FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 JUNE 2008

FRUTAROM INDUSTRIES LTD.

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(Unaudited)

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PRICEWATERHOUSECOOPERS

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18 August 2008

The Board of Directors
Frutarom Industries Ltd.
Haifa.

Re: Review of condensed unaudited interim consolidated
financial statements for the six- and three-month periods ended 30 June 2008

At your request, we have reviewed the accompanying consolidated condensed balance sheet of Frutarom Industries Ltd. (hereafter - the company) and its subsidiaries as of 30 June 2008 and the related condensed statements of income, changes in shareholders' equity and cash flows for the six- and three-month periods then ended.

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

We were furnished with the reports of other certified public accountants on their review of the interim financial statements as of 30 June 2008 of consolidated subsidiaries, whose assets constitute approximately 2.44% of the consolidated totals, and whose revenues for the six and three-month periods ended 30 June 2008 constitute approximately 5.07% and 5.29% of total consolidated revenues for the periods, respectively.

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

During our review, including reading the reports of other auditors, as above, nothing came to our attention that indicated that any material modifications should be made in the said interim condensed consolidated financial statements in order for them to be in conformity with International Financial Reporting Standards relating to Interim Reports (IAS 34) and with the Securities (Periodic and Immediate Reports) Regulations, 1970.

Sincerely,

FRUTAROM INDUSTRIES LTD.

BALANCE SHEETS

30 JUNE 2008

	30 June		31 December
	2008	**2007**	**2007**
	U.S. dollars in thousands		
	(Unaudited)		**(Audited)**
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	25,658	14,698	31,942
Short-term investments	599	502	1,279
Accounts receivable:			
Trade	97,114	71,248	78,006
Other	12,100	13,328	11,995
Prepaid expenses and advances to suppliers	3,816	5,030	3,637
Inventories	105,444	69,829	90,452
T o t a l current assets	244,731	174,635	217,311
NON-CURRENT ASSETS:			
Property, plant and equipment - net	140,868	108,640	135,607
Intangible assets - net	198,085	78,091	190,150
Deferred income tax assets	4,031	4,087	3,745
Other non-current assets	1,878	1,918	1,898
T o t a l non-current assets	344,862	192,736	331,400
T o t a l assets	589,593	367,371	548,711

) Chairman of the Board
Dr. John Farber

) President and CEO
Ori Yehudai)

) Executive Vice
Alon Granot) President and CFO

Date of approval of the financial statements: 18 August 2008

	30 June		31 December
	2008	2007	2007
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Bank credit and loans (including current maturities)	32,406	24,786	44,221
Accounts payable:			
Trade	39,989	35,690	38,797
Other	71,237	32,582	96,412
Provisions	368	377	440
Total current liabilities	144,000	93,435	179,870
NON-CURRENT LIABILITIES:			
Bank credit and loans, net of current maturities	125,387		82,579
Retirement benefit obligations	12,179	7,613	11,518
Deferred income tax liabilities	24,934	13,468	22,209
Other liabilities	1,420	23,475	1,420
Total non-current liabilities	163,920	44,556	117,726
Total liabilities	307,920	137,991	297,596
SHAREHOLDERS' EQUITY:			
Share capital	16,478	16,466	16,466
Capital surplus	95,083	93,814	94,392
Currency translation differences	28,927	5,984	17,638
Retained earnings	144,025	114,604	125,279
Less - cost of company shares held by subsidiary	(2,840)	(1,488)	(2,660)
Total shareholders' equity	281,673	229,380	251,115
Total shareholders' equity and liabilities	589,593	367,371	548,711

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

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF INCOME

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2008	**2007**	**2008**	**2007**	**2007**
	U.S. dollars in thousands				
	(Unaudited)		**(Unaudited)**		**(Audited)**
SALES	254,603	172,205	132,573	91,704	368,261
COST OF SALES	160,084	109,586	82,827	58,893	237,506
GROSS PROFIT	94,519	62,619	49,746	32,811	130,755
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:					
Selling, marketing, research and development - net	44,062	29,906	23,217	16,329	66,898
General and administrative	18,406	13,721	9,690	7,889	29,525
OTHER EXPENSES (INCOME) - net	(1,164)	109	(1,030)	92	(194)
OPERATING PROFIT	33,215	18,883	17,869	8,501	34,526
FINANCIAL EXPENSES (INCOME) - net	4,975	166	2,151	(75)	2,923
PROFIT BEFORE TAXES ON INCOME	28,240	18,717	15,718	8,576	31,603
TAXES ON INCOME	6,488	5,199	3,671	2,680	7,410
NET INCOME	21,752	13,518	12,047	5,896	24,193

