619	
Credit and loans from banks	(2,527)	(2,527)
Accounts payable:		
Trade	(950)	(950)
Other	(212)	(208)
Retirement benefit obligation	(72)	(72)
	1,073	(1,544)

f. Acquisition of the operations of Adumim in 2007

On 30 August 2007, the Group acquired, the operations of Adumim.

Adumim is a public company traded in the Tel-Aviv Stock Exchange. Adumim is engaged in two main fields of operation: The development, production and marketing of supplements and raw materials for the food and functional food industries, and the development and production of dietary supplements.

In consideration for the acquisition, the company paid an amount of $ 4,250 thousands in cash.

NOTE 5 – BUSINESS COMBINATIONS (continued):

In accordance with the purchase agreement, the company acquired the property, plant and equipment in the amount of $ 789 thousands and the inventory in the amount of $ 860 thousands.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The intangible assets recognized include: product formulas in the amount of $88 thousands, customer relations in the amount of $ 250 thousands and goodwill in the amount of $ 2,498 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.

The operations of Adumim will be merged with the Company's operations in the Haifa Bay plant.

Commencing on 30 August 2007, the company leases the real-estate asset owned by Adumim for a period of 18 months.
The company has the right to terminate the lease period with a prior notice.

g. Acquisition of Abaco in 2007

On 3 July 2007, the Group acquired 100% of the share capital of the U.S. companies Abaco Manufacturing LLC and Abaco Incorporated.

Abaco is engaged in the development, production and marketing unique raw materials for the flavor and aroma industry.

In consideration for the acquisition, the Company paid an amount of $ 4 million in cash and on the date of acquisition. In addition, it took over a debt of Abaco in the amount of $ 1.1 million.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of the acquisition presented in this report aggregates $ 5,200 thousands.

The intangible assets recognized include: product formulas in the amount of $ 654 thousands, customer relations in the amount of $ 688 thousands and goodwill in the amount of $ 2,503 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.

The operations of Abaco will be merged with the Company's operations in the U.S. plant.

NOTE 5 – BUSINESS COMBINATIONS (continued):

	Fair value	Value in books of acquired company
	In thousands	
Cash and cash equivalents	50	50
Trade	604	604
Other	333	333
Inventories	724	724
Deferred income tax assets	44	44
Property, plant and equipment - net	476	476
Intangible assets – net	1,342	
Goodwill	2,503	
Accounts payable - trade	(339)	(339)
Deferred income tax liabilities	(537)	
	5,200	1,892

h. Acquisition of the Gewurzmuller Group in 2007

On 11 October 2007, the Group signed an agreement for the acquisition of 100% of the share capital of The Gewurzmuller Group.

The Gewurzmuller Group is engaged in the development, production and marketing of the Savory flavors solutions (a spectrum of non-sweet flavors) and of Starter Culture (natural products based on microbiological processes).

The consideration paid in cash of the acquisition is approximately € 47.3 million (approximately $ 67 million). Based on the purchase agreement, a mechanism was set for the payment of a future consideration. As a result, the final consideration to be paid will present to the Gewurzmuller Group a value based on the average multiplier of 7.1 with respect to the EBITDA obtains during the period of 12 months ended on 31 December 2007. This future consideration was estimated by Group's management to be approximately $ 27 million.

The consideration of the acquisition will be financed by a long-term bank loan (5 years) which bears interest at a rate of an annual LIBOR plus 1% during the first year and an annual LIBOR plus 1.2% as from the second year. Under the loan agreement, the company undertook to comply with the following financial criteria:

1. The amount of shareholders' equity of the Company will not, at any time whatsoever, be less than $ 180,000,000.

NOTE 5 – BUSINESS COMBINATIONS (continued):

2. The amount of shareholders' equity of the company will not be less than 30% of its total balance sheet.

3. The ratio - a division of the company's remaining financial liabilities in the operating profit from current operations before financing and tax expenses plus depreciation and amortization expenses - will not exceed 6.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities, including future consideration, based on their fair value at date of acquisition. The fair value of the assets and liabilities would be determined subject to final assessments performed for the Company.

The cost of acquisition presented in this report aggregates € 66,961 thousands ($ 94,937 thousands). The intangible assets which were recognized include: product formulas in the amount of € 2,857 thousands ($ 4,051 thousands), customer relations in the amount of € 9,636 thousands ($ 13,663 thousands) and goodwill in the amount of € 47,750 thousands ($ 67,700 thousands). Product formulas and customer relations are amortized over an economic period of 20 years and 10 years, respectively. Goodwill is not amortized but it is examined for impairment on an annual basis.

Gewurzmuller Group's assets and liabilities as of the date of acquisition:

	Fair value	Acquired company's carrying amount
	In thousands	
Cash and cash equivalents	3,163	3,163
Accounts receivable:		
Trade	9,648	9,648
Other	9,888	9,888
Inventories	8,585	8,268
Deferred income tax assets	500	500
Property, plant and equipment – net	16,559	16,559
Intangible assets – net	17,812	98
Goodwill	67,700	
Accounts payable:		
Trade	(3,101)	(3,101)
Other	(9,986)	(9,986)
Deferred income tax liabilities	(5,538)	
Retirement benefit obligation – pensions	(8,762)	(8,762)
Bank loans	(11,531)	(11,531)
	94,937	14,744

NOTE 5 – BUSINESS COMBINATIONS (continued):

i. Acquisition of Rad Natural Technologies in 2007

On November 15, 2007, the Group acquired the operations of Rad. Rad is engaged in the research and development, manufacture, marketing, distribution and sale of unique natural extracts from plants with anti-oxidant activities for the use in food products, dietary supplements and cosmetics and its know-how in the field is unique and protected by a patent.

In accordance with the agreement, the company acquired the assets of Rad which include fixed assets, inventories, agreements, orders, goodwill, intellectual property and expenses in advance (the Group will not undertake Rad's liabilities) in consideration for a cash payment of U.S. $ 4.1 million which was financed by a bank credit. A payment mechanism for a future consideration was determined in the agreement, according to which Rad will be entitled to an additional consideration, if the total sales of its products in the years 2008 and 2009 exceed $ 4 million. Rad will be entitled to an amount of $ 4.9 million, if the total sales of its products in the years 2008 and 2009 exceed $ 11.1 million. Group's management estimated this future consideration at the amount of $ 1.4 million.

Under the agreement, Rad's manager undertook to be employed at least until 31 December 2009, and the company undertook to employ her at least until that date.

The cost of the acquisition is to be allocated to acquired tangible and intangible assets (including goodwill) and to liabilities based on their fair value at date of acquisition.

The cost of acquisition presented in this report aggregates $ 5,769 thousands. The intangible assets which were recognized include: product formulas in the amount of $ 5,236 thousands, and goodwill in the amount of $ 1,166 thousands. Product formulas are amortized over an economic period of 20 years. Goodwill is not amortized but it is examined for impairment on an annual basis.

Rad's assets and liabilities as of the date of acquisition.

	Fair value	Acquired company's carrying amount
	U.S. dollars thousands	
Inventories	269	269
Property, plant and equipment - net	108	108
Intangible assets - net	5,236	
Goodwill	1,166	
Deferred income tax liabilities	(1,011)	
	5,768	377

NOTE 5 – BUSINESS COMBINATIONS (continued):

Pro forma full year information

The following unaudited pro forma summary presents the Group as if all of the businesses acquired during the year to 31 December 2007 had been acquired on 1 January 2007 or 1 January 2006, respectively. The pro forma amounts include the results of the acquired companies, amortization of the acquired intangibles assets recognized on acquisition and the interest expense on debt incurred as a result of the acquisition. The pro forma amounts do not include any possible synergies from the acquisition. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

	2007	**2006**
	U.S. dollars in thousands	
Revenue	431,466	300,530
Profit for the financial year	25,598	30,281

The acquired companies contributed revenues of $ 33,591 thousands, and net income of $ 1,004 thousands to the Company for the period from the day of acquisition to 31 December 2007.

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	**Assets at fair value through the profit and loss**	**Total**
31 December 2007			
Assets as per balance sheet			
Trade and other receivables	90,001		90,001
Cash and cash equivalents		31,942	31,942
Total	90,001	31,942	121,943
Liabilities as per balance sheet - borrowings			126,800

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY (continued):

	Loans and receivables	Assets at fair value through the profit and loss	Total
31 December 2006			
Assets as per balance sheet			
Trade and other receivables	64,006		64,006
Cash and cash equivalents		18,417	18,417
Total	64,006	18,417	82,423
Liabilities as per balance sheet - borrowings			673

Credit quality of financial assets

As to the credit quality of financial assets, (Note 3a3).

