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FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

AT 31 MARCH 2005

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INTERIM REPORT

(Unaudited)

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TABLE OF CONTENTS

	Page
AUDITORS' REVIEW REPORT	2
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – IN U.S. DOLLARS	
Consolidated Balance Sheet	3-4
Consolidated Income Statements	5
Statements of Changes in Shareholders' Equity	6-8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10-14

24 May 2005

The Board of Directors
Frutarom Industries Ltd.
Haifa

Re: Review of condensed unaudited interim consolidated
financial statements for the three-month period ended 31 March 2005

At your request, we have reviewed the condensed consolidated interim balance sheet of Frutarom Industries Ltd. (hereafter - the company) and its subsidiaries at 31 March 2005, the condensed consolidated statements of income, changes in shareholders' equity and cash flows for the three-month period ended on this date.

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 31 March 2005 of consolidated subsidiaries, whose assets constitute approximately 3.39% of the consolidated totals, and whose revenues for the 3-month period ended 31 March 2005 constitute approximately 5.46% of total consolidated revenues for the period.

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 condensed consolidated 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.

Sincerely,

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FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2005

	<u>31 March</u>		<u>31 December</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>	<u>(Audited)</u>	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	29,982	5,618	7,350
Accounts receivable:			
Trade	50,100	34,781	43,733
Other	6,884	4,111	7,291
Prepaid expenses and advances to			
Suppliers	3,649	1,851	1,851
Inventories	43,866	31,555	43,769
T o t a l current assets	<u>134,481</u>	<u>77,916</u>	<u>103,994</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	93,613	61,406	96,683
Intangible assets	14,127	404	5,348
Deferred income tax assets	3,037	941	2,957
Other non-current assets	4,164	4,162	4,758
T o t a l non-current assets	<u>114,941</u>	<u>66,913</u>	<u>109,746</u>
T o t a l assets	<u><u>249,422</u></u>	<u><u>144,829</u></u>	<u><u>213,740</u></u>

_____) Chairman of the Board
Dr. John Farber

_____) President,
Ori Yehudai) CEO and Director

_____) Executive Vice
Alon Granot) President and CFO

Date of approval of the financial statements: 24 May 2005

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	<u>31 March</u>		<u>31 December</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>		<u>(Audited)</u>
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Bank credit and loans	4,729	9,870	50,355
Accounts payable:			
Trade	21,876	15,819	20,257
Other	23,519	17,590	20,718
Provisions	<u>1,153</u>	<u>1,854</u>	<u>1,193</u>
T o t a l current liabilities	<u>51,277</u>	<u>45,133</u>	<u>92,523</u>
NON-CURRENT LIABILITIES:			
Loans and credit from banks (net of current maturities)	16,396	30,795	29,831
Retirement benefit obligations	8,298	1,242	8,502
Deferred income tax liabilities	6,020	3,994	4,231
Other non-current liabilities		<u>1,176</u>	
T o t a l non-current liabilities	<u>30,714</u>	<u>37,207</u>	<u>42,564</u>
T o t a l liabilities	<u>81,991</u>	<u>82,340</u>	<u>135,087</u>
SHAREHOLDERS' EQUITY:			
Share capital	16,380	13,939	13,961
Additional paid-in capital	91,195	15,984	17,642
Currency translation differences	3,142	2,502	5,039
Retained earnings	55,905	30,905	41,332
Amount designed for distribution of dividend declared subsequent to balance sheet date	1,740		1,740
Cost of company shares held by subsidiary	<u>(931)</u>	<u>(841)</u>	<u>(1,061)</u>
T o t a l shareholders' equity	<u>167,431</u>	<u>62,489</u>	<u>78,653</u>
Total shareholders' equity and liabilities	<u>249,422</u>	<u>144,829</u>	<u>213,740</u>

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

DRAFT**FRUTAROM INDUSTRIES LTD.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2005**