	U.S. Dollars				
EARNINGS PER SHARE:					
BASIC	0.38	0.23	0.21	0.10	0.42
FULLY DILUTED	0.38	0.23	0.21	0.10	0.41

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

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	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 2008 (audited)	16,466	94,392	17,638	125,279	(2,660)	251,115
CHANGES DURING THE 6 MONTHS ENDED 30 JUNE 2008 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			11,289			11,289
Net income				21,752		21,752
Total recognized income for 6 months ended 30 June 2008						33,041
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary					(570)	(570)
Receipts in respect of allotment of company shares to employees					390	390
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	12	118				130
Recognition of compensation related to employee stock and options grants		573				573
Dividend paid including erosion				(3,006)		(3,006)
BALANCE AT 30 JUNE 2008 (unaudited)	16,478	95,083	28,927	144,025	(2,840)	281,673

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	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 APRIL 2008 (unaudited)	16,466	94,692	31,196	132,094	(2,917)	271,531
CHANGES DURING THE 3 MONTHS ENDED 30 JUNE 2008 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			(2,269)			(2,269)
Net income				12,047		12,047
Total recognized income for 3 months ended 30 June 2008						9,778
Plans for allotment of company shares to employees of subsidiary - Receipts in respect of allotment of company shares to employees					77	77
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	12	118				130
Recognition of compensation related to employee stock and options grants		273				273
Erosion due to dividend paid (note 2)				(116)		(116)
BALANCE AT 30 JUNE 2008 (unaudited)	16,478	95,083	28,927	144,025	(2,840)	281,673

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	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 2007 (audited)	16,434	93,116	5,716	103,658	(1,791)	217,133
CHANGES DURING THE 6 MONTHS ENDED 30 JUNE 2007 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			268			268
Net income				13,518		13,518
Total recognised income for 6 months ended 30 June 2007						13,786
Plans for allotment of company shares to employees of subsidiary:						
Receipts in respect of allotment of company shares to employees					234	234
Recognition of compensation related to the plan					69	69
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	32	167				199
Recognition of compensation related to employee stock and option grants		531				531
Dividend paid, including erosion				(2,572)		(2,572)
BALANCE AT 30 JUNE 2007 (unaudited)	16,466	93,814	5,984	114,604	(1,488)	229,380

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	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 APRIL 2007 (unaudited)	16,459	93,468	6,533	108,781	(1,615)	223,626
CHANGES DURING THE 3 MONTHS ENDED 30 JUNE 2007 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			(549)			(549)
Net income				5,896		5,896
Total recognized income for 3 months ended 30 June 2007						5,347
Plans for allotment of company shares to employees of subsidiary:						
Receipts in respect of allotment of company shares to employees					104	104
Recognition of compensation related to the plan					23	23
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	7	69				76
Recognition of compensation related to employee stock and options grants		277				277
Erosion in respect of dividend paid				(73)		(73)
BALANCE AT 30 JUNE 2007 (unaudited)	16,466	93,814	5,984	114,604	(1,488)	229,380

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands (audited)					
BALANCE AT 1 JANUARY 2007	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			11,922			11,922
Net income				24,193		24,193
Total recognized income for 2007						36,115
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 the plan					91	91
Allotment of shares and options to senior employees:						
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				(2,572)		(2,572)
BALANCE AT 31 DECEMBER 2007	16,466	94,392	17,638	125,279	(2,660)	251,115

FRUTAROM INDUSTRIES LTD.

STATEMENTS OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2008

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2008	**2007**	**2008**	**2007**	**2007**
	U.S. dollars in thousands				
	(Unaudited)		**(Unaudited)**		**(Audited)**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Note 5)	11,107	5,122	15,945	5,616	24,032
Income tax paid	(2,527)	(4,421)	(995)	(2,278)	(8,908)
Net cash provided by operating activities	8,580	701	14,950	3,338	15,124
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(5,828)	(7,023)	(2,422)	(4,240)	(14,685)
Purchase of other assets	(12)	(1,840)	(10)	(726)	(2,820)
Interest received*					867
Acquisition of subsidiary – net of cash acquired	(29,199)	(20,237)	(29,199)	(3,490)	(91,108)
Acquisition of operations – net of cash acquired					(8,427)
Reimbursement in respect of acquisition of operations					2,389
Proceeds from sale of property, plant and equipment	3,894	280	3,823	166	708
Short-term marketable securities – net	680	2,795	(54)	84	2,199
Net cash used in investing activities	(30,465)	(26,025)	(27,862)	(8,206)	(110,877)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Receipts from senior employees in respect of allotment of shares	130	199	130	76	199
Interest paid*	(3,131)	(129)	(1,920)	(51)	
Receipt (repayment) of short-term bank credit and loans	(2,538)	23,237	(4,551)	7,601	20,521
Receipt of long-term bank credit and loans	39,391		32,359		89,483
Repayment of long-term bank loans and credit	(10,167)		(5,827)		(2,166)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(180)	234	77	104	(960)
Dividend paid	(3,006)	(2,572)	(3,006)	(2,572)	(2,572)
Net cash provided by financing activities	20,499	20,969	17,262	5,158	104,505
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	(1,331)	141	(2,266)	97	1,681
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,717)	(4,214)	2,084	387	10,433
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,177	17,744	23,376	13,143	17,744
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	25,460	13,530	25,460	13,530	28,177

* Reclassified.