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 – SEGMENT INFORMATION

a. Business Segment Data:

As at 31 December 2007, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
Income statement data:					
Sales and other operating income - net					
Unaffiliated customers	247,672	110,088	10,501		368,261
Intersegment		4,863		(4,863)	
Total sales and other operating income	247,672	114,951	10,501	(4,863)	368,261
Segment results	26,823	7,904	497	(698)	34,526
Unallocated corporate expenses - net					-,-
Operating profit					34,526
Financial expense					2,923
Taxes on income					7,410
Net income					24,193
Other data:					
Segment assets					
Unallocated corporate assets	320,808	77,642			400,745
Consolidated total assets					147,966
					548,711
Segment liabilities	154,067	17,231	512		171,810
Unallocated corporate liabilities					125,786
Consolidated total liabilities					297,596
Cost of purchase of long-term assets - CAPEX	6,786	3,567			
Depreciation and amortization	6,416	1,534			

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 – SEGMENT INFORMATION (continued):

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

As at 31 December 2006, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
			U.S. dollars in thousands		
Income statement data:					
Sales and other operating income - net:					
Unaffiliated customers	187,030	93,468	6,749		287,247
Intersegment		4,896		(4,896)	
Total sales and other operating income	187,030	98,364	6,749	(4,896)	287,247
Segment results	30,078	7,056	200		37,334
Unallocated corporate expenses - net					(279)
Operating profit	29,848	7,286			37,055
Financial expenses					445
Taxes on income					6,908
Net income					29,702
Other data:					
Segment assets	130,726	49,595	2,021		182,342
Unallocated corporate assets					134,355
Consolidated total assets					316,697
Segment liabilities	56,436	7,768	868		65,072
Unallocated corporate liabilities					34,492
Consolidated total liabilities					99,564
Cost of purchase of long-term assets - CAPEX	1,937	3,794			
Depreciation and amortization	3,147	1,264			

NOTE 7 – SEGMENT INFORMATION (continued):

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

As at 31 December 2005, and for the year then ended:

	Flavors division	Fine ingredients division	Trade and marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
Income statement data:					
Sales and other operating income - net:					
Unaffiliated customers	150,437	87,040	6,326		243,803
Intersegment		2,728		(2,728)	
Total sales and other operating income	150,437	89,768	6,326	(2,728)	243,803
Segment results	24,269	9,460	238		33,967
Unallocated corporate expenses - net					(229)
Operating profit					33,738
Financial expense					(416)
Taxes on income					(6,475)
Net income					26,847
Other data:					
Segment assets	93,558	44,507	2,721		140,786
Unallocated corporate assets					93,080
Consolidated total assets					233,866
Segment liabilities	21,477	8,787	1,077		31,341
Unallocated corporate liabilities					24,717
Consolidated total liabilities					56,058
Cost of purchase of long-term assets - CAPEX	4,258	4,885			
Depreciation and amortization	3,776	1,918			

NOTE 7 – SEGMENT INFORMATION (continued):

b. Information on Business and Geographical Segments:

1) Business Segments.

For management purposes, the Group is organised on a worldwide basis into two major operating activities: the Flavor Division and the Fine Ingredients Division. Another operating activity is the Trade and Marketing, which is incorporated as a separate company in Israel (each division is considered to be a business segment (Note 2d).

The Flavor Division is engaged in the development, manufacturing, marketing and sale of flavors, compounds and food systems. The Fine Ingredients Division is engaged in the development, manufacturing, marketing and sale of natural flavors extracts, natural functional food ingredients, natural pharma-nutraceutical extracts, specialty essential oils and citrus products, aroma chemicals and natural gums.

The Trade and Marketing activity focuses in trade and marketing of raw materials produced by third parties to customers in Israel. The divisions are the basis on which the Company reports its primary segment information.

2) Geographical Segments.

The Group has operating production facilities in Europe, North America, Israel and Asia. In addition, the Group has 25 research and development laboratories and sells and markets its products principally through its 45 sales and marketing offices.

The trade and marketing operations of raw materials are carried out in Israel by a subsidiary of the Company, which imports products not produced by Frutarom Ltd.

3) Sales by Destination Based on Customer Location

Following are data regarding the distribution of the Company's consolidated sales by geographical market, based on customer locations:

	Year ended 31 December		
	2007	**2006**	**2005**
	U.S. dollars in thousands		
Israel	40,486	33,112	30,983
North America	38,838	34,451	30,285
Europe	239,677	174,572	143,259
Asia and the Far East	27,823	25,402	24,784
Other countries	21,437	19,710	14,492
	368,261	287,247	243,803

NOTE 7 – SEGMENT INFORMATION (continued):

4) Assets and Additions to Property, Plant, Equipment, and Intangible Assets by Geographical Area

Following are data reflecting the carrying value of segment assets and additions to property, plant, equipment, and intangible assets by geographical area in which the assets are located:

	Carrying value of segment assets			Additions to property, plant equipment, and intangible assets*		
	31 December			Year ended 31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands					
Israel	94,128	82,157	88,068	5,129	2,412	2,520
North America	43,713	16,620	16,382	1,951	3,720	2,986
Europe	406,732	216,063	126,013	10,391	7,693	7,721
Other countries	4,138	1,857	3,403	34	51	253
	548,711	316,697	233,866	17,505	13,876	13,480

* Do not include the property, plant equipment and intangible assets of acquired companies.

5) Segment Assets and Liabilities.

Segment assets include all operating assets used by a segment and consist principally of receivables, inventories, property, plant and equipment and intangible assets, net of impairments and provisions. While most such assets can be directly attributed to individual segments, the carrying value of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade payables, wages, and taxes currently payable and accrued liabilities (including severance pay).

6) Inter-Segment Transfers.

Segment revenue, segment expenses and segment results include transfers between business segments and between geographical segments. Such transfers are accounted for at normal terms and conditions charged to unaffiliated customers for similar goods. Such transfers are eliminated in consolidation.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

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

2007:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2007
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	54,124	74		7,083	61,281	6,077	225		1,869	8,171	53,110
Machinery and equipment	79,380	8,736	(782)	12,095	99,429	32,994	5,181	(450)	5,254	42,979	56,450
Vehicles and forklifts	3,083	1,027	(807)	364	3,667	1,127	539	(556)	298	1,408	2,259
Furniture and office equipment (including computers)	10,138	1,563	(317)	18,365	29,749	7,107	1,574	(239)	13,808	22,250	7,499
Leasehold improvements	3,634	3,285	(89)	17,110	23,940	1,399	2,022		4,230	7,651	16,289
	150,359	14,685	(1,995)	55,017	218,066	48,704	9,541	(1,245)	25,459	82,459	135,607

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

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

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

2006:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2006
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	48,607	2,494	(262)	3,285	54,124	4,739	1,200	(69)	207	6,077	48,047
Machinery and equipment	61,324	6,598	(485)	11,943	79,380	25,806	6,347	(309)	1,150	32,994	46,386
Vehicles and forklifts	2,452	602	(35)	64	3,083	979	143	(10)	15	1,127	1,956
Furniture and office equipment (including computers)	9,664	45	(72)	501	10,138	6,195	698	(63)	277	7,107	3,031
Leasehold improvements	3,108	317		209	3,634	1,328			71	1,399	2,235
	125,155	10,056	(854)	16,002	150,359	39,047	8,388	(451)	1,720	48,704	101,655

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

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

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

2005:

	Cost					Accumulated depreciation					Depreciated balance
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at end of year	31 December 2005
	U.S. dollars in thousands					U.S. dollars in thousands					
Land and buildings	57,021	1,234	4,279	(5,369)	48,607	3,384	1,324		31	4,739	43,868
Machinery and equipment	58,784	6,248	151	(3,557)	61,324	21,734	4,886	113	(701)	25,806	35,518
Vehicles and forklifts	2,285	468	235	(66)	2,452	859	302	174	(8)	979	1,473
Furniture and office equipment (including computers)	8,274	2,082	153	(539)	9,664	5,659	890	108	(246)	6,195	3,469
Leasehold improvements	3,204	68		(164)	3,108	1,249	133		(54)	1,328	1,780
	129,568	10,100	4,818	(9,695)	125,155	32,885	7,535	395	(978)	39,047	86,108

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

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (continued):

b. Rights in Land:

1) The land on which the plants of an Israeli subsidiary, a U.S. subsidiary, a Swiss subsidiary, a German subsidiary, a U.K. subsidiary and a Belgian subsidiary are located is under the ownership of the Group.
2) Through 31 December 2007, the Group paid an amount of $ 1,289 thousands in respect of development of the land located in the industrial zone in the north of Israel. As to capitalized lease fees paid in respect of the land (Note 18a2).

c. The Group plans to expand its Haifa bay plant through a total investment of approximately $ 2.5 million, as part of a plan approved by the Israeli Investment Centre, in accordance with the Law for Encouragement of Capital Investments, 1959 (Note 14c).
The Company has another plan for expansion of its plant, at a total investment of $ 2.5 million, under the amendment to the Law for the Encouragement of Capital Investments, as published in April 2005 (Note 14c). Through 31 December 2007, the Group completed its investments under the said expansion plans.

d. A subsidiary has a plan for the erection of a new plant in the industrial zone in the north of Israel, at a total investment of up to $ 18 million. The Investment Centre has approved this plan as part of the expansion of existing Company plants, in accordance with the Law for Encouragement of Capital Investments, 1959 (Note 14c). Implementation of investment is to be partly financed by investment grants of up to $ 4 million.

e. As to pledges on assets (Note 15).

