# FRUTAROM INDUSTRIES LTD.
# DIRECTORS REPORT TO THE SHAREHOLDERS
# FOR THE PERIOD ENDING MARCH 31, 2008[1]

## General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were listed on the London Stock Exchange Official List. Frutarom develops, produces and markets flavors and fine ingredients used to produce food, beverages, flavors, fragrances, pharma/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia, and produces, markets and sells over 20,000 products to more than 10,000 customers in over 120 countries. Frutarom operates two divisions: the Flavors Division and the Fine Ingredients Division and has 1,500 employees.

In recent years Frutarom has implemented a strategy for achieving rapid growth, at above the industry average, through a combination of internal growth in core activities and strategic acquisitions in its field. These acquisitions substantially strengthen Frutarom's position as a leading producer of flavors and ingredients, and add new quality employees. Frutarom has extensive experience in successfully implementing mergers and is working to integrate the acquired activities with its existing activity and to extract the greatest synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling, cost savings and to improve margin. The results that Frutarom achieved in the first quarter of the year reflect the continued successful realization of the Company's strategy:

- The accelerated growth in sales that has characterized Frutarom's activity for the last seven years continued this quarter, when the Company achieved both double digit organic growth that is substantially higher than the growth rate for the market in which the Company operates in its core activities, and growth deriving from the contribution of the acquisitions made in 2007.

- In accordance with the Company's plans and expectations, during 2007 Frutarom made seven important, strategic acquisitions that were merged and integrated with Frutarom's global activity. These acquisitions influenced the results and profitability in the second, third and forth quarters of 2007: they contributed to growth in sales but did not contribute to profit and even had an adverse effect on profitability. During the first quarter of 2008, with most of the merger and integration processes completed as planned, the acquired activities contributed to sales growth and to significant improvement to profit and profitability compared with the last three quarters of 2007, as expected.

- Increases in the selling prices of Frutarom's products and their adjustment to the increased prices of raw materials used by Frutarom in production contributed as expected to improvement in gross margin.

Frutarom will continue to act determinedly to achieve continued high organic growth and profitability in core activities, to adjust selling prices to price increases in raw materials used in Frutarom's production, and to further improvement to profitability. Frutarom also continues

[1] Prepared in accordance with the consolidated financial reports of the Company as at March 31, 2008, which were prepared in accordance with the IFRS.

acting to achieve optimal efficiency from the seven acquisitions made during 2007 and to extract and augment the cross selling opportunities from these acquisitions.

Frutarom's sales in the first quarter of 2008 showed sharp growth of 51.6% compared with the same period in 2007, and totaled US$ 122.0 million. Excluding the influence of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar, the growth in sales totaled 42.5%. Gross profit for the quarter rose 50.2% to total US$ 44.8 million compared with US$ 29.8 million in the same quarter last year. Gross margin reached 36.7% compared with 37.0% in the same period in 2007. The Company achieved improvement to profitability, compared with the last three quarters of 2007, as expected. Operating profit rose 47.8% to total US$ 15.3 million compared with US$ 10.4 million in the same quarter last year. Operating margin showed considerable improvement compared with the margin that characterized the last three quarters of 2007, reaching 12.6% compared with 12.9% in the first quarter of 2007. The EBITDA that Frutarom achieved in the first quarter of 2008 grew sharply by 52.3%, reaching US$$ 20.2 million compared with EBITDA of US$ 13.3 million in the first quarter of 2007. EBITDA margin improved as well, reaching 16.6% compared with 16.5% in the same period of 2007. Profit before tax totaled US$ 12.5 million compared with US$ 10.1 million in the first quarter of 2007. Net profit for the first quarter of 2008 grew by 27.6% to US$ 9.7 million compared with US$ 7.6 million in the same quarter last year and net margin showed considerable improvement as well compared with the margin that characterized the last three quarters of 2007 and reached 8.0% compared with 9.5%.

Profit per share rose in the first quarter to total US$ 0.17 compared with US$ 0.14 in the same quarter of last year.