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

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 JUNE 2008

(UNAUDITED)

1. General:

a) The interim financial statements as of 30 June 2008 and for the six and three-month periods then ended (hereafter – the interim statements) were prepared in condensed form in accordance with IAS 34 -“Interim Financial Reporting” and with the Securities (Periodic and Immediate Reports) Regulations, 1970. The Securities Regulations prescribe financial statements classification and presentations principles, which do not necessarily correspond to IFRS classification and presentation principles; nevertheless, when such principles are applied to the company, the differences as above are immaterial.

b) The accounting policies applied in preparation of the interim financial statements are consistent with those used in the 2007 annual financial statements, except as mentioned in 1c below and the classification of interest paid or received in the statement of cash flows from the operating activities item to the investing activities and financing activities items, respectively, in accordance with IAS 7; nevertheless, the interim statements do not include all the information and explanations required for annual financial statements, and should be read in conjunction with the 2007 annual financial statements.

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

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

c) Basis of preparation

1) Interpretation that came into effect during the quarter ended June 30, 2008:

IFRIC 14 to IAS 19 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (hereafter – IFRIC 14). IFRIC 14 provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The implementation of the interpretation did not have a material effect on the group's financial statements.

2) Standards and Interpretations for existing Standards that are not yet effective and that the group has not opted for their early adoption -

(a) IAS 27 (Amended) – Consolidated and Separate Financial Statements (hereafter – IAS 27R) (in effect commencing July 1, 2009).
IAS27R provides amendments relating principally to accounting for minority interest and loss of control in subsidiary.

The most significant change in IAS 27R is that acquisition of additional minority interest in share capital subsequent to business combination and the sale of minority interest while control is retained are handled as equity transactions. The group shall apply IAS27R commencing July 1, 2010; however, it is not expected that the application of IAS27R would have a material effect on the group's financial statements

(b) International Financial Reporting Standard No. 3 (Amended) – "Business Combinations" (hereafter – IFRS3R) (in effect commencing July 1, 2009). IFRS3R establishes principles and requirements for how an acquirer: (a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree resulting from a business combination; (b) recongnises and measures the goodwill acquired in the business combination or a gain from a purchase transaction; 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. The group would apply IFRS3R commencing January 1, 2010. Group's management is evaluating the potential effects of implementation of IFRS3R on its financial statements in the following reporting periods.

(c) International Accounting Standard No. 1 (Amended) – "Presentation of Financial Statements" (hereafter – IAS1R) (in effect commencing January 1, 2009). IAS1R sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. Inter alia, IAS1R requires that any change in equity resulting from transactions with shareholders in their capacity as owners would be presented in the statements of changes in shareholders equity separately from changes that do not result from transactions with shareholders.

(d) International Financial Reporting Standard No. 8 – "Operating Segments" – (hereafter IFRS8) (in effect commencing January 1, 2009). IFRS 8 replaces IAS 14 "Segment Reporting". 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.

(e) 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 that the implementation thereof would have a material effect on its financial statements.

(f) IFRIC 16 issued by the International Financial Reporting Interpretation Committee – "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008; hereafter – IFRIC 16); this IFRIC includes guidelines regarding several issues, as follows:

- According to the provisions of this IFRIC, application of hedge accounting for Hedges of a Net Investment in a Foreign Operation is possible only for translation differences arising from different functional currencies of the parent company and the foreign operation and not for translation differences arising from different presentation currencies.

- In the case of a group of companies, according to the provisions of IFRIC 16, the hedging instrument can by held by any entity in the group (provided that it meets the hedging accounting criteria set in IAS 39 – " Financial Instruments: Recognition. and Measurement").

- On disposal of the foreign operation being hedged, the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge, and therefore accounted for in equity, is reclassified from equity to profit or loss.

The Group would apply IFRIC 16 from 1 January 2009 but it is not expected that the implementation thereof would have a material effect on its financial statements.

3) Standards, amendments and interpretations effective as from 30 June, 2008 but not relevant to group's activities.
The implementation of the following published standards, amendments and interpretations is obligatory for reporting period commencing January 1, 2008, but not relevant to group activities:

(a) IFRIC 12, "Service concession arrangements" (effective from 1 January 2008) (hereafter – IFRIC12). 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.

(b) IFRIC 13,"Customer loyalty programmes" (effective from 1 July 2008) (hereafter – IFRIC 13). 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.