NOTE 9 – INTANGIBLE ASSETS:

	Original amount			Amortised balance		
	31 December			31 December		
	2007	2006	2005	2007	2006	2005
	U.S. dollars in thousands					
Know-how and Product formulas	33,723	19,299	9,800	28,733	15,601	7,210
Goodwill	132,249	35,544	3,091	130,829	34,141	1,786
Customer relations	24,281	5,394	1,884	22,372	4,603	1,618
Trademarks	285	279	245	193	202	190
Computer software	10,013	5,844	1,797	8,023	5,625	1,797
	200,551	66,360	16,817	190,150	60,172	12,601

NOTE 9 – INTANGIBLE ASSETS (continued):

	Computer software	Know-how and Product formulas	*Goodwill	Customer relations	Trademarks	Total
			U.S. dollars in thousands			
Balance at 1 January 2005:		8,210	4,332	2,096	226	14,864
Changes in year ended 31 December 2005:						
Adjustment to purchase price of IFF's FS business			(2,271)			(2,271)
Additions	1,901	229	103			2,233
Translation differences	(104)	(689)	(378)	(278)	(23)	(1,472)
Amortisation charge (Note 2f)		(540)		(200)	(13)	(753)
Closing net book amount	1,797	7,210	1,786	1,618	190	12,601
Changes in year ended 31 December 2006:						
Additions	3,820					3,820
Changes in amount of excess of cost of			2,267			2,267
acquisition (Note 5)		7,971	27,609	3,207		38,787
Impairment				(126)		(126)
Translation differences	223	1,296	2,479	387	25	4,410
Amortisation charge (Note 2f)	(215)	(876)		(483)	(13)	(1,587)
Closing net book amount	5,625	15,601	34,141	4,603	202	60,172
Changes in year ended 31 December 2007:						
Additions	2,820					2,820
Changes in amount of excess of cost of acquisition			1,925			1,925
Adjustments arising from acquisition of subsidiaries	101	12,930	87,999	17,723		118,753
Translation differences	432	1,325	6,764	1,020	5	9,546
Amortisation charge (Note 2f)	(955)	(1,123)		(974)	(14)	(3,066)
Closing net book amount	8,023	28,733	130,829	22,372	193	190,150

* Goodwill as of December 31, 2007 is allocated to the Flavor segment in the U.K., Germany and in Israel and to the Fine Ingredients segment in Belgium and in U.S.A.

NOTE 10 – BORROWINGS:

	31 December	
	2007	**2006**
	U.S. dollars in thousands	
Non current – borrowings	82,579	-,-
Current		
Bank overdrafts (Note 23)	3,765	
Bank borrowings	40,456	673
	44,221	673
Total borrowings	126,800	673

Bank borrowings

Bank borrowings mature until 2012 and bear average coupons of 5.37% annually.

The exposure of the Group's borrowings to interest rate changes at the balance sheet dates is all under 6 months.

The fair value of current and non-current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using the borrowing's interest rate.

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the group's borrowings are denominated in the following currencies:

	2007	**2006**
	U.S. dollars in thousands	
Pound sterling	20,892	
Dollars	8,014	
NIS	14,538	
Euro	77,388	673
Swiss francs	5,960	
Other currencies	8	
	126,800	673

NOTE 10 – BORROWINGS (continued):

The Group has the following undrawn borrowing facilities:

	2007 U.S. dollars in thousands
Floating rate:	
Expiring within one year	15,194
Expiring within two years	24,206
Expiring within three years	20,656
Expiring within four years	14,612
Expiring within five years	15,390
Expiring beyond five years	-,-
	90,058
Fixed rate:	
Expiring within one year	1,985
Expiring within two years	1,752
Expiring within three years	4,507
Expiring within four years	1,319
Expiring within five years	137
Expiring beyond five years	-,-
	9,700
Total	99,758

As to covenants on loans (Note 5h).

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS:

a. Labour laws and agreements in Israel and abroad require the subsidiaries of the Company to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. The Israeli companies' liability is covered mainly by regular contributions in defined contribution plans. The amounts funded as above are not reflected in the balance sheets since they are not under the control and management of the companies.

b. Under the agreement with its employees, the U.S. subsidiary financed a defined benefit plan. As part of the collective agreement signed between the Company's subsidiary and the industrial labour union on 13 October, 2000, the U.S. subsidiary suspended the said plan and joined, as from that date, a comprehensive pension plan of the labour union, which is a defined contribution plan.

The U.S. subsidiary will continue financing its existing liabilities under the suspended pension plan. The amount of liability for employee rights upon retirement and amounts funded, as presented in the consolidated accounts, reflect the U.S. subsidiary's liability in respect of the suspended plan.

c. The Swiss and German subsidiaries have a liability for payment of pension to employees in Switzerland and Germany under a defined benefit plan. The said liabilities

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS (continued):

have been transferred to these subsidiaries as part of the Flachsmann, FS, Nesse and the Gewurzmuller Group acquisitions in 2003, 2004, 2006, and 2007, respectively (Note 5). The Swiss and German subsidiaries make deposits with pension plans in respect of these liabilities. The amount of the liability for pension (net) included in the balance sheet reflects the difference between the two following components, computed as follows:

1) The liability for pension payment is computed on the basis of the balance of the liability at date of acquisition of Flachsmann, the FS, Nesse and the Gewurzmuller Group, with the addition of service expenses and interest expenses (computed in accordance with rate of capitalisation as of balance sheet date) and net of the amounts paid in the period in respect of pension.

2) The assets of the pension fund are computed based on the balance of the assets at date of acquisition of Flachsmann, the FS, Nesse and the Gewurzmuller Group, with the addition of the expected yield on the fund's assets and the deposits made with the pension fund in the period, net of the amounts paid in the period in respect of pension.

   As part of a restructuring plan in a German subsidiary, during 2006 it was agreed with employees' work council to terminate the define benefit plan and to commence making deposits with a defined contribution plan for some of the employees. As a result of the said transition, the retirement benefit obligations of was decreased by € 900 thousands ($ 1.1 million), after the tax effect of € 540 thousands ($ 680 thousands). The said amount was carried to income as a reduction of payroll costs. The company has concurrently carried to income payroll costs related to this plan, in the total amount of € 379 thousands ($ 479 thousands), after the tax effect of € 222 thousands ($ 287 thousands).

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

	2007	2006	2005
	U.S. dollars in thousands		
Wages and salaries	69,410	51,928	46,632
Social security costs	8,149	8,140	5,285
Post-employment benefits: defined benefit plans	1,173	(275)	1,192
Post-employment benefits: defined contribution plans	2,397	1,023	1,551
Termination benefit expenses	1,459	520	168
Compensation under stock option plans and other employee benefits	1,200	1,538	2,749
Total employees' benefits	83,788	62,874	57,577

At year-end, the Group employed 1,499 people (1,154 people and 1,016 people, respectively, in 2006 and 2005).

NOTE 6 – FINANCIAL INSTRUMENTS BY CATEGORY (continued):

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

	2007	2006	2005
	U.S. dollars in thousands		
Current service cost	1,167	1,637	1,736
Interest cost	1,527	1,502	1,709
Actual return on plan assets – U.S. and German Subsidiaries	(228)	(291)	(171)
Expected return on plan assets – Swiss and German Subsidiaries	(1,210)	(1,253)	(1,253)
Employees' contributions	(262)	(893)	(856)
Net actuarial losses (gains) recognised	179	(977)	27
Total included in employees' remuneration	1,173	(275)	1,192

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

	2007	2006	2005
	U.S. dollars in thousands		
At 1 January	7,499	7,775	8,502
Increase as a result of acquisition for the first time of a subsidiary	8,762	155	
Total expenses (revenues) included in employees' remuneration	1,173	(275)	1,192
Contributions paid	(6,947)	(932)	(899)
Currency translation effects and others	1,031	776	(1,020)
At 31 December	11,518	7,499	7,775

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

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Actuarial present value of funded obligations due to former employees and present employees	52,224	47,997	39,712
Plan assets held in trusts at fair value	(40,041)	(39,541)	(33,071)
Plan assets under actuarial present value of funded obligations	12,183	8,456	6,641
Unrecognised actuarial losses (gains)	(665)	(957)	1,134
Recognised liability for funded obligations due to past and present employees	11,518	7,499	7,775

NOTE 11 – RETIREMENT BENEFIT OBLIGATIONS (continued):

Amounts recognised in the balance sheet for post-employment defined benefit plans are predominantly non-current and are reported as non-current assets and non-current liabilities.

The Group operates defined benefit schemes in several countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the defined benefit plans, were as follows:

	U.S.A.			**Germany**			**Switzerland**		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rates	5.75%	5.75%	5.75%	5.50%	4.50%	4.00%	3.50%	2.90%	3.00%
Projected rates of remuneration growth				1.50%	1.80%	2.00%	2.00%	1.00%	0.80%
Expected rates of return on plan assets	7.25%	7.25%	6.75%	4.50%	5.00%	5.00%	3.90%	3.40%	3.40%

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES:

a. **Commitments**:

1) Lease Commitments:

Some of the premises, warehouses and sites in the U.K., Germany, Belgium and Israel occupied by the Group are rented under various operating lease agreements. The lease agreements for the premises expire on various dates between 2007 and 2017.
Minimum lease commitments of the Company and its subsidiaries under the above leases, at rates in effect on 31 December 2007, are as follows:

	$ in thousands
Year ending 31 December:	
2008	4,322
2009	2,263
2010	1,455
2011	1,321
2012	1,253
2013 – 2017	4,511
	15,125

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

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

Rental expenses totaled $ 3,289 thousands, $ 2,009 thousands and $ 1,877 thousands, in the years ended 31 December 2007, 2006, and 2005, respectively.

2) Royalty Commitments:

(a) The Group and several third parties entered into agreements whereunder the Group acquired licenses for use of knowhow for the purpose of developing products. The Group will pay the third parties royalties at a range of rates of the sale of products developed, or a fixed amount in respect of each product sold.

(b) Frutarom Ltd. is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 3%-5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Frutarom Ltd. (dollar linked); as from 1 January, 1999 – with the addition of an annual interest rate based on Libor.

The maximum royalty amount payable by Frutarom Ltd. at 31 December 2007 is $ 537 thousands.

In 2007 and 2006, Frutarom Ltd. was of the opinion that it would not be required to refund Chief Scientist grants in the total amount of $ 141 thousands (2006 - $ 187 thousands), therefore it carried this amount to income.

b. Contingent Liabilities:

1) Reimbursement of expenses arising from raise of capital

As part of a capital raise made by the Company in the London Stock Exchange (see note 12b), the Company and the Bank of New York (hereafter – the bank) signed, in February 2005, an agreement, whereunder the bank would allocate the GDRs issued in the LSE as part of the above capital raise, and would provide services to the Company and to holders of the GDRs.

