

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 JUNE 2007

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 JUNE 2007

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August 20, 2007

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 2007

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 2007 and the related condensed consolidated 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 2007 of consolidated subsidiaries, whose assets constitute approximately 3.42% of the consolidated totals, and whose revenues for the six and three-month periods ended 30 June 2007 constitute approximately 6.72% and 7.17% 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.

Sincerely,

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

30 JUNE 2007

	30 June		31 December
	2007	2006	2006
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	14,698	17,080	18,417
Short-term investments	502	3,187	3,260
Accounts receivable:			
Trade	71,248	53,317	53,968
Other	13,328	10,601	10,038
Prepaid expenses and advances to Suppliers	5,030	3,108	3,662
Inventories	69,829	52,922	59,754
T o t a l current assets	174,635	140,215	149,099
NON-CURRENT ASSETS:			
Property, plant and equipment - net	108,640	99,220	101,655
Intangible assets - net	78,091	38,983	60,172
Deferred income tax assets	4,087	3,058	3,833
Other non-current assets	1,918	1,958	1,938
T o t a l non-current assets	192,736	143,219	167,598
T o t a l assets	367,371	283,434	316,697

_____) 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: 20 August 2007

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

30 JUNE 2007

	<u>30 June</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	24,786	712	673
Accounts payable:			
Trade	35,690	21,207	27,500
Other	32,582	25,883	27,997
Provisions	377	929	946
T o t a l current liabilities	<u>93,435</u>	<u>48,731</u>	<u>57,116</u>
NON-CURRENT LIABILITIES:			
Retirement benefit obligations	7,613	8,704	7,499
Deferred income tax liabilities	13,468	5,989	12,241
Other liabilities	23,475	19,256	22,708
T o t a l non-current liabilities	<u>44,556</u>	<u>33,949</u>	<u>42,448</u>
T o t a l liabilities	<u>137,991</u>	<u>82,680</u>	<u>99,564</u>
SHAREHOLDERS' EQUITY:			
Share capital	16,466	16,427	16,434
Capital surplus	93,814	92,393	93,116
Currency translation differences	5,984	1,779	5,716
Retained earnings	114,604	91,356	103,658
Net of - cost of company shares held by subsidiary	(1,488)	(1,201)	(1,791)
T o t a l shareholders' equity	<u>229,380</u>	<u>200,754</u>	<u>217,133</u>
Total shareholders' equity and liabilities	<u>367,371</u>	<u>283,434</u>	<u>316,697</u>

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2007

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2007	2006	2007	2006	2006
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
SALES	172,205	143,333	91,704	72,345	287,247
COST OF SALES	109,586*	90,033	58,893*	46,089	181,370
GROSS PROFIT	62,619	53,300	32,811	26,256	105,877
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:					
Selling, marketing, research and development - net	29,906*	22,947	16,329*	11,851	48,518
General and administrative	13,721*	11,424	7,889*	5,829	22,418
OTHER INCOME (EXPENSES) - net	(109)	1,107	(92)	1,085	2,114
OPERATING PROFIT	18,883	20,036	8,501	9,661	37,055
FINANCIAL EXPENSES (INCOME) - net	166	254	(75)	567	445
PROFIT BEFORE TAXES ON INCOME	18,717	19,782	8,576	9,094	36,610
TAXES ON INCOME	5,199	2,382	2,680	540	6,908
NET INCOME	13,518	17,400	5,896	8,554	29,702
	U . S . Dollars				
EARNINGS PER SHARE:					
BASIC	0.23	0.31	0.10	0.15	0.52
DILUTED	0.23	0.30	0.10	0.15	0.51

* Including restructuring expenses of both acquired companies and consolidated companies in England in the amount of \$ 1,141 thousands.

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

FRUTAROM INDUSTRIES LTD.
CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2007

	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 options grants		531				531
Dividend paid (Note 6)				(2,572)		(2,572)
BALANCE AT 30 JUNE 2007 (unaudited)	<u>16,466</u>	<u>93,814</u>	<u>5,984</u>	<u>114,604</u>	<u>(1,488)</u>	<u>229,380</u>

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FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 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 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 recognised in the net profit - changes in currency translation			(549)			(549)
Net income				5,896		5,896
Total recognised 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 due to dividend paid				(73)		(73)
BALANCE AT 30 JUNE 2007 (unaudited)	<u>16,466</u>	<u>93,814</u>	<u>5,984</u>	<u>114,604</u>	<u>(1,488)</u>	<u>229,380</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2007