## Summary of the Company's Activity

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

SRI Consultants estimates that the global market for flavors, fragrances and fine ingredients amounts to approximately US$ 18 billion. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 15.0 billion. Based on Leffingwell & Associates' data, Frutarom is ranked as one of the ten largest companies in the field of flavors and fragrances.

According to an estimate published in 2007 by SRI Consultants, global sales in the industrialized countries (the USA, Western Europe and Japan) in the flavor and fine ingredients markets in which Frutarom operates will grow at an annual rate of between 2% and 4% from 2006 to 2011. The growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, Russia, China, India, and South America is expected to be considerably higher due to the expected increases in GNP and changes in consumer preferences in these markets and could reach average annual rates between 6% and 8% during the years 2006 to 2001. According to SRI Consultants' estimates, the market for functional food ingredients in Europe and the United States is expected to grow at a higher annual rate of 9% in the next several years. Frutarom regards its activity in the functional food ingredients market as an important element in its rapid growth strategy.

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

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

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

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

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

*"To be the Preferred Partner for Tasty and Healthy Success."*

## Results of Activity in the First Quarter of 2008

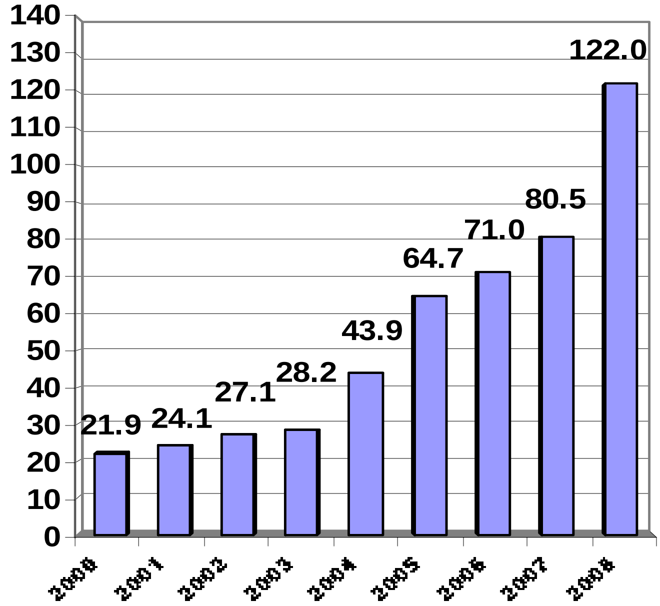
Following is a summary of the profit and loss report for the first quarter of the year (US$ millions):

| | 2008 | 2007 | Change (%) |
|---|---|---|---|
| Sales | 122.0 | 80.5 | 51.6% |
| Gross profit | 44.8 | 29.8 | 50.2% |
| R&D, Selling, Administration, General and Other income | 29.4 | 19.4 | 51.5% |
| Operating profit | 15.3 | 10.4 | 47.8% |
| EBITDA | 20.2 | 13.3 | 52.3% |
| Profit before tax | 12.5 | 10.1 | 23.5% |
| Net profit | 9.7 | 7.6 | 27.3% |

Sales

Frutarom's sales during the first quarter of 2008 totaled US$ 122.0 million, showing growth of 51.6% compared with the same quarter of 2007, when sales totaled US$ 80.5 million. Sales grew by 42.5% when excluding the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar.

Sales Development in the First Quarter of 2000–2008 (US$ millions)




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

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

B. Increased sales of unique ingredients, mainly natural, produced and sold by the Fine Ingredients Division.

C. Integration of the seven companies and activities acquired during 2007—Gewurzmuller, Belmay, Jupiter, Abaco, Raychan, Adumim and Rad—with Frutarom's global activity.