In consideration for the services as above, the bank paid the Company $ 810 thousands); under this agreement, the bank also undertook to bear further expenses of up to $ 270 thousands, relating to quoting the GDRs in future years.
Under the said agreement, the Company might be required to reimburse the expenses paid by the bank (with the addition of $ 500 thousands) if one of

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

the suspending conditions of the agreement, which pertain to cease of quoting the GDRs, the reduction of such quoting, or a change in ownership, is met. Under the agreement, such reimbursement of expenses might be required for a seven-year period, commencing the date of capital raise. The Company recognizes the amounts received from the bank as revenues over the period of the service received from the bank.

2) Legal Procedures against the Company and Subsidiaries

(a) In September 2001, Pikanti Meat Industries (1982) Ltd. and Hevrat Nitsolat Hacartel Ltd. (the "Plaintiffs"), lodged a claim for damages against Osem Food Industries Ltd. of the Nestle group and 16 other leading companies in the Israeli food industry (including Frutarom Trade and Marketing (1990)). The Plaintiffs claim that the defendants have created a cartel to destroy the activity of the Plaintiffs; they also claim that at a certain date the defendants ceased to supply them goods. In the opinion of Group's management, based on the opinion of its legal advisors, the claim has no factual basis. Total amount claimed was $ 108 million; the amounts claimed from each defendant was not specified. Since the plaintiffs did not pay the court fees, in 2003, the claim was cancelled.

In January 2004, the Plaintiffs lodged a new claim with a similar cause of action against Frutarom Trade and Marketing (1990) and 28 other companies.

The amount claimed was $ 217 million. The Plaintiffs attached to the claim an application for remission from payment of court fees. This application was rejected by the Court and so was the plaintiff's appeal against the Court's rejection of the said application; further to the rejection of the application and nonpayment of the court fees the claim was abated. The plaintiffs have appealed against the abatement of the claim and the appeal was rejected. The Group's management believes, based on its legal counsel's opinion, that the claim is a vexatious and frivolous claim, has no factual basis, the facts included therein concerning Frutarom are in themselves erroneous, and that the chances that the claimants will prevail in the claim are remote.

(b) A number of claims and third party notices have been filed against the Group. The claims are for bodily injury and economic damages, which the plaintiffs allege resulted from the pollution of the Kishon River, for which – according to the plaintiffs – the Group was among those responsible. Group's management believes, based on the opinion of its legal counsel, that the chances that the plaintiffs will prevail in the claims are remote. Group also believes that even if it will be found liable due to the circumstances of the said claim, the potential damage that might arise to the Group is immaterial, due to the large number of defendants, the very small quantity of effluents discharged by the Group during the relevant

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

years (about 0.01% of total effluents discharged by the other defendants); due to the fact that effluents discharged by the Group cannot cause the damages allegedly caused and due to the period during which effluents were discharged by the Group compared with the other defendants. Commencing in 2000, the Group discontinued discharge of all effluents to the Kishon River.
Set forth below are the claims filed against the Group concerning the pollution of the Kishon River:

(1) As part of a claim, the amount of which was not specified, and which was filed by a former serviceman in the Israeli navy and other plaintiffs against Haifa Chemicals Ltd. ("HCL") for alleged bodily injury caused to the plaintiffs while diving in the Kishon River in the course of their military service, HCL sent the Group and other parties third party notices; in these notices, HCL demands that if the Court will find it liable for the damages caused to the plaintiffs, the third parties will bear part of the compensation to be paid to the plaintiffs, since those third parties were among those responsible for the pollution.
(2) As part of a claim, the amount of which was not specified, and which was filed by fishermen who developed cancer and by their relatives against HCL and other parties, for alleged bodily injury, allegedly caused as a result of the pollution of the Kishon River by the defendants, the defendants sent the Group and other parties third party notices; in these notices, the defendants demand that if the Court will find them liable for the damages caused to the plaintiffs, the Group and the other parties will bear part of the compensation to be paid to the fishermen and/or indemnify the defendants for payment of such compensation. The number of plaintiffs participating in this claim increases from time to time, since other fishermen, who developed cancer continue to join the claim.

(3) A class action was filed against the HCL and other entities, under Section 10 to the Law for the Abatement of Environmental Nuisances (Civil Claims), 1992. According to the claim, the defendants have been polluting the Kishon River, in such a manner as to interfere with the activities of the plaintiffs, and that the pollution causes the destruction of natural resources and poses a real danger to public health. The claimants request the Court to order the cessation of the discharge of effluents into the Kishon River and the restoration of the river to its state prior to the discharge of the effluents. Some of the defendants sent the Group and other parties third party notices; in those notices the

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

defendants claim that if they will be required to bear the expenses incidental to restoration of the Kishon River to its state prior to the discharge of effluents as above, the Group and the other parties will be required to indemnify them in respect of those expenses.

In April 2007, the Court has dismissed the claim due to the fact that the state of the Kishon River has been dramatically improved and thus the claim no longer meets the threshold requirements for filing a claim. In May 2007 the claimant appealed against the Court's resolution. The appeal has not yet been heard by the Court.

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

In May 2007, an application was filed to the Court to the effect that the company would be excluded from the claim; the claimants have agreed to such exclusion. The court accepted the application on May 9, 2007.

(c) In August 2007, a claim was filed to the Haifa District Court against the company for a smell hazard that was allegedly caused by the company's Haifa plant. At the same time, an application has been submitted that the Court would consider the said claim to be a class action. According to the claimants the smell hazards caused by the plant have damaged their individual autonomy and their right to breathe clean air to the extent that their quality of life has been damaged.
The group of individuals, which the claimants request to include in the class action, consists of residents who lived in a radius of 3.5 kilometers and/or their working place is in a radius of 2 kilometers of the company's Haifa plant and/or make frequent use of their vehicles and/or frequently used public transportation in the Akko-Haifa road in that part of the road that is close to the company's plant. The compensation claimed for the said group of people in the application to recognize the claim as a class action is NIS 225 million.

Based on the opinion of its legal advisors, company's management is of the opinion that the company has good defenses (both legal and factual) against the said application and against the claim itself.

(d) In addition to the aforementioned, subsidiaries of the Group are a party to legal procedures in the ordinary course of business; in the opinion of Group’s management the said legal procedures do not materially affect the Group’s financial position. Some of the claims are covered by insurance

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES (continued):

policies and in respect of the other claims, the Group has fully provided in its accounts.

(e) On 6 March 2008, an indictment was submitted to the Magistrates Court – Krayot, Haifa against Frutarom Ltd., a subsidiary of the Company and several officeholders (hereafter – the Indictment).

The Indictment was submitted for the alleged offenses of running a business in contradiction to the terms of its license (an offense according to the Business Licensing Law – 1968) and causing odor nuisance whose source is the Company's plant in the Haifa Bay (an offense according to the Abatement of Nuisances Law – 1961).

The Company estimates that the above will not have a material adverse effect on its business and operations.

NOTE 13 – SHAREHOLDERS' EQUITY:

a. Share Capital:

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

	Number of shares in thousands and the amount thereof, denominated in NIS		
	31 December		
	2007	2006	2005
Authorized	100,000	100,000	100,000
Issued and paid	57,706	57,676	57,676

Company shares are listed on the TASE at NIS 31.2 ($ 8.11) per share as of 31 December 2007. The GDRs representing the Company's shares are listed on the LSE.

2) Ordinary Company shares of NIS 1 par value, held by its subsidiary and included in the issued and paid share capital constitute 1.29%% (747,044 shares) and 1.33% (765,693 shares) of the balance of ordinary issued and paid shares of this type as of 31 December 2007 and 2006, respectively.

b. Capital Raise

On 22 February 2005, the Company completed a public offering on the London Stock Exchange, in which it raised capital in the total amount of $ 76 million (net of issuance costs at the amount of $ 5 million) as against the allocation of 10,600,000 ordinary Company shares and of listing Global Depositary Receipts (hereafter – GDRs) on the LSE official list; each GDR represents one Company share; the price per GDR was $ 7.63.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The allotment of shares and GDRs has taken place in two stages: in the first stage, on 8 February 2005, 10,000,000 Company shares were issued and GDRs were listed. In the second stage, on 22 February 2005, the underwriters fully exercised an option they were granted in the first stage, for the sale of additional 600,000 shares, at the price mentioned above.

Commensurate with the said allotment, ICC Handles AG of the ICC group – the Company's controlling shareholder – sold 2,600,000 existing Company shares at the price mentioned above. The Company did not receive any consideration in respect of the shares sold by ICC Handles AG.

c. Employee Share Option Plan for Senior Employees of Subsidiaries:

1) In 1996, the Company's Board of Directors approved an employee stock purchase plan (the "1996 Plan"), whereunder a subsidiary purchases Company shares in the TASE, for the purpose of granting options to senior employees of the Company against these shares.

The options to purchase the shares are granted to the employees twice a year. The senior employees have the right to exercise the options they were granted at the end of the vesting period. The vesting period of the options granted under this plan is spread over three equal, annual batches: one year, two years and three years from date of grant.
In any case, an employee's right, as above, expires six years from the date such right was granted.

The exercise price is determined in accordance with the batch in which the shares were purchased. The exercise price for each batch constitutes 33.3% of the average price paid by the subsidiary upon purchase of Company shares.

This plan is intended to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Those terms stipulate, inter alia, that the company is entitled to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plans.

