FRUTAROM INDUSTRIES LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 JUNE 2013

FRUTAROM INDUSTRIES LTD.

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(Unaudited)

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Review Report of Interim Financial Information

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 26.8% of total consolidated assets as of 30 June 2013 and whose revenues included in consolidation constitute approximately 27.4% and 30.1% of total consolidated revenues for the six and three-month periods ended on that date, respectively. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

Our review was performed in accordance with Standard No. 1 on Review Engagements of the Institute of Certified Public Accountants in Israel - "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of the other auditors, nothing came to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Haifa, Israel	Kesselman & Kesselman
20 August, 2013	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

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FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLDIATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2013

	30 June		31 December
	2013	**2012**	**2012**
	(Unaudited)		**(Audited)**
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	40,241	38,639	53,933
Accounts receivable:			
Trade	127,927	117,279	106,754
Other	13,754	5,953	*10,847
Prepaid expenses and advances to suppliers	7,845	8,836	6,966
Inventory	125,502	122,663	122,433
	315,269	293,370	300,933
NON-CURRENT ASSETS:			
Property, plant and equipment	185,567	184,549	188,824
Intangible assets	272,764	273,337	279,198
Deferred income tax assets	3,226	2,630	3,075
Other	227	461	379
	461,784	460,977	471,476
Total assets	777,053	754,347	772,409

*Restated, see note 3b.

Dr. John Farber)
Chairman of the Board)

Ori Yehudai)
President and CEO)

Alon Granot)
Executive Vice
President and CFO)

Date of approval of the interim financial information by the board of directors: August 20, 2013

	30 June		31 December
	2013	2012	2012
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	100,543	56,347	52,196
Accounts payable:			
Trade	48,679	50,579	48,237
Other	40,964	48,242	39,269
	190,186	155,168	139,702
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	70,972	147,057	137,836
Retirement benefit obligations, net	24,209	*17,979	*24,329
Deferred income tax liabilities	23,786	*23,811	*24,420
Other	950	1,026	892
	119,917	189,873	187,477
Total liabilities	310,103	345,041	327,179
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,728	16,597	16,713
Capital surplus	102,980	97,823	102,099
Translation differences	9,612	5,065	16,749
Retained earnings	337,990	*290,494	*310,477
Less - cost of company shares held by the company and by subsidiary	(2,873)	(2,716)	(3,043)
	464,437	407,263	442,995
Non-controlling interests	2,513	2,043	2,235
Total equity	466,950	409,306	445,230
Total equity and liabilities	777,053	754,347	772,409

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	**2012**	**2013**	**2012**	**2012**
	(Unaudited)				**(Audited)**
	U.S. dollars in thousands (except for income per share data)				
SALES	320,813	316,013	168,648	164,796	618,001
COST OF SALES	196,787	199,311	101,798	103,026	391,742
GROSS PROFIT	124,026	116,702	66,850	61,770	226,259
Selling, marketing, research and development expenses – net	52,909	52,737	27,402	27,477	104,932
General and administrative expenses	25,285	25,130	12,524	12,114	49,197
Other expenses (income) - net	1,995	(787)	1,992	394	(718)
INCOME FROM OPERATIONS	43,837	39,622	24,932	21,785	72,848
FINANCIAL EXPENSES (INCOME) - net	3,710	5,236	2,291	4,313	7,240
INCOME BEFORE TAX ON INCOME	40,127	34,386	22,641	17,472	65,608
TAX ON INCOME	8,487	7,337	5,009	3,924	13,628
INCOME FOR THE PERIOD	31,640	27,049	17,632	13,548	51,980
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	31,405	26,831	17,498	13,426	51,570
NON-CONTROLLING INTERESTS	235	218	134	122	410
TOTAL INCOME	31,640	27,049	17,632	13,548	51,980
EARNINGS PER SHARE:					
Basic	0.54	0.47	0.30	0.23	0.9
Fully diluted	0.54	0.47	0.30	0.23	0.9

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 31 March		Year ended 31 December
	2013	**2012**	**2013**	**2012**	**2012**
	(Unaudited)		**(Unaudited)**		**(Audited)**
	U.S. dollars in thousands				
INCOME FOR THE PERIOD					
Other Comprehensive Income:	31,640	27,049	17,632	13,548	51,980
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of net defined benefit liability*		-		-	(4,756)
Items that could be reclassified subsequently to profit or loss:					
Translation differences	(7,095)	(7,291)	2,699	(14,829)	4,393
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	24,545	19,758	20,331	(1,281)	51,617
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	24,268	19,540	20,155	(1,403)	51,207
NON-CONTROLLING INTERESTS	277	218	176	122	410
TOTAL INCOME	24,545	19,758	20,331	(1,281)	51,617