	Share Capital	Additional paid in capital	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . dollars in thousands					
BALANCE AT 1 JANUARY 2006 (audited)	16,399	91,666	(5,160)	75,934	(1,031)	177,808
CHANGES DURING THE 6 MONTHS ENDED 30 JUNE 2006 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			6,939			6,939
Net income				17,400		17,400
Total recognised income for 6 months ended 30 June 2006						24,339
Plans for allotment of company shares to employees of subsidiary:						
Purchase of company shares by a subsidiary					(379)	(379)
Receipts in respect of allotment of company shares to employees					83	83
Recognition of compensation related to the plan					126	126
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	28	112				140
Recognition of compensation related to employee stock and options grants		615				615
Dividend paid				(1,978)		(1,978)
BALANCE AT 30 JUNE 2006 (unaudited)	<u>16,427</u>	<u>92,393</u>	<u>1,779</u>	<u>91,356</u>	<u>(1,201)</u>	<u>200,754</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)
FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2007

	<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 APRIL 2006 (unaudited)	16,399	92,045	(4,059)	82,802	(1,042)	186,145
CHANGES DURING THE 3 MONTHS ENDED 30 JUNE 2006 (unaudited):						
Net income not recognised in the net profit - changes in currency translation			5,838			5,838
Net income				8,554		8,554
Total recognised income for 3 months ended 30 June 2006						14,392
Plans for allotment of company shares to employees of subsidiary:						
Purchase of company shares by a subsidiary					(260)	(260)
Receipts in respect of allotment of company shares to employees					18	18
Recognition of compensation related to the plan					83	83
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	28	112				140
Recognition of compensation related to employee stock and options grants		236				236
BALANCE AT 30 JUNE 2006 (unaudited)	<u>16,427</u>	<u>92,393</u>	<u>1,779</u>	<u>91,356</u>	<u>(1,201)</u>	<u>200,754</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY (continued)
FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIODS ENDED 30 JUNE 2007

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2007	2006	2007	2006	2006
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Note 9)	5,122	11,300	5,616	7,047	36,389
Interest received (paid)	(129)	258	(51)	85	400
Income tax paid	(4,421)	(1,611)	(2,278)	(799)	(5,340)
Net cash provided by operating activities	572	9,947	3,287	6,333	31,449
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(7,023)	(5,615)	(4,240)	(3,195)	(10,056)
Purchase of other assets	(1,840)		(726)		(3,820)
Acquisition of subsidiaries – net of cash acquired	(20,237)	(20,261)	(3,490)		(34,390)
Reimbursement in respect of acquisition of operations					2,218
Proceeds from sale of property, plant and equipment	280	258	166	42	426
Acquisition of short-term marketable securities – net	2,795	(35)	84	(2)	7
Net cash used in investing activities	(26,025)	(25,653)	(8,206)	(3,155)	(45,615)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Short-term loans receivable - net	23,237		7,601		
Receipts from senior employees in respect of allotment of shares	199	140	76	140	176
Repayment of long-term bank loans and credit		(299)		(5)	(304)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	234	(296)	104	(242)	(989)
Dividend paid	(2,572)	(1,978)	(2,572)	(1,978)	(1,978)
Net cash provided by (used in) financing activities	21,098	(2,433)	5,209	(2,085)	(3,095)
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	141	784	97	561	1,282
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,214)	(17,355)	387	1,654	(15,979)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,744	33,723	13,143	14,714	33,723
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	13,530	16,368	13,530	16,368	17,744

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

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2007

(UNAUDITED)

1. General:

- a) The interim financial statements as of 30 June 2007 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”.
- 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.
- (c) IFRIC 13 – “Customer loyalty programs” – in effect for annual reporting periods commencing 1 July 2008. IFRIC 13 provides guidance on how to apply requirements of IAS 18, concerning award credits used by entities on sales transactions.
- (d) IFRIC 14 – The limit on a defined benefit asset, minimum funding requirements and their interaction – in effect for annual reporting periods commencing 1 January 2008.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

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

- 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. Acquisition of Belmay Limited

On 1 April 2007 the company purchased, through a consolidated company, 100% of the issued and paid up share capital of the English company Belmay Limited (hereafter – Belmay).

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

In accordance with the purchase agreement, on 28 March 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 2 April 2007 the said amount was transferred to the sellers in exchange for Belmay's shares which were transferred to the company on that date. The cost of acquisition was allocated to goodwill and to assets and liabilities purchased according to their fair value on the date of acquisition. The fair value of the assets and liabilities is subject to completion of the value assessments performed by the company.