In 2003, in light of the changes in the provisions of the Income Tax Ordinance relating to grant of shares and options to employees, the company's Board of Directors approved an employee stock option plan (hereafter – the 2003 plan), which replaces the 1996 plan.
The terms of the shares granted under the 2003 during the years 2003-2006 are identical to the terms of the shares granted under the 1996 plan.
This plan is intended to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

In accordance with the alternative chosen by the company and pursuant to the terms thereof, the company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the company's accounts, in respect of options granted to employees under the plan - with the exception of the work-income benefit component, if any, determined on the grant date.

2) Set forth below are data regarding the rights for shares under the 1996 Plan and the 2003 Plan, which have not yet been exercised by Company employees, as of 31 December 2007:

Year of grant	Number of shares in respect of which the vesting period ended	Number of shares in respect of which the Vesting period has not yet ended	Exercise price $
2002	11,107		0.43-0.45
2003	55,278		0.89-1.53
2004	85,629		1.73-2.10
2005	92,185	52,854	2.91-2.97
2006	11,798	141,709	2.68-2.90
2007		150,599	2.79-2.97
	255,997	345,162	

As of 31 December 2007, the remaining amount of compensation, computed as the excess or the fair value of the said ordinary shares granted to employees over the exercise price at the date of grant not yet recorded as expenses in the income statements, is approximately $ 1,232 thousands. The said remaining compensation will be charged to income using the accelerated method over the remaining vesting period.

As to shares granted to a manager in the Company - Note 24a2).

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

	2007		2006		2005	
	Average exercise price in U.S. $ per share	Rights for shares	Average exercise price in U.S. $ per share	Rights for shares	Average exercise price in U.S. $ per share	Rights for shares
At 1 January	1.97	636,117	1.33	695,172	0.87	763,961
Granted	2.70	150,599	2.40	169,206	2.46	191,613
Forfeited	2.30	(37,807)	2.24	(20,290)	0.74	(67,019)
Exercised	1.16	(147,750)	0.72	(207,971)	0.51	(193,383)
At 31 December	2.54	601,159	1.97	636,117	1.33	695,172

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The following table summarises information about share rights outstanding at 31 December 2007:

Share rights outstanding			Share rights exercisable		
Range of exercise prices	Number outstanding at 31 December 2007	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 31 December 2007	Weighted average remaining contractual life
$		Years	$		Years
0.43	3,517	0.25	0.43	3,517	0.25
0.45	7,590	0.75	0.45	7,590	0.75
0.89	29,682	1.25	0.89	29,682	1.25
1.53	25,596	1.75	1.53	25,596	1.75
1.73	45,697	2.25	1.73	45,697	2.25
2.10	39,933	2.75	2.10	39,933	2.75
2.91	68,462	3.25	2.91	43,183	3.25
2.97	76,578	3.75	2.97	49,002	3.75
2.90	89,281	4.25	2.90	6,940	4.25
2.68	64,226	4.75	2.68	4,857	4.75
2.97	89,297	5.25			
2.79	61,300	5.75			
	601,159			255,997	

3) On 21 December 2003, the Company's Board of Directors resolved to issue up to 1,200 thousands ordinary shares of NIS 1 par value, to be registered for trade in TASE and to be allotted to senior executive employees.

On 18 January 2004, the Company issued 900 thousands shares to senior employees, as part of said resolution. The market value of Company's shares at date of designation was NIS 19.64 ($ 4.46).

The allotted shares are to be held by a trustee. As from the date of allotment, the shares vest in equal batches, as follows: half a year (1 July 2004), one year (1 January 2005), two years (1 January 2006) and three years (1 January 2007).

In consideration of the shares, the employees paid NIS 5 ($ 1.14) per share, using a non-recourse loan they received for that purpose from the Company. In case that an employee will not complete the vesting period, the Company will repurchase from that employee the shares as against the offset of the employee's debt to the Company. The loans to the employees are in NIS and they are unlinked and bear no interest. The loans are repayable upon sale of the share, or within 60 days from termination of the employee's employment, whichever is earlier, but not later than 1 January 2010.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

Through 31 December 2007, the employees repaid a total of $ 398 thousands out of the loans they were granted (2006 - $ 398 thousands, 2005 - $ 222 thousands).

In June 2005, a senior employee resigned from his office in the Company. The Company repurchased from the employee 125,000 shares, the vesting period of which has not yet been completed, as against the employee's debt to the Company.

The shares will be released to the senior employees upon payment of the said loans (an amount of NIS 5 per each share released), but not before the end of the vesting period.

The fair value of the allotted shares – computed using the Black & Scholes shares valuation model, amounted at date of grant to U.S. $ 3,024 thousands. This value is based on the following assumptions: expected dividend at a rate set to 0% in all years (as the employees are also entitled to dividend), standard deviation of expected share price returns of 33% - 39%, annual risk-free interest at a rate of 1.24%, 1.24%, 1.76% and 2.27% (in accordance with the option's expected life) and an expected average option life until exercise: six months for the first batch, one year for the second batch, two years for the third batch and three years for the fourth batch.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last six months, one year, two years and three years (in accordance with the vesting periods of the batches).

As to shares granted to manager in the Company – Note 24a2).

d. Allotment of Options to Senior Employees

1) On 17 May 2004, the Company's Board of Directors approved, as part of the 2003 Plan (Note 12c) and as part of the Board of Directors' resolution to issue 1.2 million ordinary shares, the allotment of 150,000 non-marketable options (the "Options") to a senior employee of the Company; each option is exercisable into one ordinary share of NIS 1 par value.

   The said options are to be held by a trustee and they will be granted to the employee in equal batches at the end of the vesting period. The vesting periods are as follows: the first batch vests on 9 October 2004; the second on 9 October 2005; the third on 9 October 2006 and the fourth on 9 October 2007. In any case, the employee's right to exercise the options expires six years from date of grant (on 17 May 2010). The exercise price was set to NIS 10.87 ($ 2.36). The market value of the Company's shares at date of allotment was NIS 20.94 ($ 4.55). On 16 June 2004, the Tel-Aviv Stock Exchange approved the registration

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

of 150,000 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. $ 346 thousands. This value is based on the following assumptions: expected dividend at a rate set to 0% in all years; standard deviation of expected share price returns of 33.3%, - 39.5%, annual risk-free interest at a rate of 1.74%, 1.74%, 2.82% and 3.1% (in accordance with the option's expected life) and an expected average option life until exercise: five months for the first batch, seventeen months for the second batch, twenty nine months for the third batch and forty one months for the fourth batch.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last five months, seventeen months, twenty nine months and forty one months (in accordance with the vesting periods of the batches).

2) On 2 January 2006, the Company's Board of Directors approved, as part of the 2003 Plan (Note 13c) the allotment of 725,000 non-marketable options (the "Options") to four senior employees of the Company; each option is exercisable into one ordinary share of NIS 1 par value.

The said options are to be held by a trustee and they will be granted to the employees in equal batches at the end of the vesting period. The vesting periods are as follows: for three senior employees – 3 equal batches – two years, three years and four years form date of grant. For 1 senior employee – 4 equal batches – one year, two years, three years and four years from date of grant.
In any case, the employees' right to exercise the options expires six years after the date of grant. The exercise price was set to NIS 31.07 ($ 6.75). The market value of the Company's shares at date of allotment was NIS 34.52 ($ 7.50).

On 31 January 2006, 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. 125,000 stocks out of the 725,000 options granted are existing stocks held by Frutarom Ltd.

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; standard deviation of expected share price returns of 29%-31%, annual risk-free interest at a rate of 4.45%-4.35% and an expected average option life until exercise of one year, two years, three years and four years.

NOTE 13 – SHAREHOLDERS' EQUITY (continued):

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share price over the last twelve months, twenty four months and thirty six and forty eight months (in accordance with the vesting periods of the batches).

As to the fair value of options granted to a manager – Note 24a2).

e. Dividend and Retained Earnings

The amounts of the dividend paid presented in the statement of changes in shareholders' equity are net the share of a subsidiary holding Company shares (Note 2L). The subsidiary's share in the dividend is $ 33 thousands, $ 26 thousands and $ 23 thousands in 2007, 2006 and 2005, respectively.
In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by a subsidiary (that are presented as a separate item on the statement of changes in shareholders' equity) have to be deducted from the amount of retained earnings presented among Company's shareholders' equity.

NOTE 14 - TAXES ON INCOME:

a. Corporate taxation in Israel

1) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the CPI. The Company and the Israeli subsidiaries are taxed under this law.

Under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law) (Amendment No. 20, 2008, hereafter – the amendment), that was enacted in the Kneset on February 26, 2008, the provisions of the Inflationary Adjustments Law will no longer apply to the company in 2008 and thereafter. The amendment specifies transitional provisions regarding the discontinuance of the provisions of the Inflationary Adjustments Law that have applied to the company through the end of 2007.

2) Tax rates

The income of the Company and its Israeli subsidiaries (other than income from "approved enterprises" or "beneficiary enterprises", see b. below) is taxed at the regular rate. Through December 31, 2003, the corporate tax was 36%. In July 2004, Amendment No. 140 to the Income Tax Ordinance was enacted. One of the provisions of this amendment is that the corporate tax rate is to be gradually reduced from 36% to 30%. In August 2005, a further amendment (No. 147) was published, which makes a further revision to the corporate tax

NOTE 14 –TAXES ON INCOME (continued):

rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the corporate tax rates for 2004 and thereafter are as follows:

2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and for 2010 and thereafter – 25%.

As a result of the changes in the tax rates, the Group and adjusted - in each of the years 2004 and 2005 – at the time the aforementioned amendments were made, its deferred tax balances, in accordance with the tax rates expected to be in effect in the coming years; the effect of the change has been carried to income on a current basis.