4) Interpretation to existing standards that is not yet effective and not relevant to Group's operations.
The interpretation to existing standards has been published and is mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but is not relevant for the group operations:

IFRIC 15 issued by the International Financial Reporting Interpretation Committee - "Agreements for the Construction of Real Estate" - (effective for annual periods beginning on or after January 1, 2009; hereafter – IFRIC 15); this IFRIC includes guidelines for determining from the point of view of the contractor when construction and sale of Real Estate falls within the scope of IAS 11 – "Construction Contracts" (hereafter – IAS 11)– and when such construction and sale falls within the scope of IAS 18 – "Revenue" (hereafter – IAS 18). Determining the above requires applying discretion and it depends on the terms of the specific contract. IFRIC 15 also clarifies the proper timing for recognition of revenue arising from construction of Real Estate as above, in accordance with the requirements of each of the two relevant standards (IAS 11 and IAS 18). IFRIC 15 is not relevant to the Group's operations as the Group is not engaged in construction of Real Estate.

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

2. Dividend

On 17, March 2008, the Company’s Board of Directors declared the distribution of a dividend of NIS 0.18 per share, in the total amount of $ 2,890 thousands. On 6 May, 2008, a dividend of $ 3,006 thousands was paid to the shareholders.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

30 JUNE 2008

(UNAUDITED)

3. Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
6 months ended 30 June 2008 (unaudited):					
Revenues	182,478	67,799	6,581	(2,255)	254,603
Segment results	26,879	5,456	341	539	33,215
6 months ended 30 June 2007 (unaudited):					
Revenues	111,622	58,036	4,678	(2,131)	172,205
Segment results	13,652	5,520	180	(469)	18,883
3 months ended 30 June 2008 (unaudited):					
Revenues	98,073	32,533	2,906	(939)	132,573
Segment results	14,808	2,195	151	715	17,869
3 months ended 30 June 2007 (unaudited):					
Revenues	61,697	28,905	2,123	(1,021)	91,704
Segment results	5,921	2,340	68	172	8,501
Year ended 31 December 2007 (audited):					
Revenues	247,672	114,951	10,501	(4,863)	368,261
Segment results	26,823	7,904	497	(698)	34,526

4. Cash and cash equivalents

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

	30 June		31 December
	2008	2007	2007
	U.S. dollars in thousands		
Cash and cash equivalents	25,658	14,698	31,942
Bank overdrafts	(198)	(1,168)	(3,765)
	25,460	13,530	28,177

5. Cash Flows from Operations:

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2008	**2007**	**2008**	**2007**	**2007**
	U.S. dollars in thousands				
	(Unaudited)		**(Unaudited)**		**(Audited)**
Profit before taxes on income	28,240	18,717	15,718	8,576	31,603
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	10,169	5,606	5,619	3,038	12,647
Recognition of compensation related to employee stock and option grants	573	600	273	300	1,200
Liability for employee rights upon retirement – net	(147)	(3)	26	(23)	(5,521)
Deferred income taxes – net	851	200	1,350	336	785
Loss (gain) from sale of fixed assets	(2,921)	(102)	(2,938)	(30)	42
Increase (decrease) in provisions – net	(72)	(569)	30	(128)	(545)
Interest paid (received)*	3,131	129	1,920	51	(867)
Erosion of long-term loans	1,705		616		550
Other		287		145	593
	13,289	6,148	6,896	3,689	8,884
Changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(16,052)	(14,188)	(3,208)	(3,714)	(5,152)
Other	691	(4,432)	19	(3,966)	6,506
Increase (decrease) in accounts payable:					
Trade	(22)	6,435	(1,649)	6,835	3,832
Other*	(4,018)	992	392	(622)	(6,078)
Increase in inventories	(11,021)	(8,550)	(2,223)	(5,182)	(15,563)
	(30,422)	(19,743)	(6,669)	(6,649)	(16,455)
Cash flows from operating activities	11,107	5,122	15,945	5,616	24,032
Non-cash transactions:					
Conversion of short term loans to long term	18,941		18,941		
change in excess of cost acquisition					1,925

* Reclassified.

6. Exercise of option for the purchase of Nesse

The company completed its exercise of the option for the purchase of the remaining 30% of Nesse's shares and it holds 100% of the share capital of Nesse. On the 16th of April and the 9th of July, the company paid a total of € 14,074,019 ($ 22,419,890) which was financed using long-term bank credit.

FRUTAROM INDUSTRIES LTD.
DIRECTORS REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING JUNE 30, 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 strengthen Frutarom's position as a leading producer of flavors and ingredients, and add new, quality employees. Frutarom has extensive experience in successfully implementing acquisitions and 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. During 2007 Frutarom made seven acquisitions of companies and activities that were merged and integrated with Frutarom's global activity. In accordance with the Company's expectations, upon completing most of the process of merging the acquired companies and activities, they began contributing as of the first quarter of this year to sales growth and to improvement to profit and profitability, as planned.