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

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

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

Sales Breakdown by Fields of Activity in the First Quarter of 2000-2008 (US$ millions and %)

| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Flavors Division** | **Sales** | 6.8 | 9.0 | 10.8 | 12.7 | 20.3 | 40.3 | 44.7 | 49.9 | 84.4 |
| | **%** | 31.1% | 37.3% | 39.9% | 45.0% | 46.2% | 62.3% | 63.0% | 62.0% | 69.2% |
| **Fine Ingredients Division** | **Sales** | 13.8 | 13.9 | 14.9 | 14.2 | 22.5 | 23.4 | 25.5 | 29.1 | 35.3 |
| | **%** | 63.0% | 57.7% | 55.0% | 50.4% | 51.3% | 36.2% | 35.9% | 36.2% | 28.9% |
| **Trade & Marketing** | **Sales** | 1.7 | 1.5 | 1.6 | 1.8 | 1.7 | 1.8 | 1.4 | 2.6 | 3.6 |
| | **%** | 7.8% | 6.2% | 5.9% | 6.4% | 3.9% | 2.8% | 2.0% | 3.2% | 3.0% |
| **Inter Division** | **Sales** | -0.4 | -0.3 | -0.2 | -0.5 | -0.6 | -0.8 | -0.6 | -1.1 | -1.3 |
| | **%** | -1.8% | -1.2% | -0.7% | -1.8% | -1.4% | -1.2% | -0.9% | -1.4% | -1.1% |
| **Total Sales** | | **21.9** | **24.1** | **27.1** | **28.2** | **43.9** | **64.7** | **71.0** | **80.5** | **122.0** |

Gross Profit

Gross profit grew 50.2% during the first quarter of 2008 to reach US$ 44.8 million compared with US$ 29.8 million in the same quarter of 2007. Gross margin was 36.7% during the period compared with 37.0% during the same period in 2007. Frutarom's determined actions during the third and especially the fourth quarters of 2007 to adjust selling prices to the price increases in the raw materials used in its production contributed to improving gross margin compared with the three last quarters of 2007. Frutarom will continue acting diligently to continue achieving high organic growth in core activities, to adjust selling prices to the increased prices of raw materials it uses, and to improve margin.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 29.4 million (24.1% of sales) in the first quarter of 2008, compared with US$ 19.4 million (24.1% of sales) during the same period of 2007. The growth in expenses is due to the addition of the activities acquired (Belmay and Jupiter in April 2007, Abaco in July 2007, Raychan and Adumim in September 2007, Gewurzmuller in October 2007 and Rad in November 2007) and the growth in the core activities.

Operating Profit

During the first quarter of 2008, operating profit grew sharply by 47.8% to reach US$ 15.3 million compared with operating profit of US$ 10.4 million in the same quarter of 2007. Operating margin reached 12.6% compared with 12.9% during the same period in 2007. Operating margin showed considerable improvement compared with the margin achieved in the last three quarters of 2007, and reverted to the margin levels that characterized Frutarom's activity in 2006 and at the beginning of 2007.

Finance Expenses

Finance expenses for the first quarter of 2008 totaled US$ 2.8 million (2.3% of sales), compared with finance expenses of US$ 0.2 million (0.3% of sales) in the same period in 2007. Finance expenses include interest on loans taken during 2007 to finance the Company's seven acquisitions. Finance expenses were also influenced by translation differences resulting from the strengthening of the Israeli shekel and the European currencies that influenced the profit and loss of finance expenses but also contributed US$ 13.6 million to the equity fund in the balance sheet.

Profit before Tax

Profit before tax for the first quarter of 2008 totaled US$ 12.5 million (10.3% of sales) compared with US$ 10.1 million (12.6% of sales) during the same period in 2007.

Taxes on Income

Taxes on income in the first quarter of 2008 totaled US$ 2.8 million (22.5% of profit before tax), compared with US$ 2.5 million (24.8% of profit before tax) during the same period in 2006.

Net Profit

Net profit for the first quarter of 2008 grew by 27.3% to reach US$ 9.7 million, compared with US$ 7.6 million in the first quarter of 2007. Net margin was 8.0% compared with 9.5% for the same quarter last year, while achieving considerable improvement compared with the last three quarters of 2007.

