

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2007

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2007

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November 20, 2007

The Board of Directors
Frutarom Industries Ltd.
Haifa

Re: Review of unaudited interim consolidated
financial statements for the nine- and three-month periods ended 30 September 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 September 2007 and the related condensed consolidated statements of income, changes in shareholders' equity and cash flows for the nine- 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 September 2007 of consolidated subsidiaries, whose assets constitute approximately 3.21% of the consolidated totals, and whose revenues for the nine- and three-month periods ended 30 September 2007 constitute approximately 6.64% and 6.93% 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 SEPTEMBER 2007

	30 September		31 December
	2007	2006	2006
	U.S. dollars in thousands		
	(Unaudited)	(Audited)	
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	17,229	28,080	18,417
Short-term investments	525	3,215	3,260
Accounts receivable:			
Trade	70,138	54,134	53,968
Other	6,899	8,370	10,038
Prepaid expenses and advances to			
Suppliers	6,521	4,100	3,662
Inventories	76,992	52,541	59,754
T o t a l current assets	178,304	150,440	149,099
NON-CURRENT ASSETS:			
Property, plant and equipment - net	114,437	99,805	101,655
Intangible assets - net	90,608	38,528	60,172
Deferred income tax assets	4,419	5,863	3,833
Other non-current assets	1,908	1,948	1,938
T o t a l non-current assets	211,372	146,144	167,598
T o t a l assets	389,676	296,584	316,697

_____) 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: 20 November 2007

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
30 SEPTEMBER 2007

	<u>30 September</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	36,445	716	673
Accounts payable:			
Trade	29,641	23,047	27,500
Other	35,531	28,644	27,997
Provisions	377	947	946
T o t a l current liabilities	<u>101,994</u>	<u>53,354</u>	<u>57,116</u>
NON-CURRENT LIABILITIES:			
Retirement benefit obligations	7,918	8,665	7,499
Deferred income tax liabilities	12,248	8,513	12,241
Other liabilities	24,906	19,349	22,708
T o t a l non-current liabilities	<u>45,072</u>	<u>36,527</u>	<u>42,448</u>
T o t a l liabilities	<u>147,066</u>	<u>89,881</u>	<u>99,564</u>
SHAREHOLDERS' EQUITY:			
Share capital	16,466	16,427	16,434
Capital surplus	94,092	92,791	93,116
Currency translation differences	13,595	1,047	5,716
Retained earnings	120,477	98,338	103,658
Net of - cost of company shares held by subsidiary	(2,020)	(1,900)	(1,791)
T o t a l shareholders' equity	<u>242,610</u>	<u>206,703</u>	<u>217,133</u>
Total shareholders' equity and liabilities	<u>389,676</u>	<u>296,584</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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2007

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2007	2006	2007	2006	2006
U.S. dollars in thousands					
	(Unaudited)		(Unaudited)		(Audited)
SALES	259,897	214,615	87,692	71,282	287,247
COST OF SALES	165,738	134,389	56,152	44,356	181,370
GROSS PROFIT	94,159	80,226	31,540	26,926	105,877
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES - net:					
Selling, marketing, research and development - net	46,205	35,227	16,299	12,280	48,518
General and administrative	21,045	17,289	7,324	5,865	22,418
OTHER INCOME - net	303	1,573	412	466	2,114
OPERATING PROFIT	27,212	29,283	8,329	9,247	37,055
FINANCIAL EXPENSES - net	1,889	336	1,723	82	445
PROFIT BEFORE TAXES ON INCOME	25,323	28,947	6,606	9,165	36,610
TAXES ON INCOME	5,932	4,565	733	2,183	6,908
NET INCOME	19,391	24,382	5,873	6,982	29,702
U . S . D o l l a r s					
EARNINGS PER SHARE:					
BASIC	0.34	0.43	0.10	0.12	0.52
DILUTED	0.34	0.43	0.10	0.12	0.51

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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 9 MONTHS ENDED 30 SEPTEMBER 2007 (unaudited):						
Net income not recognized in the net profit - changes in currency translation			7,879			7,879
Net income				19,391		19,391
Total recognised income for 9 months ended 30 September 2007						27,270
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company's shares by subsidiary					(554)	(554)
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 options grants		809				809
Dividend paid (Note 7)				(2,572)		(2,572)
BALANCE AT 30 SEPTEMBER 2007 (unaudited)	<u>16,466</u>	<u>94,092</u>	<u>13,595</u>	<u>120,477</u>	<u>(2,020)</u>	<u>242,610</u>

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FRUTAROM INDUSTRIES LTD.