The activity results achieved by Frutarom in the second quarter of the year reflect the continued successful realization of the Company's strategy for rapid, profitable growth and the actions taken during the third and particularly the fourth quarters of 2007 to adjust the selling prices of Frutarom's products to the increased prices of raw materials used by Frutarom in production. Frutarom's sales in the second quarter of 2008 showed sharp growth of 44.6% compared with the same period in 2007, and reached a record US$ 132.6 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 36.0%. Gross profit for the second quarter rose 51.6% to total US$ 49.7 million compared with US$ 32.8 million in the same quarter last year. Gross margin improved and reached 37.5% compared with 35.8% in the same period in 2007. Operating profit more than doubled, reaching 110.2% to total US$ 17.9 million compared with US$ 8.5 million in the second quarter of 2007. Operating margin showed considerable improvement compared with the margin for the year 2007, reaching 13.5% in the second quarter of 2008 compared with 9.3% in the second quarter of 2007. The EBITDA that Frutarom achieved in the second quarter of 2008 grew sharply by 100.7%, reaching US$ 23.8 million compared with EBITDA of US$ 11.8 million in the same quarter of 2007. EBITDA margin also improved considerably, reaching 17.9% compared with 12.9% in the same period of 2007. Profit before tax totaled US$ 15.7 million compared with US$ 8.6

[1] Prepared in accordance with the consolidated financial reports of the Company as at June 30, 2008, which were prepared in accordance with the IFRS.

million in the same quarter of 2007. Net profit for the second quarter of 2008 doubled itself, growing 104.3% to reached a record US$ 12.0 million compared with US$ 5.9 million in the same quarter last year and net margin showed considerable improvement as well and reached 9.1% compared with 6.4%.

Frutarom's sales in the first half of 2008 showed growth of 47.8% compared with the same period in 2007, and totaled US$ 254.6 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 39.0%. Gross profit for the quarter rose 50.9% to total US$ 94.5 million compared with US$ 62.6 million in the same half last year. Gross margin reached 37.1% compared with 36.4% in the same period in 2007. Operating profit rose 75.9% to total US$ 33.2 million compared with US$ 18.9 million in the same half last year, and operating margin rose to reach 13.0% compared with 11.0% in the same period of 2007. The EBITDA that Frutarom achieved in the first half of 2008 grew by 75.2%, reaching US$ 44.0 million compared with US$ 25.1 million in the first half of 2007. EBITDA margin improved as well, reaching 17.3% compared with 14.6% in the same period of 2007. Profit before tax grew by 54.0%, reaching US$ 28.2 million compared with US$ 18.7 million in the same period of 2007. Net profit reached US$ 21.7 million compared with US$ 13.5 million in the same period last year and net margin reached 8.5% compared with 7.8%.

During the second quarter of 2008 Frutarom had a positive cash flow from current activities in the amount of US$ 14.9 million compared with a cash flow of US$ 3.3 million during the second quarter of 2007. During the first half of 2008 Frutarom had a positive cash flow from current activities in the amount of US$ 8.6 million compared with a cash flow of US$ 0.7 million during the same period in 2007.

Profit per share doubled in the second quarter to US$ 0.21 compared with US$ 0.10 in the same quarter of last year. Profit per share rose in the first half to total US$ 0.38 compared with US$ 0.23 in the first half of 2007, an increase of 65.2%.

During the second quarter, on April 16, 2008, Frutarom completed the realization of the call option for the acquisition of the 30% balance of the issued and paid up share equity of GewurzMuhle Nesse GmbH and GewurzMuhle Nesse Gebr. Krause GmbH (hereinafter together: "Nesse"), in accordance with the acquisition agreement of 2006. Following realization of the operation, Frutarom holds 100% of Nesse's share equity. In consideration for the option realization, the Company paid Eur 14.1 million (US$ 22.4 million), which was financed with long term bank loans.

Frutarom will continue to act determinedly to achieve continued high organic growth and profitability in core activities; to adjust selling prices to price increases, to the extent to which they continue, in raw materials used in Frutarom's production; and to further improvement to profitability. Frutarom also continues acting to achieve optimal efficiency from the seven acquisitions made during 2007 and to extract and augment the cross selling opportunities from the acquisitions made in recent years.

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 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 activities 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 successful strategic acquisitions. The internal growth in the Fine Ingredients Division's sales is mainly the result of the development of new, innovative products having high added value and 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 Second Quarter of 2008

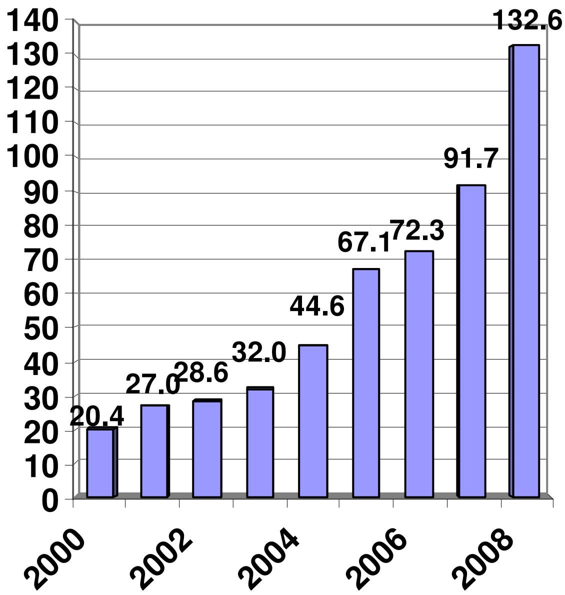
Following is a summary of the profit and loss report for the second quarter of the year (US$ millions):