	3 months ended 31 March		Year ended 31 December
	2005	2004	2004
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
SALES	64,729	43,933	196,780
COST OF SALES	<u>39,724</u>	<u>26,940</u>	<u>122,447</u>
GROSS PROFIT	25,005	16,993	74,333
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:			
Selling, marketing, research and development - net	10,808	7,698	34,554
General and administrative	4,946	4,206	17,869
OTHER INCOME – net	<u>25</u>	<u>55</u>	<u>102</u>
OPERATING PROFIT	9,276	5,144	22,012
FINANCIAL EXPENSES - net	<u>200</u>	<u>78</u>	<u>1,347</u>
PROFIT BEFORE TAXES ON INCOME	9,076	5,066	20,665
TAXES ON INCOME	<u>2,234</u>	<u>1,477</u>	<u>4,909</u>
NET INCOME FOR THE PERIOD	<u>6,842</u>	<u>3,589</u>	<u>15,756</u>
	U . S . D o l l a r s		
EARNINGS PER SHARE:			
BASIC	<u>0.13</u>	<u>0.08</u>	<u>0.34</u>
DILUTED	<u>0.13</u>	<u>0.08</u>	<u>0.33</u>

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

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FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2005

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Amount designed for distribution of dividend subsequent to balance sheet date</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U.S. dollars in thousands						
BALANCE AT 1 JANUARY 2005 (audited)	13,961	17,642	5,039	41,332	1,740	(1,061)	78,653
Derecognition of the balance of recognized negative goodwill as at 31 December 2004, net, in accordance with the transition provisions of IFRS 3 (Note 1c)				7,731			7,731
BALANCE AT 1 JANUARY 2005, AFTER THE EFFECT OF THE TRANSITION PROVISIONS OF IFRS 3	13,961	17,642	5,039	49,063	1,740	(1,061)	86,384
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2005 (unaudited):							
Net income not recognised in the net profit - changes in currency translation			(1,897)				(1,897)
Net income				6,842			6,842
Total recognised income for 3 months ended 31 March 2005							4,945
Issuance of share capital	2,416	73,395					75,811
Plans for allotment of company shares to employees of subsidiary:							
Receipts in respect of allotment of company shares to employees						12	12
Recognition of compensation related to the plan						118	118
Allotment of shares and options to senior employees:							
Allotment of share capital to senior employees	3	13					16
Recognition of compensation related to employee stock and options grants		145					145
BALANCE AT 31 MARCH 2005 (unaudited)	<u>16,380</u>	<u>91,195</u>	<u>3,142</u>	<u>55,905</u>	<u>1,740</u>	<u>(931)</u>	<u>167,431</u>

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FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2005

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U.S. dollars in thousands					
BALANCE AT 1 JANUARY 2004 (audited)	13,939	15,263	2,563	28,460	(600)	59,625
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2004 (unaudited):						
Net income not recognised in the net profit - changes in currency translation			(61)			(61)
Net income				3,589		<u>3,589</u>
Total recognised income for 3 months ended 31 March 2004						3,528
Issuance of share capital						
Plan for allotment of company shares to employees of subsidiary:						
Purchase of company shares by a subsidiary					(387)	(387)
Receipts in respect of allotment of company shares to employees					7	7
Recognition of compensation related to the plan					139	139
Recognition of compensation related to employee stock grants		721				721
Dividend				(1,144)		(1,144)
BALANCE AT 31 MARCH 2004 (unaudited)	<u>13,939</u>	<u>15,984</u>	<u>2,502</u>	<u>30,905</u>	<u>(841)</u>	<u>62,489</u>

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(Concluded) -3

FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2005

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Amount designed for distribution of dividend subsequent to balance sheet date</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U.S. dollars in thousands						
BALANCE AT 1 JANUARY 2004 (audited)	13,939	15,263	2,563	28,460		(600)	59,625
CHANGES DURING 2004:							
Net income not recognised in the net profit - changes in currency translation			2,476				2,476
Net income				15,756			15,756
Total recognised income for 2004							18,232
Plan for allotment of company shares to employees:							
Purchase of company shares by a subsidiary						(991)	(991)
Receipts in respect of allotment of company shares to employees						90	90
Recognition of compensation related to the plan						440	440
Allotment of shares and options to senior employees:							
Allotment of share capital to senior employee	22	89					111
Recognition of compensation related to employee stock and option grants		2,290					2,290
Dividend				(1,144)			(1,144)
Appropriation for distribution of dividend declared subsequent to balance sheet date (note 4)				(1,740)	1,740		
BALANCE AT 31 DECEMBER 2004 (audited)	<u>13,961</u>	<u>17,642</u>	<u>5,039</u>	<u>41,332</u>	<u>1,740</u>	<u>(1,061)</u>	<u>78,653</u>

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

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FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2005

