

**FRUTAROM INDUSTRIES LTD.**

INTERIM REPORT

(Unaudited)

AT 31 MARCH 2008

**FRUTAROM INDUSTRIES LTD.**

INTERIM REPORT

(Unaudited)

AT 31 MARCH 2008

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20 May 2008

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 2008

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 2008, 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 2008 of consolidated subsidiaries, whose assets constitute approximately 2.30% of the consolidated totals, and whose revenues for the three-month period ended 31 March 2008 constitute approximately 4.83% 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 relating to Interim Reports (IAS 34) and with the Securities (Periodic and Immediate Reports) Regulations, 1970.

Sincerely,

**FRUTAROM INDUSTRIES LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 31 MARCH 2008**

	<b>31 March</b>		<b>31 December</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>U.S. dollars in thousands</b>		
	<b>(Unaudited)</b>	<b>(Audited)</b>	
<b>A s s e t s</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	23,384	14,898	31,942
Restricted deposit		16,747	
Short-term investments	601	541	1,279
Accounts receivable:			
Trade	93,145	64,208	78,006
Other	12,057	11,513	11,995
Prepaid expenses and advances to			
Suppliers	3,942	2,674	3,637
Inventories	103,361	63,243	90,452
T o t a l current assets	236,490	173,824	217,311
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment – net	145,252	102,515	135,607
Intangible assets - net	200,003	61,266	190,150
Deferred income tax assets	3,811	3,957	3,745
Other non-current assets	1,888	1,928	1,898
T o t a l non-current assets	350,954	169,666	331,400
T o t a l assets	587,444	343,490	548,711

\_\_\_\_\_) Chairman of the Board  
 Dr. John Farber

\_\_\_\_\_) )  
 Ori Yehudai ) President and CEO

\_\_\_\_\_) Executive Vice  
 Alon Granot ) President and CFO

Date of approval of the financial statements: 20 May 2008

	<u>31 March</u>	<u>31 December</u>	
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>	<u>(Audited)</u>	
<b>Liabilities and shareholders' equity</b>			
<b>CURRENT LIABILITIES:</b>			
Bank credit and loans	43,750	17,399	44,221
Accounts payable:			
Trade	42,120	27,154	38,797
Other	102,014	31,858	96,412
Provisions	338	505	440
T o t a l current liabilities	<u>188,222</u>	<u>76,916</u>	<u>179,870</u>
<b>NON-CURRENT LIABILITIES:</b>			
Bank credit and loans, net of current maturities	90,614		82,579
Retirement benefit obligations	12,200	7,586	11,518
Deferred income tax liabilities	23,457	12,252	22,209
Other liabilities	1,420	23,110	1,420
T o t a l non-current liabilities	<u>127,691</u>	<u>42,948</u>	<u>117,726</u>
T o t a l liabilities	<u>315,913</u>	<u>119,864</u>	<u>297,596</u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	16,466	16,459	16,466
Capital surplus	94,692	93,468	94,392
Currency translation differences	31,196	6,533	17,638
Retained earnings	132,094	108,781	125,279
Less - cost of company shares held by subsidiary	(2,917)	(1,615)	(2,660)
T o t a l shareholders' equity	<u>271,531</u>	<u>223,626</u>	<u>251,115</u>
Total shareholders' equity and liabilities	<u>587,444</u>	<u>343,490</u>	<u>548,711</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 2008

	3 months ended		Year ended
	31 March		31 December
	2008	2007	2007
U.S. dollars in thousands			
	(Unaudited)		(Audited)
<b>SALES</b>	122,030	80,501	368,261
<b>COST OF SALES</b>	77,257	50,693	237,506
<b>GROSS PROFIT</b>	44,773	29,808	130,755
<b>SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES – net:</b>			
Selling, marketing, research and development - net	20,845	13,577	66,898
General and administrative	8,716	5,832	29,525
<b>OTHER INCOME (EXPENSES) – net</b>	134	(17)	194
<b>OPERATING PROFIT</b>	15,346	10,382	34,526
<b>FINANCIAL EXPENSES – net</b>	2,824	241	2,923
<b>PROFIT BEFORE TAXES ON INCOME</b>	12,522	10,141	31,603
<b>TAXES ON INCOME</b>	2,817	2,519	7,410
<b>NET INCOME FOR THE PERIOD</b>	9,705	7,622	24,193
	<b>U . S . D o l l a r s</b>		
<b>EARNINGS PER SHARE:</b>			
<b>BASIC</b>	0.17	0.14	0.42
<b>DILUTED</b>	0.17	0.13	0.41