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2013 (audited)	16,713	102,099	16,749	*310,477	(3,043)	442,995	2,235	445,230
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	31,405	-	31,405	235	31,640
Other comprehensive income:								
Translation differences	-	-	(7,137)	-	-	(7,137)	42	(7,095)
Total comprehensive income for the period	-	-	(7,137)	31,405	-	24,268	277	24,545
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(326)	(326)	-	(326)
Receipts in respect of allotment of company shares to employees	-	(332)	-	-	496	164	-	164
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	777	-	-	-	777	-	777
Proceeds from issuance of shares to senior employees	15	436	-	-	-	451	-	451
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(3,892)	-	(3,892)	-	(3,892)
	15	881	-	(3,892)	170	(2,826)	(97)	(2,923)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

*Restated, see note 3b.

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

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FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Other capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 APRIL 2013 (unaudited)	16,728	102,730	6,955	320,578	(3,090)	443,901	2,336	446,237
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2013 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	17,498	-	17,498	134	17,632
Other comprehensive income:								
Translation differences	-	-	2,657	-	-	2,657	42	2,699
Total comprehensive income for the period	-	-	2,657	17,498	-	20,155	176	20,331
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(146)	-	-	217	71	-	71
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	396	-	-	-	396	-	396
Proceeds from issuance of shares to senior employees	-	-	-	-	-	-	-	-
Dividend paid to the non-controlling interests in subsidiary	-	-	-	-	-	-	(97)	(97)
Dividend paid, including erosion	-	-	-	(86)	-	(86)	-	(86)
Non-controlling interest arising on business combination	-	-	-	-	-	-	98	98
BALANCE AT 30 JUNE 2013 (unaudited)	16,728	102,980	9,612	337,990	(2,873)	464,437	2,513	466,950

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 JANUARY 2012 (audited)	16,597	97,356	12,356	*226,692	(2,981)	390,020	-	390.020
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	26,831	-	26,831	218	27,049
Other comprehensive income:								
Translation differences	-	-	(7,291)	-	-	(7,921)	-	(7,921)
Total comprehensive income for the period	-	-	(7,291)	26,831	-	19,540	218	19,758
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(579)	(579)	-	(579)
Receipts in respect of allotment of company shares to employees	-	(380)	-	-	844	464	-	464
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	847	-	-	-	847	-	847
Dividend paid, including erosion	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	-	467	-	(3,029)	265	(2,297)	-	(2,297)
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 30 JUNE 2012 (unaudited)	16,597	97,823	5,065	290,494	(2,716)	407,263	2,043	409,306

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands							
BALANCE AT 1 APRIL 2012 (audited)	16,597	97,835	19,894	276,984	(3,199)	408,111	1,921	410,032
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	13,426	-	13,426	122	13,548
Other comprehensive income:								
Translation differences	-	-	(14,829)	-	-	(14,829)	-	(14,829)
Total comprehensive income for the period	-	-	(14,829)	13,426	-	(1,403)	122	(1,281)
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(322)	-	-	483	161	-	161
Allotment of shares and options to senior employees:								
Recognition of compensation related to employee stock and options grants	-	310	-	-	-	310	-	310
Dividend paid, including erosion	-	-	-	84	-	84	-	84
	-	(12)	-	84	483	555	-	555
BALANCE AT 30 JUNE 2012 (unaudited)	16,597	97,823	5,065	290,494	(2,716)	407,263	2,043	409,306

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT							
	Ordinary shares	**Capital Surplus**	**Translation differences**	**Retained earnings**	**Cost of company shares held by the company**	**Total attributed to owners parent company**	**Non-controlling interests**	**Total**
	U.S. dollars in thousands (audited)							
BALANCE AT 1 JANUARY 2012	16,597	97,356	12,356	*226,692	(2,981)	390,020	-	390,020
CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2012:								
Comprehensive income:								
Income for the year	-	-	-	51,570	-	51,570	410	51,980
Other comprehensive income:								
*Remeasurement of net defined benefit liability	-	-	-	(4,756)	-	(4,756)	-	(4,756)
Translation differences	-	-	4,393	-	-	4,393	-	4,393
Total comprehensive income for the period	-	-	4,393	46,814	-	51,207	410	51,617
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(1,330)	(1,330)	-	(1,330)
Receipts in respect of allotment of company shares to employees	-	(846)	-	-	1,268	422	-	422
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	1,553	-	-	-	1,553	-	1,553
Proceeds from issuance of shares to senior employees	116	4,036	-	-	-	4,152	-	4,152
Dividend paid, including erosion	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	16,713	102,099	16,749	310,477	(3,043)	442,995	410	443,405
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 31 DECEMBER 2012	16,713	102,099	16,749	310,477	(3,043)	442,995	2,235	445,230

*Restated, see note 3b.