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

| | **Q1 2007** | **Q2 2007** | **Q3 2007** | **Q4 2007** | **Q1 2008** |
|---|---|---|---|---|---|
| Sales | 80.5 | 91.7 | 87.7 | 108.4 | 122.0 |
| Gross profit | 29.8 | 32.8 | 31.5 | 36.6 | 44.8 |
| Selling, Marketing, R&D, Administration, General and Other income | 19.4 | 24.3 | 23.2 | 29.3 | 29.4 |
| Operating profit | 10.4 | 8.5 | 8.3 | 7.3 | 15.3 |
| EBITDA | 13.3 | 11.9 | 11.5 | 12.0 | 20.2 |
| Finance expenses | 0.2 | -0.1 | 1.7 | 1.0 | 2.8 |
| Profit before tax | 10.1 | 8.6 | 6.6 | 6.3 | 12.5 |
| **Net Profit** | **7.6** | **5.9** | **5.9** | **4.8** | **9.7** |

Frutarom’s business is subject to seasonal fluctuations, generally reflected in higher sales and profitability (due to product mix) in the first half of a given year and lower sales and profitability during the second half of a given year. The impact of seasonality on the Company’s results has steadily decreased in recent years as the Company has increased its sales of products such as savory following the acquisition of Nesse and Gewurzmuller, natural functional food ingredients and natural pharma/nutraceutical extracts, which are intended for the pharma/nutraceutical industries and generally have lower seasonality in demand.

## Financial Status

Total assets on March 31, 2008 amounted to US$ 587.4 million compared with US$ 343.5 million at March 31, 2007 and US$ 548.7 million at December 31, 2007.

The Company's current assets totaled US$ 236.5 million compared with US$ 173.8 million at March 31, 2007, and US$ 217.3 million at December 31, 2007.

Fixed assets minus accumulated depreciation and net other assets totaled US$ 345.3 million on March 31, 2008, compared with US$ 163.8 million at the end of the first quarter last year and US$ 325.8 million at March 31, 2007.

The growth in overall assets resulted mainly from the addition the assets of the seven companies and activities acquired during 2007, the growth in core activities, and the change in the US dollar exchange rate against other currencies that are the main activity currency for the autonomous subsidiaries.

## Liquidity

The cash flow required for current activities by Frutarom during the first quarter of 2008 totaled US$ 6.4 million compared with the same quarter of 2007, when the cash flow required for current activities was US$ 2.6 million. The decline in cash flow resulted from the growth in sales and in the scope of activity, which was influenced by the substantial growth in the Company's working capital requirements.

## Sources of Finance

<u>Sources of the Company's Shareholders' Equity</u>

The Company's shareholders' equity at March 31, 2008 totaled US$ 271.5 million (46.2% of the balance sheet) compared with US$ 223.6 million (65.1% of the balance sheet) at March 31, 2007. Most of the increase in shareholders' equity resulted from the net profit achieved during the period and from the change in the US dollar exchange rate against other currencies that are the main activity currency for the autonomous subsidiaries. This change influenced the currency translation differences equity fund and enlarged the capital equity balance. This item does not affect the profit and loss and the cash flow.

<u>Long Term Loans Including Current Maturities of Long Term Loans (Average)</u>

Long term credit from banks during the first quarter of 2008 totaled US$ 106.9 million. This was used to finance acquisitions made by the Company in 2007. During the same period in 2007 the Company did not require any long term credit.

<u>Short Term Loans Excluding Current Maturities of Long Term Loans (Average)</u>

Short term credit from banks during the first quarter of 2008 totaled US$ 22.4 million (compared with US$ 1.8 million during the same period in 2007). This was used mainly to finance acquisitions and for the Company's greater need for working capital due to the sharp growth in sales turnover.

Credit from Suppliers and to Customers (Average)

During the first quarter of 2008, the average credit from suppliers and other creditors was US$ 129.8 million (compared with US$ 55.8 million during the same quarter of 2007). During the first quarter of 2008, the Company granted average credit of US$ 87.1 million to its customers (compared with US$ 59.5 million during the same quarter of 2007). Most of the growth in suppliers' and customers' credit results primarily from the acquisitions, the growth in activity, and the change in the US dollar exchange rate against other currencies that are the main activity currency for the autonomous subsidiaries.

## Disclosures about Market Risk

There were no significant changes to market risk and its management during the first quarter of 2008 and until the date hereof as relates to the statements made in the Directors Report as at December 31, 2007.