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 2008

	U . S . d o l l a r s i n t h o u s a n d s			Cost of company shares held by subsidiary	Total	
	Share capital	Capital surplus	Currency translation differences	Retained earnings	(570) 313	
<b>BALANCE AT 1 JANUARY 2008</b> (audited)	16,466	94,392	17,638	125,279	(2,660)	251,115
<b>CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2008</b> (unaudited):						
Net income not recognized in the net profit - changes in currency translation			13,558	9,705		13,558 9,705
Net income						23,263
Total recognised income for 3 months ended 31 March 2008						
Plans for allotment of company shares to employees of subsidiary:					(570)	(570)
Acquisition of company shares by subsidiary					313	313
Receipts in respect of allotment of company shares to employees						
Allotment of shares and options to senior employees -						
Recognition of compensation related to employee stock and options grants		300		(2,890)		300 (2,890)
Dividend declared (note 2)					(2,917)	
<b>BALANCE AT 31 MARCH 2008</b> (unaudited)	16,466	94,692	31,196	132,094	(2,917)	271,531

**FRUTAROM INDUSTRIES LTD.**

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2008

(Continued) - 2

	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . dollars in thousands					
<b>BALANCE AT 1 JANUARY 2007</b> (audited)	16,434	93,116	5,716	103,658	(1,791)	217,133
<b>CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2007</b> (unaudited):						
Net income not recognized in the net profit - changes in currency translation			817	7,622		8,439
Net income						817
Total recognised income for 3 months ended 31 March 2007				7,622		7,622
Plans for allotment of company shares to employees of subsidiary:						130
Receipts in respect of allotment of company shares to employees						46
Recognition of compensation related to the plan						130
Allotment of shares and options to senior employees:	25	98				123
Allotment of share capital to senior employees						98
Recognition of compensation related to employee stock and options grants		254				254
Dividend declared				(2,499)		(2,499)
<b>BALANCE AT 31 MARCH 2007</b> (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 2008**

	Share capital	Capital surplus	Currency translation differences	Retained Earnings	Cost of company shares held by subsidiary	Total
	U . S . dollars in thousands ( Audited )					
<b>BALANCE AT 1 JANUARY 2007</b> (audited)	16,434	93,116	5,716	103,658	(1,791)	217,133
<b>CHANGES IN 2007</b> (audited):						
Net income not recognised in the net profit - changes in currency translation			11,922			11,922
Net income				24,193		24,193
Total recognised income for 2007				24,193		36,115
Plan for allotment of Company shares to employees of subsidiary:						
Purchase of Company shares by subsidiary					(1,194)	(1,194)
Receipts in respect of allotment of Company shares to employees					234	234
Recognition of compensation related to the plan					91	91
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	32	167				199
Recognition of compensation related to employee stock and option grants		1,109				1,109
Dividend				(2,572)		(2,572)
<b>BALANCE AT 31 DECEMBER 2007</b> (audited)	16,466	94,392	17,638	125,279	(2,660)	251,115