	3 months ended		Year ended
	31 March		31 December
	2005	2004	2004
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (Note 7)	6,226	4,379	21,028
Interest paid	(378)	(284)	(1,334)
Income tax paid	(377)	(444)	(2,423)
Net cash provided by operating activities	<u>5,471</u>	<u>3,651</u>	<u>17,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(2,375)	(919)	(5,960)
Acquisition of operations – net of cash acquired (Note 3)			(38,209)
Proceeds from sale of property, plant and equipment	35	55	201
Net cash used in investing activities	<u>(2,340)</u>	<u>(864)</u>	<u>(43,968)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of share capital, net of issuance costs	75,811		
Receipts from senior employees in respect of allotment of shares	16		111
Receipt of long-term bank loans and credit		42	3,082
Repayment of long-term bank loans and credit	(14,949)	(3,007)	(11,014)
Receipt of short-term bank loans			37,789
Repayment of short-term bank loans	(39,468)		
Repayment of long-term credit in connection with the acquisition of Flachsmann			(1,202)
Purchase of company shares by subsidiary – net	12	(380)	(901)
Dividend paid			(1,144)
Net cash provided by (used in) financing activities	<u>21,422</u>	<u>(3,345)</u>	<u>26,721</u>
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	<u>(133)</u>	<u>3</u>	<u>6</u>
INCREASE IN CASH AND CASH EQUIVALENTS	24,420	(555)	30
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>4,119</u>	<u>4,089</u>	<u>4,089</u>
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>28,539</u></u>	<u><u>3,534</u></u>	<u><u>4,119</u></u>

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

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FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2005

(UNAUDITED)

1. General:

- a) The interim financial statements as of 31 March 2005 and for the three-month period then ended (hereafter – the interim statements) were prepared in condensed form in accordance with IAS 34 - “Interim Financial Reporting”.
- b) Except as mentioned in c) below, the accounting policies applied in preparation of the interim financial statements are consistent with those used in the 2004 annual financial statements; 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 2004 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 recognised 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) In 2005, the Group adopted the IAS below, which are relevant to its operations.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting policies, changes in accounting estimates and errors
IAS 10 (revised 2003)	Events after the balance sheet date
IAS 16 (revised 2003)	Property, plant and equipment
IAS 17 (revised 2003)	Leases
IAS 24 (revised 2003)	Related party disclosures
IAS 27 (revised 2003)	Consolidated and separate financial statements
IAS 28 (revised 2003)	Investments in associates
IAS 32 (revised 2003)	Financial instruments: Disclosure and presentation
IAS 33 (revised 2003)	Earnings per share
IAS 39 (revised 2003)	Financial instruments: Recognition and measurement

The adoption of the abovementioned IAS did not result in substantial changes to the Group’s accounting policies.

DRAFT

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2005

(UNAUDITED)

- 2) Effective 31 March 2004, Frutarom Industries Ltd. and its subsidiaries (the “Company”) apply the provisions of IFRS 3 “Business Combinations”, simultaneously with the adoption of IAS 36 and IAS 38 (as revised in 2004). In accordance with the transition provisions of IFRS 3, commencing 1 January 2005, the Company ceased, as from that date, to amortise any existing goodwill arising from such business combinations (accumulated amortisation as at 31 December, 2004 was eliminated with a corresponding decrease in the cost of goodwill), and de-recognised the balance of any remaining negative goodwill - amounting to \$ 7,731 thousands (net of deferred taxes de-recognised amounting to \$ 1,785 thousands) - with a corresponding adjustment to the opening balance of retained earnings. Goodwill from acquisitions dated before 31 March 2004, is being tested for impairment commencing 2005.

Had the Company early adopted IFRS 3 as of 1 January 2004, Company’s profit before taxes and net income for the year ended 31 December 2004, and the three-month period ended 31 March 2004, would have been as follows:

	3 months ended 31 March 2004	Year ended 31 December 2004
	U.S. dollars in thousands	
Profit before taxes on income	4,901	19,904
Net income for the period	3,476	15,227
Earning per share:		
Basic	0.07	0.33
Diluted	0.07	0.32

- 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. Capital Raise in the LSE

On 22 February 2005, the Company completed an initial public offering in which it raised capital in the total amount of \$ 76 million (net of issuance expenses at the amount of \$ 5 million) as against the allocation of 10,600,000 ordinary company shares and of listing of Global Depository Receipts (hereafter – GDRs) in the official list of the UK Listing Authority; each GDR represent one company.

