**FRUTAROM INDUSTRIES LTD.**

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2008

**FRUTAROM INDUSTRIES LTD.**

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2008

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PRICEWATERHOUSECOOPERS

**Kesselman & Kesselman**
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19 November 2008

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 2008

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 2008 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 2008 of consolidated subsidiaries, whose assets constitute approximately 2.91% of the consolidated totals, and whose revenues for the nine and three-month periods ended 30 September 2008 constitute approximately 5.56% and 6.59% 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 Standard No. 4 (IAS 34) –"Interim Financial Reporting" - and with the Securities (Periodic and Immediate Reports) Regulations, 1970.

Sincerely,

Kesselman & Kesselman

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED BALANCE SHEET

30 SEPTEMBER 2008

| | 30 September | | 31 December |
|---|---|---|---|
| | **2008** | **2007** | **2007** |
| | **U.S. dollars in thousands** | | |
| | **(Unaudited)** | | **(Audited)** |
| **A s s e t s** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | 29,919 | 17,229 | 31,942 |
| Short-term investments | 555 | 525 | 1,279 |
| Accounts receivable: | | | |
| Trade | 88,326 | 70,138 | 78,006 |
| Other | 14,919 | 6,899 | 11,995 |
| Prepaid expenses and advances to suppliers | 2,804 | 6,521 | 3,637 |
| Inventories | 100,011 | 76,992 | 90,452 |
| T o t a l current assets | 236,534 | 178,304 | 217,311 |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment - net | 130,640 | 114,437 | 135,607 |
| Intangible assets - net | 176,579 | 90,608 | 190,150 |
| Deferred income tax assets | 2,765 | 4,419 | 3,745 |
| Other non-current assets | 1,868 | 1,908 | 1,898 |
| T o t a l non-current assets | 311,852 | 211,372 | 331,400 |
| T o t a l assets | 548,386 | 389,676 | 548,711 |

____________________ ) 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: 19 November 2008

| | 30 September 2008 | 30 September 2007 | 31 December 2007 |
|---|---|---|---|
| | U.S. dollars in thousands | | |
| | (Unaudited) | | (Audited) |
| **Liabilities and shareholders' equity** | | | |
| **CURRENT LIABILITIES:** | | | |
| Bank credit and loans (including current maturities) | 36,703 | 36,445 | 44,221 |
| Accounts payable: | | | |
| Trade | 33,370 | 29,641 | 38,797 |
| Other | 38,130 | 35,531 | 96,412 |
| Provisions | 365 | 377 | 440 |
| Total current liabilities | 108,568 | 101,994 | 179,870 |
| **NON-CURRENT LIABILITIES:** | | | |
| Bank credit and loans, net of current maturities | 126,730 | | 82,579 |
| Retirement benefit obligations | 11,379 | 7,918 | 11,518 |
| Deferred income tax liabilities | 21,385 | 12,248 | 22,209 |
| Other liabilities | 1,420 | 24,906 | 1,420 |
| Total non-current liabilities | 160,914 | 45,072 | 117,726 |
| Total liabilities | 269,482 | 147,066 | 297,596 |
| **SHAREHOLDERS' EQUITY:** | | | |
| Share capital | 16,490 | 16,466 | 16,466 |
| Capital surplus | 95,502 | 94,092 | 94,392 |
| Currency translation differences | 16,413 | 13,595 | 17,638 |
| Retained earnings | 153,461 | 120,477 | 125,279 |
| Less - cost of company shares held by subsidiary | (2,962) | (2,020) | (2,660) |
| Total shareholders' equity | 278,904 | 242,610 | 251,115 |
| Total shareholders' equity and liabilities | 548,386 | 389,676 | 548,711 |

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

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2007 |
| | U.S. dollars in thousands | | | | |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| **SALES** | 374,625 | 259,897 | 120,022 | 87,692 | 368,261 |
| **COST OF SALES** | 234,808 | 165,738 | 74,724 | 56,152 | 237,506 |
| **GROSS PROFIT** | 139,817 | 94,159 | 45,298 | 31,540 | 130,755 |
| **SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:** | | | | | |
| Selling, marketing, research and development - net | 65,412 | 46,205 | 21,350 | 16,299 | 66,898 |
| General and administrative | 27,120 | 21,045 | 8,714 | 7,324 | 29,525 |
| **OTHER EXPENSES (INCOME) -** net | (893) | (303) | 271 | (412) | (194) |
| **OPERATING PROFIT** | 48,178 | 27,212 | 14,963 | 8,329 | 34,526 |
| **FINANCIAL EXPENSES -** net | 7,520 | 1,889 | 2,545 | 1,723 | 2,923 |
| **PROFIT BEFORE TAXES ON INCOME** | 40,658 | 25,323 | 12,418 | 6,606 | 31,603 |
| **TAXES ON INCOME** | 9,470 | 5,932 | 2,982 | 733 | 7,410 |
| **NET INCOME FOR THE PERIOD** | 31,188 | 19,391 | 9,436 | 5,873 | 24,193 |

| | U.S. Dollars | | | | |
|---|---|---|---|---|---|
| **EARNINGS PER SHARE:** | | | | | |
| **BASIC** | 0.55 | 0.34 | 0.17 | 0.10 | 0.42 |
| **FULLY DILUTED** | 0.54 | 0.34 | 0.16 | 0.10 | 0.41 |