Capital gains (other than the real capital gain on the sale of marketable securities - which is subject to tax at the regular rates) are taxed at a reduced rate of 25% on the capital gains derived after January 1, 2003, and at the regular corporate tax rates on the capital gain derived through the aforementioned date.

b. Subsidiaries outside Israel

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside Israel are as follows:

Company incorporated in the USA – tax rate of 41%.
Company incorporated in Germany– tax rate of 40%.
Company incorporated in Belgium – tax rate of 34%
Company incorporated in the UK – tax rate of 30%.
Company incorporated in the Switzerland – tax rate of 22%.
As a result of a change in the German tax law, the applicable tax rate for the companies' Group operating in Germany will be reduced as of 2008 to 30%.

c. Encouragement Laws in Israel

1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereinafter - the Law)

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the “approved enterprise” or “benefited enterprise” status granted to certain enterprises of the Company, and by virtue of the “Foreign Investors’ Company“ status it was granted, Frutarom Ltd. is entitled to various tax benefits.

NOTE 14 –TAXES ON INCOME (continued):

The main tax benefits available to Frutarom Ltd. are:

(a) Reduced tax rates

During the 10-year period of benefits, commencing in the first year in which Frutarom Ltd. earns taxable income from the approved enterprises (provided the maximum period to which it is restricted by law has not elapsed), the following reduced tax rates apply:

(1) Corporate tax at the rate of 20% on income from certain approved or benefited enterprises owned by foreign investors' companies (this tax rate is determined based on the percentage of foreign shareholding as defined by the law).

(2) Tax exemption on income from certain approved enterprises which had previously opted for by Frutarom Ltd. the "alternative benefits" track (involving waiver of investment grants) and tax exemption on income from a benefited enterprise; the length of the exemption period is two, four or six years, after which the income from these enterprises is taxable at a decreased rate (see 1a above) for an additional eight, six or four years, respectively. In the event of distribution of cash dividends (and for benefited enterprise – also liquidation dividend) out of income, which was tax exempt as above, Frutarom Ltd. would have to pay the decreased tax rate (see 1a above) in respect of the amount distributed, (Note 2L4)).

In 2003, Frutarom Ltd. addressed the Investment Centre, requesting to recognise Frutarom Ltd. as an R&D intensive and labour-intensive company, which is characterised by a rapid technological turnover. In September 2005 the Investment Centre notified Frutarom Ltd. that two of its approved enterprises are recognised as approved enterprises that are characterised by a rapid technological turnover, for which Frutarom Ltd. is entitled to tax benefits by virtue of the Investment Centre’s base turnover procedure (an erosion of base turnover at a rate of 10% commencing in the first year of operation). Pursuant to the Investment Centre’s notification, Frutarom Ltd. included in its books a tax benefit in the amount of $ 1.7 million in respect of prior years. At the beginning of 2006, the Investment Centre informed the company that it recognises another approved enterprise of Frutarom Ltd. as an approved enterprise characterised by a rapid technology turnover; the tax benefits to which the company would be entitled to receive in respect of this approved enterprise are similar to the tax benefits it receives in respect of the other two enterprises. Accordingly, Frutarom Ltd. recorded in 2006 a tax benefit receivable in respect of previous years in the total amount of $ 1 million. Frutarom Ltd.’s request to recognise

NOTE 14 –TAXES ON INCOME (continued):

an additional approved enterprises as an approved enterprise characterised by a rapid technology turnover has not yet been granted. The period of benefits in respect of those of the abovementioned enterprises, which were activated, expires in the years 2006 through 2016.

2) Accelerated depreciation

Frutarom Ltd. is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of buildings, machinery and equipment used by the approved enterprise.

3) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and Frutarom Ltd. may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.
Group's management believes that as of 31 December 2007, Frutarom Ltd. fulfills all the requirements.

d. The Law For The Encouragement of Industry (Taxation), 1969:

Frutarom Ltd. is an "industrial company" as defined by this law. As such, Frutarom Ltd. is entitled to claim amortisation over 8 years of acquired product formulas, as well as depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law, and have done so.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

e. Deferred Taxes:

1) The composition of the deferred taxes, and the changes therein during the year are as follows:

	In respect of balance sheet items						
			Provisions for employee rights				
	Depreciable fixed assets	Negative goodwill	Severance pay	Vacation and recreation pay	Inventories	Other	Total
	U.S. dollars in thousands						
Balance at 31 December 2004	6,580	(1,785)	(1,822)	(424)	(770)	(505)	1,274
Derecognition of the balance of recognised negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3		1,785					1,785
Differences from translation of foreign currency financial statements of subsidiaries	(420)		216		(80)	(2)	(286)
Amounts carried to income	295		(440)	22	565	856	1,298
Balance at 31 December 2005 - brought forward	6,455	-,-	(2,046)	(402)	(285)	349	4,071

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

	In respect of balance sheet items								
		Provisions for employee rights							
	Depreciable fixed assets	Severance pay	Vacation and recreation pay	Inventories	Other	Depreciable intangibles	In respect of carryforward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2005 - brought forward	6,455	(2,046)	(402)	(285)	349		-,-	4,071
Changes in 2006:								
Addition to deferred taxes in respect of acquisition of the subsidiaries (Note 5)	655	(62)		(172)	(244)	4,378		4,555
Differences from translation of foreign currency financial statements of subsidiaries	397	(177)		53	43	351	(69)	598
Amounts carried to income	571	562	(5)	140	(215)	(259)	(1,610)	(816)
Balance at 31 December 2006 - brought forward	8,078	(1,723)	(407)	(264)	(67)	4,470	(1,679)	8,408

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 –TAXES ON INCOME (continued):

	In respect of balance sheet items							
		Provision for employee rights						
	Depreciable fixed assets	Severance pay	Vacation and recreation pay	Inventories	Other	Depreciable intangibles	In respect of carry forward tax losses	Total
	U.S. dollars in thousands							
Balance at 31 December 2006 - brought forward	8,078	(1,723)	(407)	(264)	(67)	4,470	(1,679)	8,408
Changes in 2007:								
Addition to deferred taxes in respect of acquisition of the subsidiaries (Note 5)	752	(416)		(192)	(631)	8,738		8,251
Differences from translation of foreign currency financial statements of subsidiaries	447	(136)		67	63	664	(85)	1,020
Amounts carried to income	309	909	(57)	(417)	505	(1,410)	946	785
Balance at 31 December 2007	9,586	(1,366)	(464)	(806)	(130)	12,462	(818)	18,464

NOTE 14 –TAXES ON INCOME (continued):

2) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

3) Classification of deferred tax assets and liabilities by maturities, are as follows:

	31 December		
	2007	**2006**	**2005**
	U.S. dollars in thousands		
Deferred tax assets:			
Deferred tax asset to be recovered within 12 months	3,745	3,833	1,701
Deferred tax asset to be recovered after more than 12 months			1,618
	3,745	3,833	3,319
Deferred tax liabilities:			
Deferred tax liability to be recovered within 12 months	1,541	1,142	1,363
Deferred tax liability to be recovered after more than 12 months	20,668	11,099	6,027
	22,209	12,241	7,390
	18,464	8,408	4,071

4) The deferred taxes in respect of activities in Israel are computed at the tax rate of 26% (2006 – 28%). This rate is an average taking into account the income from Frutarom Ltd.'s approved enterprises.

   Deferred taxes of foreign subsidiaries in Switzerland, U.S.A., U.K. and Germany are computed at the tax rates applicable to these companies (see b above).

5) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of $ 73 thousands in respect of losses relating to the Company and to subsidiaries in Russia and Ukraine amounting to $ 281 thousands that can be carried forward against future taxable income.

   Deferred income tax liabilities of approximately $ 4,380 thousands in 2007 have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

NOTE 14 –TAXES ON INCOME (continued):

f. Taxes on Income Included in The Income Statements:

1) As follows:

	2007	2006	2005
	U.S. dollars in thousands		
For the reported year:			
Current	6,625	8,724	6,877
Deferred, see e. above:			
In respect of a change in tax rates, Note 14a2)(a)			(115)
For the reported year	785	(816)	1,413
	7,410	7,908	8,175
For previous years		(1,000)	(1,700)
T o t a l	7,410	6,908	6,475

Current taxes (consolidated) are computed at an average tax rate of 23.45%, 23.83% and 20.11%, for the years 2007 2006, and 2005, respectively.

NOTE 14 –TAXES ON INCOME (continued):

2) Theoretical tax reconciliation:

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 14d above) and the actual tax expense:

	2007	2006	2005
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	31,603	36,610	33,322
Theoretical tax expense in respect of this income – at 29% (2006 – 31%; 2005 – 34%)	9,165	11,349	11,329
Less – tax benefits arising from approved enterprise status	(14)	(645)	(1,239)
	9,151	10,704	10,090
Increase (decrease) in taxes resulting from:			
Different tax rates applicable to foreign subsidiaries	243	(2,212)	(2,173)
Computation of deferred taxes at a rate which is different from the theoretical rate	8	35	62
Increase in taxes resulting from adjustment to deferred tax balances due to changes in tax rates (Note 14a2))			(115)
Disallowable deductions	18	18	160
Decrease in taxes resulting from utilization, in The reported year, of carryforward tax losses for which deferred taxes were not created net of increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were Not created		(27)	(839)
Difference between the basis of measurement of income reported for tax purposes and the Basis of measurement of income for financial reporting purposes – net*	(1,871)	(918)	1,028
Other	(139)	308	(38)
Taxes on income for the reported year	7,410	7,908	8,175

* The majority of the said difference results from the difference between the changes in the CPI - which is used as the basis for calculating the results for tax purposes for the activity in Israel – see a1) above – and the changes in the NIS/dollar exchange rate.

