

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

AT 31 MARCH 2007

FRUTAROM INDUSTRIES LTD.

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20 May 2007

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 2007

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 2007, 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 2007 of consolidated subsidiaries, whose assets constitute approximately 3.41% of the consolidated totals, and whose revenues for the three-month period ended 31 March 2007 constitute approximately 6.22% 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,

	<u>31 March</u>		<u>31 December</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>		<u>(Audited)</u>
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Bank credit and loans	17,399	735	673
Accounts payable:			
Trade	27,154	22,564	27,500
Other	31,858	27,372	27,997
Provisions	505	787	946
T o t a l current liabilities	<u>76,916</u>	<u>51,458</u>	<u>57,116</u>
NON-CURRENT LIABILITIES:			
Retirement benefit obligations	7,586	8,272	7,499
Deferred income tax liabilities	12,252	7,184	12,241
Other liabilities	23,110	18,255	22,708
T o t a l non-current liabilities	<u>42,948</u>	<u>33,711</u>	<u>42,448</u>
T o t a l liabilities	<u>119,864</u>	<u>85,169</u>	<u>99,564</u>
SHAREHOLDERS' EQUITY:			
Share capital	16,459	16,399	16,434
Capital surplus	93,468	92,045	93,116
Currency translation differences	6,533	(4,059)	5,716
Retained earnings	108,781	82,802	103,658
Less - cost of company shares held by subsidiary	(1,615)	(1,042)	(1,791)
T o t a l shareholders' equity	<u>223,626</u>	<u>186,145</u>	<u>217,133</u>
Total shareholders' equity and liabilities	<u>343,490</u>	<u>271,314</u>	<u>316,697</u>

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2007

	3 months ended 31 March		Year ended 31 December
	2007	2006	2006
U.S. dollars in thousands			
	(Unaudited)		(Audited)
SALES	80,501	70,988	287,247
COST OF SALES	50,693	43,944	181,370
GROSS PROFIT	29,808	27,044	105,877
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES – net:			
Selling, marketing, research and development - net	13,577	11,096	48,518
General and administrative	5,832	5,595	22,418
OTHER INCOME (EXPENSES) – net	(17)	22	2,114
OPERATING PROFIT	10,382	10,375	37,055
FINANCIAL (INCOME) EXPENSES – net	241	(313)	445
PROFIT BEFORE TAXES ON INCOME	10,141	10,688	36,610
TAXES ON INCOME	2,519	1,842	6,908
NET INCOME FOR THE PERIOD	7,622	8,846	29,702
	U . S . D o l l a r s		
EARNINGS PER SHARE:			
BASIC	0.14	0.16	0.52
DILUTED	0.13	0.15	0.51

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

FRUTAROM INDUSTRIES LTD.

**CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2007**

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	<u>U . S . d o l l a r s i n t h o u s a n d s</u>					
BALANCE AT 1 JANUARY 2007 (audited)	16,434	93,116	5,716	103,658	(1,791)	217,133
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2007 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			817			817
Net income				7,622		7,622
Total recognised income for 3 months ended 31 March 2007						8,439
Plans for allotment of company shares to employees of subsidiary:						
Receipts in respect of allotment of company shares to employees					130	130
Recognition of compensation related to the plan					46	46
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	25	98				123
Recognition of compensation related to employee stock and options grants		254				254
Dividend declared (note 2)				(2,499)		(2,499)
BALANCE AT 31 MARCH 2007 (unaudited)	<u>16,459</u>	<u>93,468</u>	<u>6,533</u>	<u>108,781</u>	<u>(1,615)</u>	<u>223,626</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2007