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (see appendix)	29,964	43,074	21,365	22,609	104,774
Income tax paid	(9,166)	(3,129)	(4,923)	(354)	(13,563)
Net cash provided by operating activities	20,798	39,945	16,442	22,255	91,211
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(8,108)	(6,510)	(5,720)	(2,910)	(12,558)
Purchase of intangibles	(430)	(1,353)	(185)	(700)	(2,284)
Interest received	43	188	-	18	195
Acquisition of subsidiaries - net of cash acquired (see note 4)	(5,822)	(65,088)	(5,210)	(1,491)	(75,280)
Proceeds from sale of property, plant and equipment	56	109	12	37	271
Net cash used in investing activities	(14,261)	(72,654)	(11,103)	(5,046)	(89,656)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividend paid to the non-controlling interests in subsidiary	(97)	-	(97)	-	-
Receipts from senior employees in respect of allotment of shares	451	-	-	-	4,152
Interest paid	(1,899)	(3,575)	(1,018)	(2,196)	(5,553)
Receipt of long-term bank loans	22	81,239	-	62,451	131,231
Repayment of long-term bank loans	(24,719)	(47,550)	(15,084)	(35,594)	(116,802)
Receipt of short-term bank credit and loans – net	9,329	6,138	6,381	(40,075)	7,319
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(162)	(115)	71	161	(908)
Dividend paid	(3,892)	(3,029)	(3,892)	(3,029)	(3,029)
Net cash used in financing activities	(20,967)	33,108	(13,639)	(18,282)	16,410
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(14,430)	399	(8,300)	(1,073)	17,965
Balance of cash and cash equivalents and bank credit at beginning of period	53,933	36,472	48,854	37,254	36,472
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	738	350	(313)	1,040	(504)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	40,241	37,221	40,241	37,221	53,933

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2013

Appendix for Condensed Consolidated Statement of Cash Flows – net cash generated from operations:

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	40,127	34,386	22,641	17,472	65,608
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	13,649	13,006	7,175	6,421	26,012
Recognition of compensation related to employee stock and options grants	777	847	396	310	1,553
Liability for employee rights upon retirement – net	174	43	118	(7)	(655)
Loss (gain) from sale and write-off of fixed assets and other assets	(23)	31	4	7	92
Erosion of loans	73	-	844	-	1,003
Interest paid – net	1,856	3,387	1,018	2,178	5,358
Loss from change in fair value of financial Instruments	-	205	-	205	289
Income from bargain purchase	-	(1,729)	-	-	(1,729)
	16,506	15,790	9,555	9,114	31,923
Operating changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(22,457)	(15,245)	(9,898)	(5,561)	(1,712)
Other	(1,006)	2,523	3,466	2,350	(206)
Decrease (increase) in other long-term receivables	152	-	18	-	136
Increase (decrease) in accounts payable:					
Trade	1,084	5,346	836	(4,420)	1,506
Other	477	(801)	(752)	(2,565)	3,772
Increase (decrease) in other long-term Payables	(34)	-	(34)	-	(379)
Decrease (increase) in inventory	(4,885)	1,075	(4,467)	6,219	4,126
	(26,669)	(7,102)	(10,831)	(3,977)	7,243
Cash flows from operating activities	29,964	43,074	21,365	22,609	104,774

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

NOTE 1 - GENERAL:

a. Frutarom Industries Ltd. (hereafter – the Company.) is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control (hereafter – the Group). The Group has two main operations: the Flavours activity and the Fine Ingredients activity. The Group develops, manufactures, markets and sells flavours and fine ingredients used by producers of food and beverage, pharma-nutraceutical, flavours and fragrances, and personal care and cosmetics products as well as other products.

b. A substantial portion of the Company's products are used by its customers in the manufacture of beverages, ice cream and yogurt, the demand for which generally increases during the summer months. As a result, Frutarom's business is characterized by seasonal fluctuations with generally higher sales in the second and the third quarters and lower sales in the first quarter and especially in the fourth quarter due to end of year festivals taking place in most sale destinations of Frutarom.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

a. The interim condensed consolidated financial information of the group as of 30 June 2013 and for the 6 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2012 and for the year ended on that date and with the notes thereto, which were all prepared in accordance with International Financial Reporting Standards (hereafter – "IFRS").

The interim financial information is reviewed and is not audited.

b. Estimates –

The preparation of interim financial statements requires management to exercise its judgment; it also requires the use of accounting estimates and assumptions that affect the application of the group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may differ from those estimates.