NOTE 14 –TAXES ON INCOME (continued):

g. Tax Assessments:

The Company and one of the Israeli subsidiaries have received tax assessments through the year 1999.
Frutarom Ltd. received final tax assessments through the year 1998.
Tax assessments filed by the Company and the Israeli subsidiaries through the year ended 31 December 2001 are considered to be final.

NOTE 15 – LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

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

b. To secure long and short-term loans extended to Frutarom Ltd., this company registered fixed charges on its share capital and its goodwill, floating charges on all its assets and insurance rights and floating charges on all its assets including the rights and yield arising from the assets.
The charges were registered in favour of several bank; Frutarom Ltd. has also agreed not to register any pledges or transfer assets without the prior consent of the banks.

NOTE 16 – ACCOUNTS RECEIVABLE:

	31 December		
	2007	**2006**	**2005**
	U.S. dollars in thousands		
a. Trade:			
Open accounts	75,927	52,192	37,537
Related parties	274	403	526
	76,201	52,595	38,063
Cheques collectible	1,805	1,373	2,226
	78,006	53,968	40,289
The item includes – provision for impairment of receivables	3,214	2,201	1,726

NOTE 16 – ACCOUNTS RECEIVABLE (continued):

Trade receivables that are less than 120 days past due are not considered impaired. As of 31 December 2007, trade receivables of $ 21,800 thousands (2006- $ 13,775 thousands) were past due but not impaired. These relate to a number of customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	2007	2006
	U.S. dollars in thousands	
Up to 60 days	18,034	11,932
60 days to 120 days	3,786	1,843
	21,820	13,775

As of 31 December 2007, trade receivables of $ 4,302 thousands (2006- $ 3,029 thousands) were impaired and provided for. The amount of the provision was $ 3,214 thousands as of 31 December 2007 (2006- $ 2,201 thousands). The individually impaired receivables mainly relate to clients, of which their debt is past due for several reasons. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2007	2006
	U.S. dollars in thousands	
120 days to one year	3,474	2,547
Over one year	828	482
	4,302	3,029
Provision for impairment of receivables	(3,214)	(32,201)
	1,088	828

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
b. Other:			
Employees	526	251	153
Related parties	6	255	355
Government institutions	9,290	4,112	2,144
Adjustments to purchase price of the FS		2,305	2,071
Sundry	2,173	3,115	2,033
	11,995	10,038	6,756

NOTE 17 – INVENTORIES

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Raw materials and supplies	45,577	26,509	22,624
Products in process	3,930	2,137	1,903
Finished products	36,939	29,428	20,755
	86,446	58,074	45,282
Inventories for commercial operations – purchased products	4,006	1,680	1,604
	90,452	59,754	46,886

NOTE 18 – OTHER NON-CURRENT ASSETS

Prepaid expenses in respect of leasehold rights in land:

1) Frutarom Ltd. has a leasehold right in land located in the Akko Industrial Zone and the Haifa Bay. The net capitalised lease fees as at 31 December 2007, in respect of the said lands amount to $ 1,301 thousands (2006 - $ 1,333 thousands). The leasing period is 49 years ending in the years 2032 through 2042. Frutarom Ltd. has a right to extend the leasing for an additional 49-year period.

2) In October 2003, Frutarom Ltd. and the Israel Lands Administration entered into an agreement in respect of additional leasing rights in land located in the industrial zone in the north of Israel. Leasehold rights in respect of this land are for a period of 49 years ending January 2053. Frutarom Ltd. has a right to extend the leasing period for additional 49 years.
During 2005, capitalised lease fees in the amount of $ 382 thousands were paid in respect of the said land.

3) A subsidiary in China has "Land Use Rights" on land in China. The rights are for a period of 50 years ending in 2046. Net capitalised lease fees as at 31 December 2007, in respect of the said land amount to $ 215 thousands (2006 - $ 223 thousands).

NOTE 19 – CASH AND CASH EQUIVALENTS:

a. The cash and cash equivalents item is composed of the following balances:

	31 December		
	2007	2006	2005
	U.S. dollars in thousands		
Cash and cash equivalents	31,942	18,417	33,723
Bank overdrafts	(3,765)	(673)	
	28,177	17,744	33,723

NOTE 19 – CASH AND CASH EQUIVALENTS (continued):

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

	Weighted interest rates as of 31 December 2007	31 December 2007	31 December 2006	31 December 2005
		U.S. dollars in thousands		
In Dollars	1.7%	7,613	6,333	19,016
In Pounds sterling		382	843	1,932
In Euro	3.5%	21,538	8,066	8,877
In Swiss franc		664	2,034	3,015
Other		1,745	1,141	883
		31,942	18,417	33,723

NOTE 20 – ACCOUNTS PAYABLE:

	31 December 2007	31 December 2006	31 December 2005
	U.S. dollars in thousands		
a. Trade:			
Open accounts	38,528	27,476	17,895
Cheques payable	269	24	
	38,797	27,500	17,895
b. Other:			
Payroll and related expenses	7,813	5,683	5,375
Government institutions	18,678	13,362	8,159
Provision for commissions and discounts	1,914	1,467	1,325
Shareholder and related parties			124
Income received in advance			164
Liability to Bank of New York (Note 12b1))	444	810	810
Accrued expenses	8,644	5,128	3,438
Customer advances		140	270
Future consideration and call option in respect of Nesse and the Gewurzmuller Group	56,035		
Sundry	2,884	1,407	2,497
	96,412	27,997	22,162

NOTE 21 – PROVISIONS FOR LIABILITIES AND CHARGES:

	Restructuring from Flachsmann acquisition	Claims and litigations	Total
	U.S. dollars in thousands		
Balance at 1 January	633	560	1,193
Changes during 2005:			
Changes in company organization:			
Utilised during the year	(583)	(13)	(596)
Currency translation effects	(50)		(50)
Balance at 31 December 2005	-,-	547	547
Changes during 2006 -			
Additional provisions		399	399
Balance at 31 December 2006	-,-	946	946
Changes during 2007:			
Utilised during the year		(506)	(506)
Balance at 31 December 2007		440	440

Restructuring Provisions From Flachsmann Acquisition

Provisions for the Flachsmann acquisition have been recognised during the acquisitions for compensating Flachsmann's employees for terminating of their employment and closing certain Flachsmann's facilities. The provision was fully used until the end of 2005.

Claims and Litigation

These provisions are made in respect of legal claims brought against the Group and potential litigations. Related estimated legal fees are also included in these provisions (Note 12b).

NOTE 22 – INCOME STATEMENT ANALYSIS:

	2007	2006	2005
	U.S. dollars in thousands		
a. Cost of Sales:			
Industrial operations:			
Materials consumed	177,743	136,283	102,693
Payroll and related expenses	31,675	23,730	23,675
Depreciation and amortisation	8,491	7,642	7,232
Other production expenses	19,931	16,665	12,349
	237,840	184,320	145,949
Increase in work in process and finished products inventories	(9,304)	(8,907)	(1,914)
	228,536	175,413	144,035
Commercial operations – cost of products sold	8,970	5,957	5,250
	237,506	181,370	149,285
b. Selling, Marketing, Research and Development Expenses - net:			
Payroll and related expenses	34,474	25,488	23,291
Transportation and shipping	10,616	6,644	6,817
Provisions for payment of commissions and royalties	3,865	4,145	3,820
Provision for impairment of trade receivables	204	111	62
Depreciation and amortisation	2,412	1,763	832
Travel and entertainment	3,282	3,832	3,210
Office rent and maintenance	3,794	2,956	2,386
Other	8,251	3,579	3,400
	66,898	48,518	43,818
The item includes expenses for product development and research activities, net*	18,170	14,099	11,956
* net of participation from government departments and others	289	389	165

NOTE 22 – INCOME STATEMENT ANALYSIS (continued):

	2007	2006	2005
	U.S. dollars in thousands		
c. General and Administrative Expenses:			
Payroll and related expenses	17,639	13,656	10,611
Depreciation and amortisation	1,704	610	266
Professional fees	2,353	2,222	1,524
Communication, office supplies and maintenance	3,818	2,909	3,070
Insurance for office holders and costs related to Board of Directors	109	140	130
Travel and entertainment	1,420	1,335	928
Other	2,482	1,546	1,688
	29,525	22,418	18,217
d. Other income – net:			
Capital loss (gain) on sale of fixed assets	89	(23)	328
Rental	(107)	(65)	(49)
Impairment of property, plant and equipment and intangible assets		126	
Negative goodwill arising from the acquisition of IFF		(2,242)	(1,496)
Sundry	(176)	90	(38)
	(194)	(2,114)	(1,255)
e. Financial Expenses – net:			
In respect of long-term loans and credit	903		512
In respect of exchange differences of financial assets and liabilities - net	167	88	26
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other - net	1,260	(53)	(122)
Periodic change in non-current liability in respect of Nesse (Note 5a)	593	410	
	2,923	445	416

NOTE 23 – CASH FLOWS FROM OPERATIONS

	2007	2006	2005
	U.S. dollars in thousands		
Net income	24,193	29,702	26,847
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	12,647	10,015	8,330
Recognition of compensation related to employee stock and option grants	1,200	1,538	805
Liability for employee rights upon retirement - net	(5,521)	(1,168)	293
Deferred income taxes – net	785	(816)	1,298
Loss (gain) from sale of fixed assets	42	(23)	328
Increase (decrease) in provisions - net	(545)	399	(596)
Differences in long-term loans	550		
Provision for impairment of intangibles in subsidiary		126	
Negative goodwill arising from the acquisition of IFF		(2,242)	(1,496)
Other	593	546	83
	9,751	8,375	9,045
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(5,152)	(5,247)	944
Other	6,506	(1,744)	(1,375)
Increase (decrease) in accounts payable:			
Trade	3,832	4,938	(998)
Other	465	5,249	5,530
Increase in inventories	(15,563)	(4,884)	(5,562)
	(9,912)	(1,688)	(1,461)
Cash flows from operating activities	24,032	36,389	34,431
Non-cash transactions			
Change in excess of cost of acquisition (note 5)	1,925	2,268	

NOTE 24 - RELATED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions with Related Parties:

1) Income (expenses):

	2007	2006	2005
	U.S. dollars in thousands		
Sales – affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan (hereafter "Fallek")	522	883	848
Other		12	90
	522	895	938

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

	2007	2006	2005
Purchases:			
Affiliates (companies controlled by the controlling shareholder):			
Azur S.A. (hereafter – "Azur")	(958)	(400)	(328)
Controlling shareholder	(334)	(16)	(182)
	(1,292)	(416)	(510)

The agreement for rendering of services by Azur was approved by the shareholders' meeting.
Goods are bought on the basis of the market prices with non- related parties.