## Distribution of Dividend

On March 17, 2008, upon approving the financial reports for the year 2007, the Board of Directors of the Company declared the distribution of a cash dividend of NIS 0.18 per share (totaling US$ 2.890 million as at March 17 and US$ 3.006 million as at the distribution day). April 21, 2008 was set as the record date and the dividend was distributed on May 6, 2008.

## Critical Accounting Estimations

Preparation of the financial reports of the Company in accordance with IFRS demands the use of critical accounting estimates, which obliges the management of the Company to use its judgment in the process of implementing the general accounting policies of the Company, to prepare estimates and make assumptions that influence the amounts presented in the attached financial reports.

Below are the critical accounting estimations used in preparing the financial reports of the Company; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its judgment to determine these estimates, the management of the Company based itself upon past experience, various facts and on reasonable assumptions in accordance with the suitable circumstances for each estimate. The actual results may be different from management's estimates.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise judgment in order to determine the overall provision in respect of taxes on income. The Company makes many transactions for which the final tax determination is uncertain. The Company records provisions in its books based on its estimates of whether additional taxes will be due on these transactions. Where the final tax outcome of these matters as determined by the tax authorities is different from the amounts that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account tax purposes. The Company 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 Company is unable to generate sufficient future taxable income, 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 Company 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.

Severance Pay

The present value of the Company's 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 related severance pay funds and the rate of discount. Changes in those assumptions will 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.

The assumption regarding the required rate of discount is determined by the Company 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 market of high quality corporate bonds is not sufficiently liquid to serve as the basis for determining the discount rate. Therefore, in determining this rate the Company uses interest rates applicable to governmental bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability.

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

Provision for Contingent Liabilities

Contingent provisions for legal liabilities are recorded in the books in accordance with the judgment of the Company's management regarding the likelihood that the cash flows will be used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment in Respect of Goodwill and Intangibles

Once a year, the Company reviews the need to provide for impairment of goodwill and intangibles. The need to make such a provision is assessed in relation to the recoverable value of the cash generating units of the Company. The recoverable amount of a cash generating unit is determined in accordance with the assumptions and calculations made by management.

## Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the character of the Company's activity, its complexity and size. The Board believes that this minimum number will enable it to meet its obligations according to law and the Company's Articles of Association, and especially relating to its responsibility to check the Company's financial status and to prepare and approve the financial reports.

The directors with accounting and financial expertise are: Dr. John Farber, Mr. John Oram, Mr. Hans Abderhalden, Mr. Yacov Elinav, Mr. Isaac Angel and Mr. Yair Seroussi.

## Peer Review of the Auditors' Work

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

## Disclosure Regarding the Approval Process for the Financial Reports

The Company's financial reports are submitted for approval by the Board of Directors, the body in charge of the Company's ultimate supervision. The Board of the Company has seven members, of whom six have accounting and financial expertise. The members of the Board receive the draft financial reports, the directors' report and the managerial report of the Company's management several days before the date of the Board meeting at which the reports are brought for their approval. The Company's auditors and members of the Company's senior management, including the president and CEO and executive vice presidents and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president and CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the financial results of the Company, the Company's management answers questions and relates to the directors' comments. In addition, the executive vice presidents and global division managers present the status of their business and developments that occurred during the relevant period. Following presentation of the Company's financial results and of the division managers, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors report and submit them to the securities authorities and stock exchanges. All of the members of the Board of Directors were present at the Board meeting held on May 20, 2008, when the reports were approved. All of the directors present voted in favor of approving the reports.

## Events Following the Balance Sheet Date

Acquisition of the Gewurzmuller Group

On April 16, 2008, the Company completed the call option to acquire the remaining 30% of the issued and paid up share equity of GewurzMuhle Nesse GmbH and of GewurzMuhle Nesse Gebr. Krause GmbH (together hereinafter: "Nesse"), and today holds 100% of Nesse's share equity. In consideration for the option realization the Company paid Euro 13,751,593 (US$ 21,913,165 million) (hereinafter: "the Consideration"). The Consideration, which was financed through long term bank loans, may increase or decrease, subject to final adjustments to be made.

The Board of Directors of the Company held two meetings during the first quarter of the year.

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

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| Dr. John J. Farber<br>Chairman of the Board | Ori Yehudai<br>President & CEO |

May 20, 2008