	2008	2007	Change (%)
Sales	132.6	91.7	44.6%
Gross profit	49.7	32.8	51.6%
R&D, Selling, Administration, General and Other income	31.9	24.3	31.1%
Operating profit	17.9	8.5	110.2%
EBITDA	23.8	11.8	100.7%
Profit before tax	15.7	8.6	83.3%
Net profit	12.0	5.9	104.3%

Sales

Frutarom's sales during the second quarter of 2008 totaled a record US$ 132.6 million, showing growth of 44.6% compared with the same quarter of 2007, when sales totaled US$ 91.7 million. Sales grew by 36.0% when excluding the impact of the strengthening European currencies (in which most of Frutarom's sales are made) against the US dollar.

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



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

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

B. Internal growth in the sale of unique ingredients, mainly natural, produced and sold by the Fine Ingredients Division.

C. Acquisition of Gewurzmuller, Abaco, Raychan, Adumim and Rad during the second half of 2007 and their integration with Frutarom's global activity.

D. Utilization of 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 Second Quarter of 2000-2008 (US$ millions and %)

		2000	2001	2002	2003	2004	2005	2006	2007	2008
Flavors Division	**Sales**	6.6	10.9	11.9	15.7	23.7	43.1	49.5	61.7	98.1
	%	32.2%	40.4%	41.7%	49.1%	53.1%	64.2%	68.4%	67.3%	74.0%
Fine Ingredients Division	**Sales**	12.6	15.1	15.5	15.2	19.7	23.7	22.5	28.9	32.5
	%	61.8%	55.9%	54.4%	47.4%	44.2%	35.3%	31.1%	31.5%	24.5%
Trade & Marketing	**Sales**	1.6	1.4	1.6	1.7	1.9	1.5	1.5	2.1	2.9
	%	7.8%	5.2%	5.7%	5.5%	4.2%	2.2%	2.1%	2.3%	2.2%
Inter Division	**Sales**	-0.3	-0.4	-0.5	-0.6	-0.8	-1.2	-1.1	-1.0	-0.9
	%	-1.8%	-1.5%	-1.7%	-1.9%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%
Total Sales		**20.4**	**27.0**	**28.6**	**32.0**	**44.6**	**67.1**	**72.3**	**91.7**	**132.6**

Gross Profit

Gross profit grew 51.6% during the second quarter of 2008 to reach US$ 49.7 million compared with US$ 32.8 million in the same quarter of 2007. Gross margin rose to reach 37.5% during the period compared with 35.8% during the same period in 2007. Frutarom's actions to adjust selling prices to the price increases in the raw materials used in its production contributed to improving gross margin compared with 2007. Completion of most of the merger process of the companies and activities acquired during 2007, mainly in Israel and England, also contributed to the improvement in margin. Frutarom will continue acting diligently to continue achieving high organic growth in core activities, to adjust selling prices to increases, to the extent they may occur, in the prices of raw materials it uses, and to improve its margin.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 31.9 million (24.0% of sales) in the second quarter of 2008, compared with US$ 24.3 million (26.5% of sales) during the same period of 2007. The increase in expenses is due to the addition of the activities and companies acquired and the growth in the core activities.

During the second quarter of the year, the Company recorded capital gain for the sale of real property in Switzerland that was offset by expenses related to completing the reorganization in England for a net total of US$ 0.9 million.

Operating Profit

During the second quarter of 2008, operating profit grew by 110.2% to reach US$ 17.9 million compared with operating profit of US$ 8.5 million in the same quarter of 2007. Operating margin rose to reach 13.5% compared with 9.3% during the same period in 2007.

Finance Expenses

Finance expenses for the second quarter of 2008 totaled US$ 2.2 million (1.6% of sales), compared with finance income of US$ 0.1 million (0.1% of sales) in the same period in 2007. Most of the finance expenses are the payment of interest on loans taken to finance the seven acquisitions the Company performed in 2007.

Profit before Tax

Profit before tax for the second quarter of 2008 rose 83.3% to total US$ 15.7 million (11.9% of sales) compared with US$ 8.6 million (9.4% of sales) during the same period in 2007.

Taxes on Income

Taxes on income in the second quarter of 2008 totaled US$ 3.7 million (23.4% of profit before tax), compared with US$ 2.7 million (31.3% of profit before tax) during the same period in 2007. The improvement in the tax rate derives from the reduced tax rates in several countries in which the Company operates (mainly Germany) and the growth in profit before tax in countries having a lower tax rate than the average for the Company.

Net Profit

Net profit for the second quarter of 2008 doubled (growing by 104.3%) and reached US$ 12.0 million, compared with US$ 5.9 million in the second quarter of 2007. Net margin rose to reach 9.1% compared with 6.4% for the same quarter last year.