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

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 JULY 2007 (unaudited)	16,466	93,814	5,984	114,604	(1,488)	229,380
CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2007 (unaudited):						
Net income not recognised in the net profit - changes in currency translation			7,611			7,611
Net income				5,873		5,873
Total recognised income for 3 months ended 30 September 2007						13,484
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company's shares by subsidiary					(554)	(554)
Recognition of compensation related to the plan					22	22
Allotment of share capital to senior employees - recognition of compensation related to employee stock and options grants		278				278
BALANCE AT 30 SEPTEMBER 2007 (unaudited)	<u>16,466</u>	<u>94,092</u>	<u>13,595</u>	<u>120,477</u>	<u>(2,020)</u>	<u>242,610</u>

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FRUTAROM INDUSTRIES LTD.

CONDENSED STATEMENTS OF INTERIM CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	<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>Unappropriated</u>	<u>Appropriated</u>		
	<u>U. S. dollars in thousands</u>						
BALANCE AT 1 JANUARY 2006 (audited)	16,399	91,666	(5,160)	73,929	2,005	(1,031)	177,808
CHANGES DURING THE 9 MONTHS ENDED 30 SEPTEMBER 2006 (unaudited):							
Net income not recognized in net profit - changes in currency translation			6,207				6,207
Net income				24,382			24,382
Total recognised income for 9 months ended 30 September 2006							30,589
Plans for allotment of company shares to employees of subsidiary:							
Purchase of company shares by a subsidiary						(1,135)	(1,135)
Receipts in respect of allotment of company shares to employees						83	83
Recognition of compensation related to the plan						183	183
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		1,013					1,013
Dividend paid				27	(2,005)		(1,978)
BALANCE AT 30 SEPTEMBER 2006 (unaudited)	<u>16,427</u>	<u>92,791</u>	<u>1,047</u>	<u>98,338</u>	<u>-,-</u>	<u>(1,900)</u>	<u>206,703</u>

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FRUTAROM INDUSTRIES LTD.

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

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2006

	<u>Share capital</u>	<u>Additional paid in capital</u>	<u>Currency translation differences</u>	<u>Unappropriated retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	<u>U. S. dollars in thousands</u>					
BALANCE AT 1 JULY 2006 (unaudited)	16,427	92,393	1,779	91,356	(1,201)	200,754
CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2006 (unaudited):						
Net income not recognised in the net profit - changes in currency translation			(732)			(732)
Net income				6,982		6,982
Total recognised income for 3 months ended 30 September 2006						6,250
Plans for allotment of company shares to employees of subsidiary - purchase of company shares by a subsidiary					(756)	(756)
Recognition of compensation related to the plan					57	57
Allotment of shares and options to senior employees - recognition of compensation related to employee stock and options grants		398				398
BALANCE AT 30 SEPTEMBER 2006 (unaudited)	<u>16,427</u>	<u>92,791</u>	<u>1,047</u>	<u>98,338</u>	<u>(1,900)</u>	<u>206,703</u>

FRUTAROM INDUSTRIES LTD.

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

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 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 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 options grants		1,309				1,309
Dividend paid				(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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2007