**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 2008

	3 months ended		Year ended
	31 March		31 December
	2008	2007	2007
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash generated from (generated for) operations (note 5)	(4,838)	(494)	24,032
Income tax paid	(1,532)	(2,143)	(8,908)
Net cash provided by (used in) operating activities	<u>(6,370)</u>	<u>(2,637)</u>	<u>15,124</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(3,336)	(2,783)	(14,685)
Purchase of other assets	(72)	(1,114)	(2,820)
Interest received (*)			867
Investment in restricted deposit for the purpose of purchasing Belmay		(16,747)	
Acquisition of subsidiary – net of cash acquired			(91,108)
Acquisition of operations – net of cash acquired			(8,427)
Reimbursement in respect of acquisition of operations			2,389
Proceeds from sale of property, plant and equipment	71	114	708
Marketable securities - net	734	2,711	2,199
Net cash used in investing activities	<u>(2,603)</u>	<u>(17,819)</u>	<u>(110,877)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Receipt of short-term bank loans in connection with acquisition of Belmay		15,636	
Receipts from senior employees in respect of allotment of shares		123	199
Interest paid (*)	(1,211)	(78)	
Receipt of short-term bank loans and credit	2,013		20,521
Receipt of long-term bank loans and credit	7,032		89,483
Repayment of long-term bank loans and credit	(4,340)		(2,166)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(257)	130	(960)
Dividend paid			(2,572)
Net cash provided by financing activities	<u>3,237</u>	<u>15,811</u>	<u>104,505</u>
<b>NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS</b>	935	44	1,681
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,801)	(4,601)	10,433
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>28,177</u>	<u>17,744</u>	<u>17,744</u>
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD (note 4)</b>	<u>23,376</u>	<u>13,143</u>	<u>28,177</u>

(\*)Reclassified

**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 2008

(UNAUDITED)

#### **1. General:**

- a) The interim financial statements as of 31 March 2008 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” and with the Securities (Periodic and Immediate Reports) Regulations, 1970. The Securities Regulations prescribe financial statements classification and presentations principles, which do not necessarily correspond to IFRS classification and presentation principles; nevertheless, when such principles are applied to the company, the differences as above are immaterial.
- b) Except as mentioned in 1c) below and the reclassification of interest received or paid in the cash flows statement from operating activity to investing and financing activity respectively in accordance with IAS7; the accounting principles applied in preparation of the interim financial statements are consistent with those used in the 2007 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 2007 annual financial statements.

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

Income tax expense is 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) Standards and interpretations that came into effect during the quarter ended March 31 ,2008:
  - (a) IFRIC 14 to IAS 19 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (hereafter – IFRIC 14). IFRIC 14 provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The implementation of the interpretation did not have a material effect on the group's financial statements.
- 2) Standards and Interpretations for existing Standards that are not yet effective and that the group has not opted for their early adoption –
  - (a) IAS 27 (Amended) – "Consolidated and Separate Financial Statements" (hereafter – IAS 27R) (in effect commencing July 1, 2009). IAS27R provides amendments relating principally to accounting for minority interest and loss of control in subsidiary. The most significant change in IAS 27R is that acquisition of additional minority interest in share capital subsequent to business combination and the sale of minority interest while control is retained are handled as equity transactions. The Group will apply IAS27R from 1 July 2009 but it is not expected to have any material impact on the group’s accounts.

**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2008

(UNAUDITED)

- (b) International Financial Reporting Standard No. 3 (Amended) – "Business Combinations" (hereafter – IFRS3R) (in effect commencing July 1, 2009). IFRS3R establishes principles and requirements for how an acquirer: (a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree resulting from a business combination; (b) recognises and measures the goodwill acquired in the business combination or a gain from a purchase transaction; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The group will apply IFRS3R commencing January 1, 2009. Group's management is evaluating the potential effects of implementation of IFRS3R on its financial statements in the following reporting periods.
- (c) International Accounting Standard No. 1 (Amended) – "Presentation of Financial Statements" (hereafter – IAS1R) (in effect commencing January 1, 2009). IAS1R sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. Inter alia, IAS1R requires that any change in equity resulting from transactions with shareholders in their capacity as owners would be presented in the statements of changes in shareholders equity separately from changes that do not result from transactions with shareholders. The Group will apply IAS1R from 1 January 2009 but it is not expected to have any material impact on the group's accounts.
- (d) International Financial Reporting Standard No. 8 – "Operating Segments" – (hereafter IFRS8) (in effect commencing January 1, 2009). IFRS 8 replaces IAS 14 "Segment Reporting". The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management; it appears likely that the number of reportable segments would not change, as well as the manner in which the segments are reported would not change.
- (e) IAS 23 (Amended) – "Borrowing costs" (hereafter – IAS23R) (in effect commencing January 1, 2009). IAS23R requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS23R from 1 January 2009 but it is not expected to have any material impact on the group's accounts.