Below is a summary of quarterly profit and loss (US$ millions):

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Sales	80.5	91.7	87.7	108.4	122.0	132.6
Gross profit	29.8	32.8	31.5	36.6	44.8	49.7
Selling, Marketing, R&D, Administration, General and Other income	19.4	24.3	23.2	29.3	29.4	31.9
Operating profit	10.4	8.5	8.3	7.3	15.3	17.9
EBITDA	13.3	11.9	11.5	12.0	20.2	23.8
Finance expenses	0.2	-0.1	1.7	1.0	2.8	2.2
Profit before tax	10.1	8.6	6.6	6.3	12.5	15.7
Net Profit	**7.6**	**5.9**	**5.9**	**4.8**	**9.7**	**12.0**

Frutarom's business is subject to seasonal fluctuations that 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.

Results of Activity in the First Half of 2008

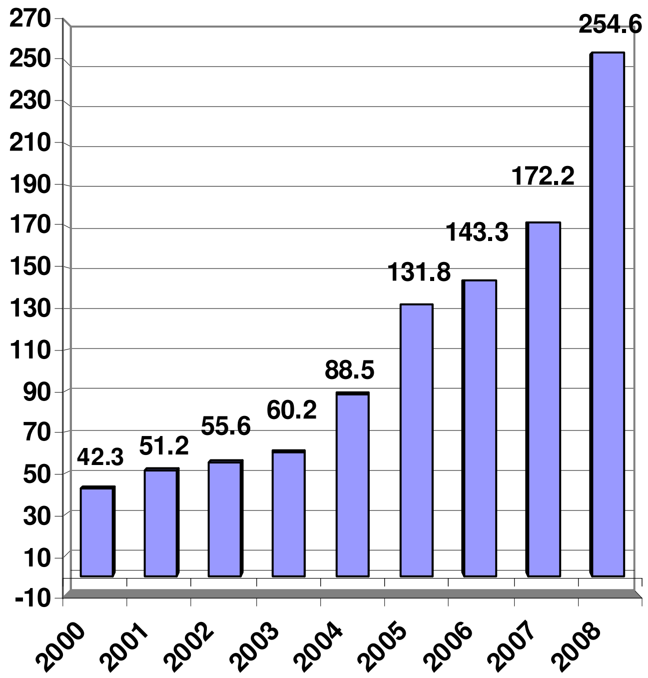
Following is a summary of the profit and loss report for the first half of the year (US$ millions):

	2008	2007	Change (%)
Sales	254.6	172.2	47.8%
Gross profit	94.5	62.6	50.9%
R&D, Selling, Administration, General and Other income	61.3	43.7	40.2%
Operating profit	33.2	18.9	75.9%
EBITDA	44.0	25.1	75.2%
Profit before tax	28.2	18.7	50.9%
Net profit	21.7	13.5	60.9%

Sales

Frutarom's sales during the first half of 2008 totaled US$ 254.6 million, growing by 47.8% compared with the first half of 2007. Sales grew by 39.0% when excluding the impact of the strengthened European currencies (in which most of Frutarom's sales are made) against the US dollar.

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



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

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

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

C. Acquisition during 2007 of seven companies and their integration with Frutarom's global activity.

D. Utilization of 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 (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 Half of 2000-2008 (US$ millions and %)

		2000	2001	2002	2003	2004	2005	2006	2007	2008
Flavors Division	**Sales**	13.4	20.0	22.7	28.4	42.6	83.4	94.2	111.6	182.5
	%	31.7%	39.1%	40.9%	47.2%	48.1%	63.3%	65.7%	64.8%	71.7%
Fine Ingredients Division	**Sales**	26.5	29.0	30.5	29.3	43.6	47.1	48.0	58.0	67.8
	%	62.6%	56.6%	54.8%	48.7%	49.3%	35.7%	33.5%	33.7%	26.6%
Trade & Marketing	**Sales**	3.1	2.9	3.3	3.5	3.6	3.3	2.9	4.7	6.6
	%	7.3%	5.7%	5.8%	5.8%	4.1%	2.5%	2.0%	2.7%	2.6%
Inter Division	**Sales**	-0.7	-0.7	-0.8	-1.1	-1.3	-2.0	-1.8	-2.1	-2.3
	%	-1.7%	-1.4%	-1.5%	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%
Total Sales		**42.3**	**51.2**	**55.6**	**60.2**	**88.5**	**131.8**	**143.3**	**172.2**	**254.6**

Gross Profit

Gross profit grew 50.9% during the first half of 2008 to reach US$ 94.5 million compared with US$ 62.6 million in the first half of 2007. Gross margin was 37.1% during the period compared with 36.4% during the same period in 2007. Frutarom's actions to adjust selling prices to the price increases, to the extent they may occur, in the raw materials used in its production contributed to improving gross margin compared with 2007. Completion of most of the merger process of the companies and activities acquired during 2007, mainly in Israel and England, also contributed to the improvement in margin.