	9 months ended 30 September		3 months ended 30 September		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 10)	11,819	24,911	6,697	13,611	36,389
Interest received (paid)	(200)	218	(71)	(40)	400
Income tax paid	(5,848)	(2,815)	(1,427)	(1,204)	(5,340)
Net cash provided by operating activities	5,771	22,314	5,199	12,367	31,449
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(10,035)	(8,643)	(3,012)	(3,028)	(10,056)
Purchase of other assets	(2,611)		(771)		(3,820)
Acquisition of subsidiaries and operations of Edomim Ltd. - net of cash acquired	(30,636)	(20,261)	(10,399)		(34,390)
Reimbursement in respect of acquisition of operations	2,389	2,218	2,389	2,218	2,218
Proceeds from sale of property, plant and equipment	566	363	286	105	426
Short-term marketable securities – net	2,829	(70)	34	(35)	7
Net cash used in investing activities	(37,498)	(26,393)	(11,473)	(740)	(45,615)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Short-term loans receivable – net	32,744		9,507		
Receipts from senior employees in respect of allotment of shares	199	140			176
Repayment of long-term bank loans and credit		(303)		(4)	(304)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(320)	(1,052)	(554)	(756)	(989)
Dividend paid	(2,572)	(1,978)			(1,978)
Net cash provided by (used in) financing activities	30,051	(3,193)	8,953	(760)	(3,095)
NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	571	913	430	129	1,282
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,105)	(6,359)	3,109	10,996	(15,979)
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,744	33,723	13,530	16,368	33,723
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 9)	16,639	27,364	16,639	27,364	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 SEPTEMBER 2007

(UNAUDITED)

NOTE 1 - General:

- a) The interim financial statements as of 30 September 2007 and for the nine- 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.

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) Accounting changes:

- 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 SEPTEMBER 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 -
 - (a) IAS 1 – “Presentation of Financial Statements – Disclosures about Capital” – in effect for annual reporting periods commencing on 1 January 2007.
 - (b) IAS 23 (Amendment) - borrowing costs - in effect for annual reporting periods commencing on 1 January 2009.

d) Effect of seasonality

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.

NOTE 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. Cost of acquisition was attributed to tangible and intangible assets (including goodwill) and to liabilities which were acquired according to their fair value on the date of acquisition.

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 SEPTEMBER 2007

(UNAUDITED)

NOTE 2 - Acquisition of Belmay Limited (continued)

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

	<u>30 September 2007</u>
	<u>In thousands</u>
	<u>(Unaudited)</u>
Current assets:	
Cash and cash equivalents	694
Accounts receivable:	
Trade	3,780
Other	124
Inventories	1,559
Non-current assets:	
Deferred income tax assets	258
Property, plant and equipment - net	4,934
Intangible assets - net	13,001
Current liabilities:	
Bank credit and loans	(65)
Accounts payable:	
Trade	(2,813)
Related company	(1,107)
Other	(1,280)
Non-current liabilities - deferred income tax liabilities	(874)
	<u>18,211</u>

From 1 April 2007 to 30 September 2007, the acquired company generated income in the amount of \$ 7,917 thousands and - after restructuring expenses - loss after tax benefit in the amount of \$ 515 thousands.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 2 - Acquisition of Belmay Limited (continued)

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>	
Current assets:		
Cash and cash equivalents	430	430
Accounts receivable:		
Trade	2,648	2,648
Other	211	211
Inventories	1,062	1,062
Non-current assets:		
Deferred income tax assets	147	147
Property, plant and equipment - net	4,251	4,251
Intangible assets – net	2,849	
Goodwill	9,805	
Current liabilities:		
Bank credit and loans	(80)	(80)
Accounts payable:		
Trade	(1,320)	(1,320)
Other	(1,238)	(1,238)
Non-current liabilities - deferred income tax liabilities	(877)	(23)
	<u>17,888</u>	<u>6,088</u>

The amount of \$ 17,338 thousands which is presented in the report under 'Cash flow' does not include the acquisition expenses accrued.

NOTE 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 was determined in the purchase agreement. This consideration does not exceed the amount of \$ 600 thousands which was based on the results the company obtained during the period ended 31 July 2007.

The cost of acquisition presented in this report aggregates £ 1,807 thousands (\$ 3,618 thousands). In addition, as referred to above, it includes liabilities that relate to the payment of £ 300 thousands (\$ 600 thousands) for operating results, and to acquisition expenses in the amount of £ 30 thousands (\$ 60 thousands).

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 3 - Acquisition of Jupiter Flavors Limited (continued)

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.

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.

As from the current quarter, Belmay carries out most of Jupiter's operations. Therefore, as of September 30, 2007, Belmay's presented data include Jupiter's data mentioned above.