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 AT 31 MARCH 2008  
 (UNAUDITED)

- 3) Standards, amendments and interpretations effective as from March 31, 2008 but not relevant to group's activities:  
 The implementation of the following published standards, amendments and interpretations is obligatory for reporting period commencing January 1, 2008, but not relevant to group activities:
- (a) IFRIC 12, "Service concession arrangements" (effective from 1 January 2008) (hereafter – IFRIC12). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the group's operations because none of the group's companies provide for public sector services.
- (b) IFRIC 13, "Customer loyalty programmes" (effective from 1 July 2008) (hereafter – IFRIC 13). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the group's operations because none of the group's companies operate any loyalty programmes.
- 4) The Company's activity is subject to seasonal fluctuations, with generally higher sales in the first half of a given year and lower sales in the second half of a given year (in particular in the fourth quarter).  
 Many of the Company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yogurts, for which demand generally increases during the summer months. As a result, sales of certain flavors and fine ingredients produced by the Company are higher in the first half of the year than in the second half.

## 2. Dividend

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

## 3. Business Segment Data:

	<b>Flavors Division</b>	<b>Fine ingredients division</b>	<b>Trade and Marketing division</b>	<b>Eliminations</b>	<b>Consolidated</b>
U.S. dollars in thousands					
<b>3 months ended 31 March 2008</b> (unaudited):					
Revenues	84,405	35,266	3,675	(1,316)	122,030
Segment results	12,071	3,261	190	(176)	15,346
<b>3 months ended 31 March 2007</b> (unaudited):					
Revenues	49,925	29,131	2,555	(1,110)	80,501
Segment results	7,731	3,180	112	(641)	10,382
<b>Year ended 31 December 2007</b> (audited):					
Revenues	247,672	114,951	10,501	(4,863)	368,261
Segment results	26,823	7,904	497	(698)	34,526

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2008

(UNAUDITED)

**4. Cash and cash equivalents**

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

	<b>3 months ended</b>		<b>Year ended</b>
	<b>31 March</b>		<b>31 December</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>U.S. dollars in thousands</b>		
Cash and cash equivalents	23,384	14,898	31,942
Bank overdrafts	(8)	(1,755)	(3,765)
	<u>23,376</u>	<u>13,143</u>	<u>28,177</u>

**5. Cash Flows from Operations:**

	<b>3 months ended</b>		<b>Year ended</b>
	<b>31 March</b>		<b>31 December</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>U.S. dollars in thousands</b>		
	<b>(Unaudited)</b>		<b>(Audited)</b>
Net income	9,705	7,622	24,193
<b>Adjustments required to reflect the cash flows from operating activities:</b>			
Depreciation and amortization	4,550	2,568	12,647
Recognition of compensation related to employee stock and option grants	300	300	1,200
Liability for employee rights upon retirement – net	(173)	20	(5,521)
Deferred income taxes - net	(499)	(136)	785
Loss (gain) from sale of fixed assets and subsidiary	17	(72)	42
Decrease in provisions – net	(102)	(441)	(545)
Erosion of long-term loans	1,089		550
Other		142	593
	<u>5,182</u>	<u>2,381</u>	<u>9,751</u>
<b>Changes in working capital:</b>			
Decrease (increase) in accounts receivable:			
Trade	(12,844)	(10,474)	(5,152)
Other	672	(466)	6,506
Increase (decrease) in accounts payable:			
Trade	1,627	(400)	3,832
Other	(382)	4,211	465
Increase in inventories	(8,798)	(3,368)	(15,563)
	<u>(19,725)</u>	<u>(10,497)</u>	<u>(9,912)</u>
Cash flows from (for) operating activities	<u>(4,838)</u>	<u>(494)</u>	<u>24,032</u>
Non-cash transactions – change in excess of cost of acquisition			<u>1,925</u>

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT 31 MARCH 2008

(UNAUDITED)

**6. Subsequent events**

On April 16, 2008, the company completed its exercise of the option for the purchase of the remaining 30% of Nesse's shares. In consideration of the exercise as above, the company paid a total of €13,751,593 (\$ 21,913,165) (hereafter – the consideration). The consideration, which was financed using long-term bank credit may increase or decrease, subject to final adjustment that are to take place.

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