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

Selling, marketing, research and development, administration, general and other expenses totaled US$ 61.3 million (24.1% of sales) in the first half of 2008, compared with US$ 43.7 million (25.4% of sales) during the same period of 2007.

Operating Profit

During the first half of 2008, operating profit grew sharply by 75.9% to reach US$ 33.2 million compared with US$ 18.9 million in the first half of 2007. Operating margin for the period rose to reach 13.0% compared with 11.0% during the same period in 2007.

Finance Expenses

Finance expenses for the first half of 2008 totaled US$ 5.0 million (2.0% of sales), compared with finance expenses of US$ 0.2 million (0.1% of sales) in the same period in 2007. The growth derives from the loans, mostly long term, taken by the Company to finance the acquisitions made during 2007. Finance expenses were also influenced by the translation differences resulting from the strengthening of the Israeli shekel and the European currencies, which increased finance expenses but also contributed US$ 11.3 million to the equity fund in the balance sheet.

Profit before Tax

Profit before tax for the first half of 2008 rose by 50.9% to total US$ 28.2 million (11.1% of sales) compared with US$ 18.7 million (10.9% of sales) during the same period in 2007.

Taxes on Income

Taxes on income in the first half of 2008 totaled US$ 6.5 million (23.0% of profit before tax), compared with US$ 5.2 million (27.8% of profit before tax) during the same period in 2007. The improvement in the tax rate derives from the reduced tax rates in several countries in which the Company operates (mainly Germany) and the growth in profit before tax in countries having a lower tax rate than the average for the Company.

Net Profit

Net profit for the first half of 2008 grew by 60.9% to total US$ 21.7 million, compared with US$ 13.5 million in the same period of 2007. Net margin rose to reach 8.5% compared with 7.8% for the first half last year.

Financial Status

Total assets on June 30, 2008 amounted to US$ 589.6 million compared with US$ 367.4 million at June 30, 2007 and US$ 548.7 million at December 31, 2007.

The Company's current assets totaled US$ 244.7 million compared with US$ 174.6 million at June 30, 2007, and US$ 217.3 million at December 31, 2007.

Fixed assets minus accumulated depreciation and net other assets totaled US$ 339.0 million on June 30, 2008, compared with US$ 186.7 million at the end of the second quarter last year and US$ 325.8 million at June 30, 2007.

The growth in overall assets resulted mainly from the addition the assets of the 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

During the second quarter of 2008 Frutarom had a positive cash flow from current activities in the amount of US$ 14.9 million compared with a cash flow of US$ 3.3 million during the second quarter of 2007. During the first half of 2008 Frutarom had a positive cash flow from current activities in the amount of US$ 8.6 million compared with a cash flow of US$ 0.7 million during the same period in 2007. The growth in the cash flow from current activities resulted mainly from the growth in the profit for the period.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity at June 30, 2008 totaled US$ 281.7 million (47.8% of the balance sheet) compared with US$ 229.4 million (62.4% of the balance sheet) at June 30,

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.

Long Term Loans Including Current Maturities of Long Term Loans (Average)

Long term credit from banks in the second quarter of 2008 totaled US$ 133.3 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.

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

Short term credit from banks during the second quarter of 2008 totaled US$ 25.0 million (compared with US$ 23.9 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 second quarter of 2008, the average credit from suppliers and other creditors was US$ 112.1 million (compared with US$ 59.2 million during the same quarter of 2007). During the second quarter of 2008, the Company granted average credit of US$ 95.4 million to its customers (compared with US$ 63.8 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 second quarter of 2008 and until the date hereof as relates to the statements made in the Directors Report as at December 31, 2007. With regard to most of the Company's activity, a policy of internal hedging is implemented by correlating expenses and income in the various currencies in which the Company operates. Beyond that the Company does not implement any strategies to reduce the exposure to currency risk and/or risk resulting from sharp fluctuations in the prices of goods and raw materials.

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 and based on the legal advice of its legal counsel 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 Company's management gives a comprehensive review regarding the status of the business and developments that occurred during the relevant period. Following presentation of the Company's financial results and the management's review, 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. Four of the members of the Board of Directors participated at the Board meeting held on August 18, 2008, when the reports were approved. All of the directors present voted in favor of approving the reports.

Allocation of Shares

The Company allocated 40,000 ordinary shares par value NIS 1.00 each on May 26, 2008, and 29,213 and 10,787 ordinary shares par value NIS 1.00 each on July 3, 2008 and July 24, 2008, respectively, as a result of the exercise of options awarded in 2005 to a senior officeholder in the Company. The exercise price totaled US$ 0.25 million. Following the exercise of the options the Company's issued and paid up shareholder equity is NIS 57,786,357.

Events Following the Balance Sheet Date

There were no special events after the date of the balance sheet.

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

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

Dr. John J. Farber	Ori Yehudai
Chairman of the Board	President & CEO

August 18, 2008