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	<u>U . S . d o l l a r s i n t h o u s a n d s</u>					
BALANCE AT 1 JANUARY 2006 (audited)	16,399	91,666	(5,160)	75,934	(1,031)	177,808
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2006 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			1,101			1,101
Net income				8,846		8,846
Total recognised income for 3 months ended 31 March 2006						9,947
Plans for allotment of company shares to employees of subsidiary:						
Purchase of company shares by a subsidiary					(119)	(119)
Receipts in respect of allotment of company shares to employees					65	65
Recognition of compensation related to the plan					43	43
Allotment of shares and options to senior employees - recognition of compensation related to employee stock and options grants		379				379
Dividend declared				(1,978)		(1,978)
BALANCE AT 31 MARCH 2006 (unaudited)	<u>16,399</u>	<u>92,045</u>	<u>(4,059)</u>	<u>82,802</u>	<u>(1,042)</u>	<u>186,145</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2007

	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . d o l l a r s i n t h o u s a n d s					
BALANCE AT 1 JANUARY 2006 (audited)	16,399	91,666	(5,160)	75,934	(1,031)	177,808
CHANGES IN 2006 (audited):						
Net income not recognised in the net profit - changes in currency translation			10,876			10,876
Net income				29,702		29,702
Total recognised income for 2006						40,578
Plan for allotment of Company shares to employees of subsidiary:						
Purchase of Company shares by subsidiary					(1,135)	(1,135)
Receipts in respect of allotment of Company shares to employees					146	146
Recognition of compensation related to the plan					229	229
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	35	141				176
Recognition of compensation related to employee stock and option grants		1,309				1,309
Dividend				(1,978)		(1,978)
BALANCE AT 31 DECEMBER 2006 (audited)	16,434	93,116	5,716	103,658	(1,791)	217,133

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2007

	3 months ended		Year ended
	31 March		31 December
	2007	2006	2006
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (note 5)	(494)	4,253	36,389
Interest paid	(78)	173	400
Income tax paid	(2,143)	(812)	(5,340)
Net cash provided by (used in) operating activities	(2,715)	3,614	31,449
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(2,783)	(2,420)	(10,056)
Purchase of other assets	(1,114)		(3,820)
Investment in restricted deposit for the purpose of purchasing Belmay (note 6)	(16,747)		
Acquisition of subsidiary – net of cash acquired		(20,261)	(34,390)
Reimbursement in respect of acquisition of operations			2,218
Proceeds from sale of property, plant and equipment	114	216	426
Acquisition (sale) of marketable securities - net	2,711	(33)	7
Net cash used in investing activities	(17,819)	(22,498)	(45,615)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of short-term bank loans in connection with acquisition of Belmay (note 6)	15,636		
Receipts from senior employees in respect of allotment of shares	123		176
Repayment of long-term bank loans and credit		(294)	(304)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	130	(54)	(989)
Dividend paid			(1,978)
Net cash provided by (used in) financing activities	15,889	(348)	(3,095)
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	44	223	1,282
DECREASE IN CASH AND CASH EQUIVALENTS	(4,601)	(19,009)	(15,979)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,744	33,723	33,723
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD (note 4)	13,143	14,714	17,744

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

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2007

(UNAUDITED)

1. General:

- a) The interim financial statements as of 31 March 2007 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 2006 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 2006 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 2007, the Group adopted the standards mentioned below, which are relevant to its operations:
 - (a) IFRIC 10 – “Interim Financial Reporting and Impairment” – in effect for annual reporting periods commencing on 1 November 2006 or thereafter.
 - (b) IFRS 7 - “Disclosures” – in effect for annual reporting periods commencing on 1 January 2007.

Adoption of the said standard did not cause material changes in the Group’s accounting policy.

- 2) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:
 - (a) IFRS 8 – “Operating Segments” - in effect for annual reporting periods commencing 1 January 2009.
 - (b) IFRIC 11 – “Group and Treasury Share Transactions” - in effect for annual reporting period commencing 1 March 2007.

The Group does not anticipate that the adoption of these standards would have an impact on its financial statements.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2007

(UNAUDITED)

- 3) Standards and Interpretations for existing Standards that are not yet effective and are not relevant to Group's operations -

IAS 1 – “Presentation of Financial Statements – Disclosures about Capital” – in effect for annual reporting periods commencing 1 January 2007.

- 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 19 March 2007, the Company's board of directors resolved to distribute a dividend of NIS 0.18 per share. The total amount of dividend - \$ 2,499 thousands - was distributed to the shareholders on 1 May 2007.

3. Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
U.S. dollars in thousands					
3 months ended 31 March 2007 (unaudited):					
Revenues	49,925	29,131	2,555	(1,110)	80,501
Segment results	7,731	3,180	112		11,023
Unallocated expenses					(641)
Result from operations					10,382
3 months ended 31 March 2006 (unaudited):					
Revenues	44,752	25,505	1,380	(649)	70,988
Segment results	7,362	3,046	68		10,476
Unallocated income					(101)
Result from operations					10,375
Year ended 31 December 2006 (audited):					
Revenues	187,030	98,364	6,749	(4,896)	287,247
Segment results	29,848	7,286	200		37,334
Unallocated expenses					(279)
Result from operations					37,055

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2007

(UNAUDITED)

4. Cash and cash equivalents

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	3 months ended		Year ended
	31 March		31 December
	2007	2006	2006
	U.S. dollars in thousands		
Cash and cash equivalents	14,898	15,449	18,417
Bank overdrafts	(1,755)	(735)	(673)
	<u>13,143</u>	<u>14,714</u>	<u>17,744</u>

5. Cash Flows from Operations:

	3 months ended		Year ended
	31 March		31 December
	2007	2006	2006
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Net income	7,622	8,846	29,702
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	2,568	2,279	10,015
Recognition of compensation related to employee stock and option grants	300	422	1,538
Liability for employee rights upon retirement – net	20	172	(1,168)
Deferred income taxes - net	(136)	174	(816)
Loss (gain) from sale of fixed assets	(72)	23	(23)
Other	142	133	546
Provisions	(441)	240	399
Provision for impairment of intangible assets in subsidiary			126
Negative goodwill arising from the acquisition of IFF (note 3)			(2,242)
	<u>2,381</u>	<u>3,443</u>	<u>8,375</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(10,474)	(9,278)	(5,247)
Other	(466)	(538)	(1,744)
Increase (decrease) in accounts payable:			
Trade	(400)	2,609	4,938
Other	4,211	(462)	5,249
Increase in inventories	(3,368)	(367)	(4,884)
	<u>(10,497)</u>	<u>(8,036)</u>	<u>(1,688)</u>
Cash flows from operating activities	<u>(494)</u>	<u>4,253</u>	<u>36,389</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

AT 31 MARCH 2007

(UNAUDITED)

6. Subsequent events

Acquisition of Belmay Limited

On April 1, 2007 the company acquired, through a subsidiary, 100% of the issued and paid share capital of the U.K. company Belmay Limited (hereafter – Belmay).

Belmay develops, produces and markets flavors (mainly natural flavors) for the food and beverage industry. Belmay has subsidiaries in Singapore, Norway and Denmark and its 2006 sales turnover amounted to \$ 15.1 million.

In accordance with the purchase agreement, on March 28 the company transferred the net consideration for the purchase (\$ 16.7 million) to a deposit in the name of the company; this deposit was held in trust by the sellers. On April 2, 2007 the said amount was transferred to the sellers as against Belmay's shares that were transferred at that date to the company. The cost of acquisition would be allocated to acquired assets and liabilities, based on the fair value thereof on date of acquisition, and to goodwill. The fair value of the assets and liabilities would be determined subject to assessments performed for the company.

Acquisition of Jupiter

On April 19, 2007, the company acquired, through a subsidiary, 100% of the issued and paid share capital of the U.K. company Jupiter Flavours Limited (hereafter – Jupiter). Jupiter develops manufactures and markets flavors. The acquisition was made in consideration for \$ 2.8 million and an additional future consideration of \$ 600 thousands the payment of which is dependent on Jupiter's results of operations for the period ended July 31, 2007. Jupiter's 2006 sales turnover amounted to \$ 2 million. The cost of acquisition would be allocated to acquired assets and liabilities, based on the fair value thereof on date of acquisition, and to goodwill. The fair value of the assets and liabilities would be determined subject to assessments performed for the company.