Jupiter'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>	
Current assets:		
Cash and cash equivalents	18	18
Trade receivables	406	406
Inventories	172	172
Non-current assets:		
Deferred income tax assets	22	22
Property, plant and equipment - net	110	110
Goodwill	3,342	
Current liabilities:		
accounts payable:		
Trade	(238)	(238)
Other	(218)	(218)
	<u>3,614</u>	<u>272</u>

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

NOTE 4 - Acquisition of Reichan Ltd.

On 27 August 2007, the company acquired, through a subsidiary, 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.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 4 - Acquisition of Reichan Ltd. (continued)

In consideration for the acquisition, the Company paid an amount of NIS 4,250 thousands (approximately \$ 1,030 thousands). In addition, it took over a debt of Reichan (net of operating capital) in the amount of approximately NIS 5 million (approximately \$ 1,212 thousands).

The cost of acquisition presented in this report aggregates approximately NIS 4,397 thousands (approximately \$ 1,067 thousands).

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

The intangible assets which were recognized include goodwill in the amount of NIS 10,772 thousands (\$ 2,612 thousands).

As a result of the acquisition, as from 27 August 2007, the financial statements of Reichan were consolidated for the first time. In addition, commencing on 27 August 2007, the consolidated statement of income includes the results of Reichan's operations.

The operations of Reichan will be merged with the Company's operations in the Acco plant.

The following are the data of Reichan which were included in the consolidated financial statements as of 30 September 2007:

	September 30, 2007
	<u>In thousands</u>
	<u>(Unaudited)</u>
Current assets:	
Cash and cash equivalents	303
Accounts receivable:	
Trade	1,785
Other	11
Inventories	293
Non-current assets:	
Deferred income tax assets	20
Property, plant and equipment - net	187
Intangible assets - net	2,612
Current liabilities:	
Credit and loans from banks	(177)
Accounts payable:	
Trade	(989)
Affiliated company	(2,716)
Other	(155)
Non-current liabilities -	
liability for employee rights upon retirement, net	(74)
	<u>1,100</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 4 - Acquisition of Reichan Ltd. (continued)

Between 27 August 2007 and 30 September 2007, the acquired company produced income of \$ 403 thousands and net income of \$ 3 thousands.

Assets and liabilities of Reichan as of the date of acquisition:

	Fair value	Value in books of acquired company
	In thousands	
Current assets:		
Cash and cash equivalents	1	1
Accounts receivable:		
Trade	1,632	1,632
Other	11	11
Inventories	362	362
Non-current assets:		
Deferred income tax assets	20	20
Property, plant and equipment - net	187	187
Goodwill	2,612	
Current liabilities:		
Credit and loans from banks	(2,527)	(2,527)
Accounts payable:		
Trade	(950)	(950)
Other	(208)	(208)
Non-current liabilities -		
liability for employee rights upon retirement, net	(72)	(72)
	<u>1,068</u>	<u>(1,544)</u>

NOTE 5 - Acquisition of the operations of Edomim Ltd.

On 30 August 2007, the company acquired, through a subsidiary, the operations of Edomim Food Supplements Ltd. (hereafter - Edomim).

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

In consideration for the acquisition, the company paid an amount of \$ 4,250 thousands in cash.

In accordance with the purchase agreement, the company acquired the property, plant and equipment in the amount of \$ 673 thousands and the inventory in the amount of \$ 860 thousands. The balance of the cost of acquisition in the amount of \$ 2,922 thousands was attributed to goodwill, which is not amortized but tested for impairment on an annual basis.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 5 - Acquisition of the operations of Edomim Ltd. (continued)

The operations of Edomim will be merged with the Company's operations in the Haifa Bay plant.

Commencing on 30 August 2007, the company will lease the real-estate asset owned by Edomim for a period of 18 months.

The company has the right to terminate the lease period with a prior notice.

The amount of \$ 4,245 thousands presented in the statement of cash flows does not include the acquisition expenses which were accumulated.

NOTE 6 - Acquisition of Abaco Ltd.

On 3 July 2007, the company acquired, through a subsidiary, 100% of the share capital of the U.S. companies Abaco Manufacturing LLC and Abaco Incorporated (hereafter - Abaco).