In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the consolidated annual financial statements for the year ended December 31, 2012.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

a. significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2012 annual financial statements, except for the following:

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

Income tax in interim periods is recognized based on management's best estimate of the weighted average annual income tax rate expected.

b. First-time implementation of IFRS

1. IAS 19

Beginning on 1 January 2013, the Group first-time implements IAS 19 Amendment. According to the standard, the first-time implementation is done retrospectively and therefore, financial information of previous periods is restated.

IAS 19 Amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits covered by IAS 19. The following is a summary of the key changes in the amended standard:

- "Actuarial gains and losses" are renamed "Remeasurement of net defined benefit liability (asset); hereinafter - Remeasurement), including, in addition to actuarial gains and losses certain other components as defined in IAS 19 Amendment. Remeasurement are recognized in other comprehensive income. This eliminates the options to recognize actuarial gains and losses in profit or loss or to use the corridor approach.

- Past service cost is recognized immediately in the period of a plan amendment and is no longer spread over future-service period to vesting.

- In defined benefit plans with plan assets, net interest expenses/income on the balance of net employee benefit asset or liability using the discount rate used in IAS 19 in its current version to measure the defined benefit liability. This accounting treatment replaces the use of the "interest cost" and "expected return of plan assets" that existed in IAS 19 in its previous version.

- The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded.

- Any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.

- Disclosure requirements are broader than those existing in the previous version of IAS 19.

Until the first-time implementation of IAS 19 Amendment, the accounting policy of the Company was to recognize actuarial gains and losses arising from changes in actuarial assumptions and resulting from differences between past assumptions and actual results if they are more than the greater of 10% of the present value of the define benefit obligation

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued)**:**

and 10% of the fair value of plan assets. Those actuarial gains or losses are recognized to profit or loss over the average expected work period of the employees. After the first-time implementation of IAS 19 Amendment, the Company is not deferring the recognition of "Remeasurement". Remeasurement as computed under the new guidance are fully recognized to other comprehensive income in the period they incurred.

The effect of first-time implementation on the statement of financial position:

	As previously reported	Effect of first-time implementation of IAS 19 Amendment	As reported in these financial statements
		U.S. dollars in thousands	
1) Statement of financial position for June 30, 2012 (unaudited):			
Retirement benefit obligation, net	13,195	4,784	17,979
Deferred tax liabilities	25,021	(1,210)	23,811
Retained earnings	294,068	(3,574)	290,494
2) Statement of financial position as of December 31, 2012 (audited)			
Accounts receivable	10,949	(102)	10,847
Retirement benefit obligation, net	13,229	11,100	24,329
Deferred tax liabilities	27,292	(2,872)	24,420
Retained earnings	318,807	(8,330)	310,477

2. Amendment to IAS 1 "Financial Statements Presentation" (hereinafter - IAS 1 Amendment)

IAS 1 Amendment changes the disclosure of other comprehensive income in the statement of comprehensive income. The key changes in the IAS 1 are as follows:

- The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future.

  Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued)**:**

- The title used by IAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income. However, IAS 1 still permits entities to use other titles.

The Group first-time implemented IAS 1 Amendment beginning 1 January 2013 retrospectively for all reported periods.

As some other comprehensive income items of the Group (e.g. financial statements translation differences) may be recycled to profit or loss, while other items in other comprehensive income (e.g. remeasurements of defined benefit plans) may not be recycled to profit or loss, then following the implementation of the amendment, the Company presented each group separately in the statement of comprehensive income.

3. The first-time implementation of additional new IFRSs and amendments to existing standards which are yet to be effective and the group did not elect to early adopt are detailed in the 2012 financial statements of the group.

NOTE 4 – ACQUISITION OF JannDeRee (Pty) Limited

On May 2, 2013 Frutarom signed, through a subsidiary, an agreement for the acquisition of 100% of the share capital of the South African company acquisition of JannDeRee (Pty) Limited (hereafter – “JannDeRee”) in consideration for $ 4,957 thousands (44,400 Rand) in cash and 5% from the shares of Frutarom South Africa.

JannDeRee, founded in 1993, develops, manufactures, and markets flavors with an emphasis on savory flavors solutions. JannDeRee, has a research and development, production and marketing site in Johannesburg, South Africa, located adjacent to Frutarom's site in South Africa, and a wide customer base in South Africa and in other important emerging countries in the sub-Saharan region. JannDeRee’s activities are synergetic with Frutarom’s activities in South Africa in the field of flavors.

JannDeRee’s turnover in 2012 came to approximately USD 5 million.