The allocation of shares and GDRs has taken place in two stages: in the first stage, on 8 February 2005, 10,000,000 Company shares were issued and GDRs were listed as above. In the second stage, the underwriters exercised their option to issue additional 600,000 shares at the price mentioned above and listing of those shares as GDRs.

DRAFT

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2005

(UNAUDITED)

Commensurate with the said allocation, ICC Handles AG of the ICC group sold 2,600,000 enlisted company shares at the price mentioned above. Before the said sale of shares, ICC Handles AG held 50.54% of the Company's share capital; subsequent to the sale, it held 36.75% of the share capital. During the first quarter of 2005, the Company used part of the consideration it received in respect of the issuance of shares to repay long-term bank loans and short-term bank credit at the total amount of \$ 56 million. Subsequent to balance sheet date the Company repaid additional loans and short-term bank credit at the total amount of \$ 6.4 million.

3. Acquisition of European Food Systems Business from International Flavors & Fragrances Inc. in Europe in 2004:

On 17 May 2004 and 29 October 2004, the Company purchased the Food Systems Business ("FS") of International Flavors and Fragrances IFF Inc. ("IFF") in Switzerland, Germany and France.

The results of the purchase of the German and Swiss operations and the France operations for the periods starting 17 August and 2 November 2004, respectively, were included in the consolidated income statement for the year ended 31 December 2004.

4. Dividend paid subsequent to balance sheet date

On 25 March 2005, the Company's board of directors resolved to distribute a dividend of NIS 0.13 per share. The total amount of dividend is \$ 1,740 thousands. The dividend was paid on 1 May 2005.

5. Corporate Tax Reduction:

On 29 June 2004, the Israeli Parliament passed the Income Tax Ordinance Amendment (No. 140 and Ad Hoc Provision) Law, 2004 (hereafter – the Amendment), which provides for the gradual reduction – commencing from 1 January 2004 - in the rate of corporate tax from 36% to 30%, in the following manner: the rate for 2004 will be 35%, for 2005 – 34%, for 2006 – 32%, and for 2007 and thereafter – 30%. The Amendment was signed at the beginning of July 2004 by the officials authorized by the State of Israel to approve it, and was published in the Official Gazette of the Government of Israel on 11 July 2004.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2005

(UNAUDITED)

6. Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
3 months ended 31 March 2005 (unaudited):					
Revenues	*41,645	22,086	1,840	(842)	<u>64,729</u>
Segment results	*6,785	2,274	198		<u>9,257</u>
Unallocated income					<u>19</u>
Result from operations					<u>9,276</u>
3 months ended 31 March 2004 (unaudited):					
Revenues	21,735	21,097	1,723	(622)	<u>43,933</u>
Segment results	3,584	1,696	72		<u>5,352</u>
Unallocated expenses					<u>(208)</u>
Result from operations					<u>5,144</u>
Year ended 31 December 2004 (audited):					
Revenues	*110,908	81,732	6,752	(2,612)	<u>196,780</u>
Segment results	*15,352	6,512	256		<u>22,120</u>
Unallocated expenses					<u>(108)</u>
Result from operations					<u>22,012</u>

* Including the acquired FS operations from IFF (see Note 3)

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2005

(UNAUDITED)

7. Cash Flows from Operations:

	3 months ended		Year ended
	31 March		31 December
	2005	2004	2004
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Net income	6,842	3,589	15,756
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortisation	2,291	1,321	6,370
Recognition of compensation related to the plan and to employee stock and option grants	263	860	2,730
Liability for employee rights upon retirement – net	186	25	660
Deferred income taxes - net	(7)	162	(723)
Loss from sale of fixed assets	2	(24)	24
Other	86		193
Provisions	(7)	(82)	(619)
	<u>2,814</u>	<u>2,262</u>	<u>8,635</u>
Changes in working capital:			
Increase in accounts receivable:			
Trade	(7,321)	(5,319)	(12,683)
Other	(1,371)	(1,058)	(438)
Decrease in accounts payable:			
Trade	2,118	1,492	5,201
Other	4,157	1,798	5,930
Decrease (increase) in inventories	(1,013)	1,615	(1,373)
	<u>(3,430)</u>	<u>(1,472)</u>	<u>(3,363)</u>
Cash flows from operating activities	<u>6,226</u>	<u>4,379</u>	<u>21,028</u>

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