	2007	2006	2005
Dividend	(945)	(717)	(691)
Other income (expenses):			
Affiliates:			
Azur	(66)	(61)	(58)
EIL			12
Fallek			(12)
		(61)	(58)
Controlling shareholder	36		(29)
	(30)	(61)	(87)
Benefits to related parties:			
Wages and salaries	(1,365)	(2,050)	(1,028)
Director fees to 7 directors (in the Company)	(142)	(179)	(130)

2) Shares granted to a manager in the Company

The difference between the market value of the shares which were granted to a manager in the years 2007, 2006, and 2005 under 1996 plan (Note 13c) and the exercise price stipulated by the plans, as known at time of the grant is $ 156 thousands, $ 155 thousands and $ 169 thousands, respectively.

NOTE 24 – "RELATED PARTIES" – TRANSACTIONS AND BALANCES (continued):

The compensation costs that have been charged to the income statements, in respect of the said shares granted in the years 2007, 2006, and 2005, are $ 159, $ 125 thousands and $ 50 thousands, respectively.

As part of the Board resolution, a manager in the Company was granted, on 2 January 2006, 350 thousands options; the fair value of options that the Company allotted to a manager, computed using the Black & Scholes shares valuation model (based on the assumptions described in Note 13d2), was estimated at the date of grant to $ 783 thousands (Note 13d2).

3) The Company's articles of association allow for insurance and indemnification of office holders as permitted by Israeli law. The Company established indemnification policy in respect of its office holders and office holders of subsidiaries. The Company also resolved to insure office holders in respect of their duties, all subject to the provisions of the law and other limitations.

4) As to selling of shares by ICC Handles AG of the ICC group – the Company's shareholder - see Note 13b.

b. Balances with Related Parties:

	31 December		
	2007	**2006**	**2005**
	U.S. dollars in thousands		
1) Current receivables - presented in the balance sheets among "other receivables" and "trade" under current assets - balance at balance sheet date - Affiliated:			
Fallek	274	403	526
Azur		250	318
Other		5	37
	274	658	881
Highest balance during the year	525	874	1,133
2) Current payables to shareholder and related parties	131		124
	747		
	878		124

NOTE 25 – SUBSEQUENT EVENT

On 17 March 2008 the group's Board of Directors declared the distribution of a dividend of NIS 0.18 per share. The total amount of the dividend is $ 3.032 million (according to the exchange rate at the day of signing this report).

NOTE 26 – CONDENSED COMPANY DATA:

a. Balance sheet data:

	December 31		
	U.S. dollars in thousands		
	2007	**2006**	**2005**
A s s e t s			
Current assets - accounts receivable:	2,447	179	68
Fixed assets – net	139	139	139
Investments, loans and capital notes to subsidiaries	116,303	108,745	100,199
	118,889	109,063	100,406
Liabilities and shareholders' equity			
Current liabilities		105	64
Shareholders' equity (see c. below)	118,889	108,958	100,342
	118,889	109,063	100,406

b. Operating results data:

	2007	**2006**	**2005**
	U.S. dollars in thousands		
General and administrative expenses	72	72	384
Financing income (expenses) – net	9,408	7,807	(4,687)
Other income - net	156	156	156
Income in respect of dividend received	2,572	1,978	1,716
Net income (loss) for the year	12,064	9,869	(3,199)

NOTE 26 – CONDENSED COMPANY DATA (continued):

c. Changes in shareholders' equity:

	Share Capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands				
BALANCE AS OF 1 JANUARY 2005	13,961	17,642	(1,777)	(1,061)	28,765
CHANGES IN 2005:					
Net income			(3,199)		(3,199)
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 stock and option grants to employees		484			484
Dividend			(1,716)		(1,716)
BALANCE AT 31 DECEMBER 2005 – brought forward	16,399	91,666	(6,692)	(1,031)	100,342

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 – CONDENSED COMPANY DATA (continued):

	Share capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
BALANCE AS OF 1 JANUARY 2006 - brought forward	16,399	91,666	(6,692)	(1,031)	100,342
CHANGES IN 2006:					
Net income			9,869		9,869
Plan for allotment of Company shares to employees of subsidiary					
Purchase of Company shares by subsidiary				(1,135)	(1,135)
Receipts in respect of allotment of Company shares to employees				146	146
Recognition of compensation related to stock and option grants to employees				229	229
Allotment of shares and options to senior employees:					
Receipts in respect of allotment of Company shares to employees	35	141			176
Recognition of compensation related to stock and option grants to employees		1,309			1,309
Dividend			(1,978)		(1,978)
BALANCE AT 31 DECEMBER 2006 - brought forward	16,434	93,116	1,199	(1,791)	108,958

NOTE 26 – CONDENSED COMPANY DATA (continued):

c. Changes in shareholders' equity:

	Share capital	Additional paid in capital	Retained earnings	Cost of company shares held by subsidiary	Total
BALANCE AS OF 1 JANUARY 2007 - brought forward					
CHANGES IN 2007:	16,434	93,116	1,199	(1,791)	108,958
Net income			12,064		12,064
Plan for allotment of Company shares to employees of subsidiary:					
Purchase of Company shares by subsidiary				(1,194)	(1,194)
Receipts in respect of allotment of Company shares to employees				234	234
Recognition of compensation related to stock and option grants to employees				91	91
Allotment of shares and options to senior employees:					
Receipts in respect of allotment of Company shares to employees	32	167			199
Recognition of compensation related to stock and option grants to employees		1,109			1,109
Dividend			(2,572)		(2,572)
BALANCE AT 31 DECEMBER 2007	16,466	94,392	10,691	(2,660)	118,889

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 – LIST OF CONSOLIDATED SUBSIDIARIES

Name of company	Country	Percentage of shareholding and control	
		31 December	
		2007	2006
		%	%
Frutarom Ltd.	Israel	100	100
Frutarom Trade and Marketing (1990)	Israel	100	100
Galilee Essences Ltd.(1)	Israel	100	100
Frutarom (UK) Ltd. (2)	U.K.	100	100
International Frutarom Corporation (6)	U.S.A	100	100
Frutarom Russia Ltd.	Russia	100	100
Frutarom Ukraine Ltd.	Ukraine	100	100
Frutarom Kazakhstan Ltd.	Kazakhstan	100	100
Frutarom Flavors (Kunshan) Company	China	100	100
Far Aromatic Gida Urunleri Sanayi Ve Ticaret Limited Sirketi Ltd.	Turkey	100	100
Frutarom Mexico S.A.	Mexico	100	100
Frutarom do Brazil Ltda.	Brazil	100	100
Reichan Beerot Itzhak Ltd.	Israel	100	100
Food Industries Ltd.	Israel	100	100

FRUTAROM INDUSTRIES LTD.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 – LIST OF CONSOLIDATED SUBSIDIARIES (continued):

(1) Inactive company

(2) Frutarom (UK) Ltd. holds full ownership in:

Turkish Holdings Ltd.(1)
Frutarom Switzerland Ltd.(3)
Jupiter Flavours Ltd.
Belmay Ltd.(7)

(3) Frutarom Switzerland Ltd. holds full ownership in:

Frutarom Germany GmbH (4)
Frutarom Nordic A/S
Frutarombel Ltd.
Frutarom France S.A.R.L.
Frutarom (Marketing) S.R.L.
Frutarom Belgium N.V.
Frutarom Netherlands B.V.(5)

(4) Frutarom Germany GmbH holds ownership in:

GewürzMüller Nesse GmbH (70%)
GewürzMüller Nesse Gebr. Krause GmbH (70%)
GewürzMüller GmbH (100%)(8)
Blessing Biotech GmbH (100%)

(5) Frutarom Netherlands B.V. holds full ownership in:

Frutarom Specialties Belgium N.V.
Frutarom USA Holding Inc.(1)

(6) International Frutarom Corporation holds full ownership in:

Frutarom USA Inc.
Frutarom Inc.
Abaco Inc.
Abaco Manufacturing LLC

(7) Belmay Ltd. holds full ownership in:

Belmay Denmark AS
Belmay AS
Belmay Pacific PTE Ltd.

(8) GewürzMüller GmbH Holds full ownership in:

Sell-4-u.com Agentur für Marketing
E-business und Telemarketing GmbH
GewürzMüller AG