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

In consideration for the acquisition, the Company paid an amount of \$ 4 million in cash and on the date of acquisition. In addition, it took over a debt of Abaco in the amount of \$ 1.1 million.

The cost of acquisition presented in this report aggregates \$ 5,100 thousands.

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

The intangible assets recognized include goodwill in the amount of \$ 3,829 thousands.

As a result of the acquisition, as from on 3 July 2007, the financial statements of Abaco were consolidated for the first time. Commencing on 3 July 2007, the consolidated statement of income includes the results of the operations of Abaco.

The operations of Abaco will be merged with the Company's operations in the U.S. plant.

FRUTAROM INDUSTRIES LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)
30 SEPTEMBER 2007
(UNAUDITED)

NOTE 6 - Acquisition of Abaco Ltd. (continued)

The following are data included in the consolidated financial statements as of September 30, 2007:

	September 30, 2007
	In thousands
	(Unaudited)
Current assets:	
Cash and cash equivalents	142
Accounts receivable:	
Trade	462
Other	104
Inventories	628
Non-current assets:	
Deferred income tax assets	40
Property, plant and equipment - net	492
Intangible assets - net	3,829
Current liabilities:	
Accounts payable	(305)
Other	(336)
	<u>5,056</u>

Between July 3, 2007 and September 30, 2007, the acquired company produced income of \$ 800 thousands and loss of \$ 44 thousands.

Assets and liabilities of Abaco as of the date of acquisition:

	Fair value	Value in books of acquired company
	In thousands	
Current assets:		
Cash and cash equivalents	50	50
Trade	614	614
Inventories	614	614
Non-current assets:		
Deferred income tax assets	40	40
Property, plant and equipment - net	476	476
Goodwill	3,829	
Current liabilities - accounts payable:		
Trade	(339)	(339)
Other	(184)	(184)
	<u>5,100</u>	<u>1,271</u>

The amount of \$ 5,050 thousands presented in the statement of cash flows does not include the acquisition expenses which were accumulated.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 7 - 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.

NOTE 8 - Business Segment Data:

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
9 months ended 30 September 2007 (unaudited):					
Revenues	169,223	86,127	7,938	(3,391)	<u>259,897</u>
Segment results	19,681	7,600	386	(455)	<u>27,212</u>
Unallocated income					<u>-,-</u>
Result from operations					<u>27,212</u>
9 months ended 30 September 2006 (unaudited):					
Revenues	*141,458	71,991	4,659	*(3,493)	<u>214,615</u>
Segment results	22,880	6,413	226		<u>29,519</u>
Unallocated expenses					<u>(236)</u>
Result from operations					<u>29,283</u>
3 months ended 30 September 2007 (unaudited):					
Revenues	57,601	28,091	3,260	(1,260)	<u>87,692</u>
Segment results	6,029	2,080	206	14	<u>8,329</u>
Unallocated income					<u>-,-</u>
Result from operations					<u>8,329</u>
3 months ended 30 September 2006 (unaudited):					
Revenues	*47,237	23,945	1,801	*(1,701)	<u>71,282</u>
Segment results	7,291	1,924	111		<u>9,326</u>
Unallocated expenses					<u>(79)</u>
Results from operations					<u>9,247</u>
Year ended 31 December 2006 (audited):					
Revenues	187,030	98,364	6,749	(4,896)	<u>287,247</u>
Segment results	29,848	7,286	200		<u>37,334</u>
Unallocated expenses					<u>(279)</u>
Results from operations					<u>37,055</u>

* Reclassified.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 9 - 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:

	9 months ended 30 September		Year ended 31 December
	2007	2006	2006
	U.S. dollars in thousands		
Cash and cash equivalents	17,229	28,080	18,417
Bank overdrafts	(590)	(716)	(673)
	<u>16,639</u>	<u>27,364</u>	<u>17,744</u>