Frutarom will take actions to integrate activities, including integration of R&D, marketing and sales infrastructures, purchase, production and supply infrastructures.

The acquisition was financed through independent resources and was completed at the time of signing.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. Determination of the fair falue of the acquired assets and liabilities is subject to final assessment of allocation of the consideration of the purchase to the fair value of assets and liabilities; this assessment is performed by the Company and has not yet been completed as of the date of approval of these financial statements.

NOTE 4 – Acquisition of JannDeRee (Pty) Limited (continue):

Assets and liabilities of JannDeRee at date of acquisition:

	Fair value U.S. dollars in thousands
Current assets:	
Cash and cash equivalents	139
Accounts receivable:	
Trade	780
Inventory	336
Non-current assets:	
Fixed assets	369
Deferred income taxes	79
Intangible assets	4,672
Current liabilities :	
Accounts payable and accruals-	
Trade	(357)
Others	(336)
Non-current liabilities -	
Others	(726)
	4,957

NOTE 5 – DIVIDEND:

On 12, March 2013, the Company's Board of Directors declared the distribution of a dividend of NIS 0.24 per share, On 6 May, 2013, a dividend of $ 3,892 thousands was paid to the shareholders

NOTE 6 – EVENTS DURING THE PERIOD:

a. As part of the procedures designed to increase the efficiency of its operations, the Company transferred the production operations conducted in the Nesse site located in Germany to other Company sites. As of the date of this report the transfer has been completed.

The Company recorded in the reported quarter results of operations (under "other expense) a one-off expense of $ 1,910 in respect of provision for re organization and fixed assets depreciation.

b. In the course of the second quarter and as a result of better interest rate, a subsidiary reclassified a $50 million loan from non-current liabilities to current liabilities.

NOTE 7 – SEGMENT REPORTING

For management purposes, the Group is organized on a worldwide basis into two major operating activities: Flavour and Fine Ingredients. Another operating activity is Trade and Marketing. Results of operation of the segments are being measured based on operating profit.

Segment data provided to the President and the CEO in respect of the reported segments is as follows:

	Flavors operations	Fine ingredients operations	Trade and marketing operations	Eliminations	Total consolidated
			U.S. dollars in thousands		
6 months ended 30 June 2013: (unaudited):					
Revenues	235,708	75,141	12,446	(2,482)	320,813
Segment results	33,719	9,785	377	(44)	43,837
6 months ended 30 June 2012: (unaudited):					
Revenues	231,435	73,992	11,685	(1,099)	316,013
Segment results	31,985	7,077	617	(57)	39,622
3 months ended 30 June 2013 (unaudited):					
Revenues	125,115	37,626	7,153	(1,246)	168,648
Segment results	19,207	5,629	194	(98)	24,932
3 months ended 30 June 2012 (unaudited):					
Revenues	122,469	36,524	6,299	(496)	164,796
Segment results	17,983	3,431	255	116	21,785
Year ended 31 December 2012 (audited):					
Revenues	457,341	140,763	22,342	(2,445)	618,001
Segment results	59,477	12,378	1,000	(7)	72,848

The reconciliation of the reported profits and total profits before taxes for the reported periods is described below:

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2013	2012	2013	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	43,837	39,622	24,932	21,785	72,848
Financing expenses (income)	3,710	5,236	2,291	4,313	7,240
Profit before taxes on income	40,127	34,386	22,641	17,472	65,608

NOTE 8 – SUBSEQUENT EVENTS

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in Reshumot (the Israeli government official gazette), which enacts, among other things, the following amendments:

1. Raising the corporate tax rate to 26.5% (instead of 25%).beginning in 2014 and thereafter.

2. Commencing tax year 2014 and thereafter the tax rate on the income of preferred enterprises of a qualifying Company in Development Zone A as stated in the Encouragement of Capital Investment Law, 1959 (hereinafter - the Encouragement Law) shall increase to 9% (instead of 7% in 2014 and 6% in 2015 and thereafter) and for companies located in zones other than Zone A the rate shall increase to 16% (instead of 12.5% in 2014 and 12% in 2015 and thereafter). In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).

   The balances of deferred tax as of June 30, 2013 do not account for the expected impact of the Law as its legislation has not been effectively completed by that date. Those impacts are expected to be reflected in the financial statements issued beginning on the date when the legislation was effectively completed, i.e. the financial information for the third quarter of 2013.

   In the third quarter of 2013, in which the legislation process has been completed, the law is expected to cause a USD 292 thousand increase in net deferred tax liabilities. The Company's tax expenses for the 6 and 3 month period ended in June 30, 2013 would have increased by a similar amount.