The cost of acquisition presented in this report aggregates £ 9,067 thousands (\$ 17,731 thousands). The intangible assets which were recognized include: Product formulas in the amount of £ 506 thousands (\$ 989 thousands), customer relations in the amount of £ 951 thousands (\$ 1,860 thousands) and goodwill in the amount of £ 5,014 thousands (\$ 9,805 thousands). Product formulas and customer relations are amortized over an economic period of 20 years and 10 years, respectively. Goodwill is not amortized but it is examined for impairment on an annual basis.

Commencing on 1 April 2007, as a result of the acquisition, Belmay's financial statements were consolidated for the first time. The consolidated statement of income includes the expenses of Belmay's activities commencing on 1 April 2007.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

The following are Belmay's data included in the consolidated financial statements as of 30 June 2007:

	<u>30 June 2007</u>
	<u>In thousands</u>
	<u>(Unaudited)</u>
Current assets:	
Cash and cash equivalents	861
Accounts receivable:	
Trade	4,271
Other	170
Inventories	1,281
Non-current assets:	
Deferred taxes	300
Property, plant and equipment - net	4,358
Intangible assets - net	12,901
Current liabilities:	
Bank credit and loans	(72)
Accounts payable:	
Trade	(2,416)
Related company	(819)
Other	(2,020)
Non-current liabilities:	
Deferred income tax liabilities	(883)
	<u>17,932</u>

From 1 April 2007 to 30 June 2007, the acquired company generated income in the amount of \$ 3,994 thousands and - after restructuring expenses - net loss in the amount of \$ 215 thousands.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

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

	<u>Fair value</u>	<u>Acquired company's carrying amount</u>
	<u>In thousands</u>	
Cash and cash equivalents	430	430
Accounts receivable:		
Trade	2,648	2,648
Other	211	211
Inventories	1,062	1,062
Deferred income tax assets	147	147
Property, plant and equipment - net	4,251	4,251
Intangible assets - net	2,849	
Goodwill	9,805	
Bank credit and loans	(80)	(80)
Accounts payable:		
Trade	(1,320)	(1,320)
Other	(1,238)	(1,238)
Deferred income tax liabilities	(877)	(23)
	<u>17,888</u>	<u>6,088</u>

The amount of \$ 17,301 thousands which is presented in the report under 'Cash flow' does not include the acquisition expenses accrued.

3. Acquisition of Jupiter Flavors Limited

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

The cost of acquisition presented in this report aggregates £ 1,807 thousands (\$ 3,618 thousands). In addition, it includes the current value of liabilities determined by the company's management. These liabilities relate to the nonrecurring future payment of £ 300 thousands (\$ 600 thousands) for improvement in profitability, as referred to above, and to acquisition expenses in the amount of £ 30 thousands (\$ 60 thousands).

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

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

The recognized intangible assets include goodwill in the amount of £ 1,671 thousands (\$ 3,342 thousands).

As a result of the acquisition, Jupiter's financial statements were consolidated for the first time on 19 April 2007. The consolidated statement of income includes the expenses of Jupiter's activities as from that date.

The following are Jupiter's data included in the consolidated financial statements as of 30 June 2007:

	30 June 2007
	In thousands
	(Unaudited)
Current assets:	
Cash and cash equivalents	106
Trade receivables	452
Inventories	126
Non-current assets:	
Deferred taxes	22
Property, plant and equipment - net	56
Intangible assets - net	3,345
Current liabilities:	
Accounts payable:	
Trade	(246)
Other	(875)
	<u>2,986</u>

From 19 April 2007 to 30 June 2007, the acquired operations generated income in the amount of \$ 412 thousands and net income in the amount of \$ 30 thousands.

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

	Fair value	Acquired company's carrying amount
	In thousands	
Cash and cash equivalents	18	18
Trade receivables	406	406
Inventories	172	172
Deferred income tax assets	22	22
Property, plant and equipment - net	110	110
Goodwill	3,342	
Accounts payable:		
Trade	(238)	(238)
Other	(218)	(218)
	<u>3,614</u>	<u>272</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

The amount of \$ 2,936 thousands which is presented in the report under 'Cash flow' does not include the amount of liabilities for improvement in profitability, as referred to above, and the acquisition expenses accrued.

4. Acquisition of Reichan Ltd.

On 5 June 2007, the company signed a purchase agreement for the acquisition of 100% of the share capital of Reichan Beerot Itzhak Food Industries Ltd. (hereafter - Reichan).