NOTE 10 - Cash Flows from Operations:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2007	2006	2007	2006	2006
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
Net income	19,391	24,382	5,873	6,982	29,702
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortisation	8,448	6,758	2,842	2,088	10,015
Recognition of compensation related to the plan and to employee stock and option grants	900	1,196	300	455	1,538
Liability for employee rights upon retirement – net	(151)	237	(148)	(9)	(1,168)
Deferred income taxes - net	(1,620)	(1,427)	(1,820)	(277)	(816)
Gain from sale of fixed assets	(309)	(19)	(207)	(49)	(23)
Increase (decrease) in provisions - net	(569)	400		18	399
Negative goodwill arising from the acquisition of of IFF		(1,646)		(557)	(2,242)
Provisions for impairment of intangibles in subsidiary					126
Other	435	411	148	139	546
	<u>7,134</u>	<u>5,910</u>	<u>1,115</u>	<u>1,808</u>	<u>8,375</u>
Changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(9,114)	(8,961)	5,074	(1,333)	(5,247)
Other	(1,482)	(1,374)	2,950	(499)	(1,744)
Increase (decrease) in accounts payable:					
Trade	(1,551)	2,553	(7,986)	1,897	4,938
Other	9,749	4,226	3,429	4,468	5,249
Decrease (increase) in inventories	(12,308)	(1,825)	(3,758)	288	(4,884)
	<u>(14,706)</u>	<u>(5,381)</u>	<u>(291)</u>	<u>4,821</u>	<u>(1,688)</u>
Cash flows from operating activities	<u>11,819</u>	<u>24,911</u>	<u>6,697</u>	<u>13,611</u>	<u>36,389</u>
Non cash transactions -					
change in access of cost of acquisition		212		212	2,268

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 11 - Events subsequent to the balance sheet date:

a) Acquisition of the Gewurzmuller Group

On 11 October 2007, the company signed an agreement for the acquisition of 100% of the share capital of the German companies Gewurzmuller GmbH and Blessing Biotech GmbH (hereafter - The Gewurzmuller Group).

The Gewurzmuller Group is engaged in the development, production and marketing of the Savory flavors solutions (a spectrum of non-sweet flavors) and of Starter Culture (natural products based on microbiological processes).

The consideration of the acquisition is approximately € 47.3 million (approximately \$ 67 million). Based on the purchase agreement, a mechanism was set for the payment of a future consideration. As a result, the final consideration to be paid will present to the Gewurzmuller Group a value based on the average multiplier of 7.1 with respect to the EBITDA obtains during the period of 12 months ended on 31 December 2007.

The consideration of the acquisition will be financed by a long-term bank loan (5 years) which bears interest at a rate of an annual LIBOR plus 1% during the first year and an annual LIBOR plus 1.2% as from the second year. Under the loan agreement, the company undertook to comply with the following financial criteria:

1. The amount of shareholders' equity of the Company will not, at any time whatsoever, be less than \$ 180,000,000.
2. The amount of shareholders' equity of the company will not be less than 30% of its total balance sheet.
3. The ratio - a division of the company's remaining financial liabilities in the operating profit from current operations before financing and tax expenses plus depreciation and amortization expenses - will not exceed 6.

b) Acquisition of Rad Natural Technologies Ltd.

On November 15, 2007, the Company acquired the operations of Rad Natural Technologies Ltd. (hereafter - Rad) through a subsidiary. Rad is engaged in the research and development, manufacture, marketing, distribution and sale of unique natural extracts from plants with anti-oxidant activities for the use in food products, dietary supplements and cosmetics and its know-how in the field is unique and protected by a patent.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2007

(UNAUDITED)

NOTE 11 - Events subsequent to the balance sheet date (continued):

In accordance with the agreement, the company acquired the assets of Rad which include fixed assets, inventories, agreements, orders, goodwill, intellectual property and expenses in advance (the Company will not undertake Rad's liabilities) in consideration for a cash payment of U.S. \$ 4.1 million which was financed by a bank credit. A payment mechanism for a future consideration was determined in the agreement, according to which Rad will be entitled to an additional consideration, if the total sales of its products in the years 2008 and 2009 exceed \$ 4 million. Rad will be entitled to an amount of \$ 4.9 million, if the total sales of its products in the years 2008 and 2009 exceed \$ 11.1 million.

Under the agreement, Rad's manager undertook to be employed at least until 31 December 2009, and the company undertook to employ her at least until that date.