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

The amount of the acquisition was \$ 1,000 thousands. The company also took it upon itself to pay a debt owned by Reichan in the amount of NIS 5 million (\$ 1,176 thousands) less working capital.

The completion of the acquisition depends on receiving the final authorization from the Officer in Charge of Restrictive Trade Practices. However, first, the Officer in Charge of the Merger should issue an authorization conditioned on the implementation of the terms, which, in his opinion, are liable to remove concerns for competition.

The final authorization of the Officer in Charge of Restrictive Trade Practices was received on 15 August 2007.

5. Acquisition of the operations of Adumim Ltd.

On 28 June 2007, the company signed, through a consolidated company, an agreement to purchase the operations of Adumim Food Supplements Ltd. (hereafter - Adumim).

Adumim is a public company traded in the Tel-Aviv Stock Exchange. Adumim is engaged in two main fields of operation: (1) The development, production and marketing of supplements and raw materials for the food and functional food industries, and (2) the development and production of dietary supplements.

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

The completion of the acquisition is conditioned, inter alia, on receiving the authorization of the Officer in Charge of Restrictive Trade Practices.

The final authorization of the Officer in Charge of Restrictive Trade Practices was received on 15 August 2007.

6. 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 the dividend - \$ 2,572 thousands - was distributed to the shareholders on 1 May 2007.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

AT 30 JUNE 2007

(UNAUDITED)

7. Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
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
Unallocated income					-, -
Result from operations					18,883
6 months ended 30 June 2006 (unaudited):					
Revenues	*94,221	48,046	2,858	*(1,792)	143,333
Segment results	15,589	4,489	115		20,193
Unallocated expenses					(157)
Result from operations					20,036
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
Unallocated income					-, -
Result from operations					8,501
3 months ended 30 June 2006 (unaudited):					
Revenues	*49,469	22,541	1,478	*(1,143)	72,345
Segment results	8,227	1,443	47		9,717
Unallocated expenses					(56)
Results from operations					9,661
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)
Results from operations					37,055

* Reclassified.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

8. 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:

	6 and 3 months ended 30 June		Year ended 31 December
	2007	2006	2006
	U.S. dollars in thousands		
Cash and cash equivalents	14,698	17,080	18,417
Bank overdrafts	(1,168)	(712)	(673)
	<u>13,530</u>	<u>16,368</u>	<u>17,744</u>

9. Cash Flows from Operations:

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2007	2006	2007	2006	2006
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
Net income	13,518	17,400	5,896	8,554	29,702
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortisation	5,606	4,670	3,038	2,391	10,015
Recognition of compensation related to the plan and to employee stock and option grants	600	741	300	319	1,538
Liability for employee rights upon retirement – net	(3)	246	(23)	74	(1,168)
Deferred income taxes - net	200	(1,150)	336	(1,324)	(816)
Loss (gain) from sale of fixed assets	(102)	30	(30)	7	(23)
Other	287	272	145	139	546
Increase (decrease) in provisions - net	(569)	382	(128)	142	399
Provisions for impairment of intangibles in subsidiary					126
Negative goodwill arising from the acquisition of IFF (Note 3)		(1,089)		(1,089)	(2,242)
	<u>6,019</u>	<u>4,102</u>	<u>3,638</u>	<u>659</u>	<u>8,375</u>
Changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(14,188)	(7,628)	(3,714)	1,650	(5,247)
Other	(4,432)	(875)	(3,966)	(337)	(1,744)
Increase (decrease) in accounts payable:					
Trade	6,435	656	6,835	(1,953)	4,938
Other	6,320	(242)	2,109	220	5,249
Increase in inventories	(8,550)	(2,113)	(5,182)	(1,746)	(4,884)
	<u>(14,415)</u>	<u>(10,202)</u>	<u>(3,918)</u>	<u>(2,166)</u>	<u>(1,688)</u>
Cash flows from operating activities	<u>5,122</u>	<u>11,300</u>	<u>5,616</u>	<u>7,047</u>	<u>36,389</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 JUNE 2007

(UNAUDITED)

10. Events subsequent to the balance sheet date

The acquisition of Abaco

On 3 July 2007, the company purchased, through a consolidated company, 100% of the ownership of the American companies Abaco Manufacturing Llc and Abaco Incorporated (hereafter - Abaco).

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

On the date of acquisition, the company paid \$ 4 million and it bears Abaco's debt in the amount of \$ 1.1 million.