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

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | Share Capital | Capital Surplus | Currency translation differences | Retained earnings | Cost of company shares held by subsidiary | Total |
|---|---|---|---|---|---|---|
| | | | U.S. dollars in thousands | | | |
| **BALANCE AT 1 JANUARY 2008** (audited) | 16,466 | 94,392 | 17,638 | 125,279 | (2,660) | 251,115 |
| **CHANGES DURING THE 9 MONTHS ENDED 30 SEPTEMBER 2008** (unaudited): | | | | | | |
| Net income not recognized in the net profit - changes in currency translation | | | (1,225) | | | (1,225) |
| Net income | | | | 31,188 | | 31,188 |
| Total recognized income for 9 months ended 30 September 2008 | | | | | | 29,963 |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Acquisition of company shares by subsidiary | | | | | (741) | (741) |
| Receipts in respect of allotment of company shares to employees | | | | | 439 | 439 |
| Allotment of shares and options to senior employees: | | | | | | |
| Allotment of share capital to senior employees | 24 | 237 | | | | 261 |
| Recognition of compensation related to employee stock and options grants | | 873 | | | | 873 |
| Dividend paid including erosion (note 2) | | | | (3,006) | | (3,006) |
| **BALANCE AT 30 SEPTEMBER 2008** (unaudited) | 16,490 | 95,502 | 16,413 | 153,461 | (2,962) | 278,904 |

**FRUTAROM INDUSTRIES LTD.**

CONOSLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | Share capital | Capital surplus | Currency translation differences | Retained earnings | Cost of company shares held by subsidiary | Total |
|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | |
| **BALANCE AT 1 JULY 2008** (unaudited) | 16,478 | 95,083 | 28,927 | 144,025 | (2,840) | 281,673 |
| **CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2008** (unaudited): | | | | | | |
| Net income not recognized in the net profit - changes in currency translation | | | (12,514) | | | (12,514) |
| Net income | | | | 9,436 | | 9,436 |
| Total recognized income for 3 months ended 30 September 2008 | | | | | | (3,078) |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Acquisition of company shares by subsidiary | | | | | (171) | (171) |
| Receipts in respect of allotment of company shares to employees | | | | | 49 | 49 |
| Allotment of shares and options to senior employees: | | | | | | |
| Allotment of share capital to senior employees | 12 | 119 | | | | 131 |
| Recognition of compensation related to employee stock and options grants | | 300 | | | | 300 |
| **BALANCE AT 30 SEPTEMBER 2008** (unaudited) | 16,490 | 95,502 | 16,413 | 153,461 | 2,962 | 278,904 |

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | Share Capital | Capital Surplus | Currency translation differences | Retained earnings | Cost of company shares held by subsidiary | Total |
|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | |
| **BALANCE AT 1 JANUARY 2007** (audited) | 16,434 | 93,116 | 5,716 | 103,658 | (1,791) | 217,133 |
| **CHANGES DURING THE 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: | | | | | | |
| Purchase of company 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 option grants | | 809 | | | | 809 |
| Dividend paid, including erosion | | | | (2,572) | | (2,572) |
| **BALANCE AT 30 SEPTEMBER 2007** (unaudited) | 16,466 | 94,092 | 13,595 | 120,477 | (2,020) | 242,610 |

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | Share capital | Capital Surplus | Currency translation differences | Retained earnings | Cost of company shares held by subsidiary | Total |
|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | |
| **BALANCE AT 1 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 recognized in the net profit - changes in currency translation | | | 7,611 | | | 7,611 |
| Net income | | | | 5,873 | | 5,873 |
| Total recognized income for 9 months ended 30 September 2007 | | | | | | 13,484 |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Purchase of company shares by subsidiary | | | | | (554) | (554) |
| Receipts in respect of allotment of company shares to employees | | | | | | |
| Recognition of compensation related to the plan | | | | | 22 | 22 |
| Allotment of shares and options to senior employees: | | | | | | |
| Allotment of share capital to senior employees | | | | | | |
| Recognition of compensation related to employee stock and options grants | | 278 | | | | 278 |
| Dividend paid, including erosion | | | | | | |
| **BALANCE AT 30 SEPTEMBER 2007** (unaudited) | 16,466 | 94,092 | 13,595 | 120,477 | (2,020) | 242,610 |

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | Share capital | Capital surplus | Currency translation differences | Retained earnings | Cost of company shares held by subsidiary | Total |
|---|---|---|---|---|---|---|
| | U.S. dollars in thousands (audited) | | | | | |
| **BALANCE AT 1 JANUARY 2007** | 16,434 | 93,116 | 5,716 | 103,658 | (1,791) | 217,133 |
| **CHANGES IN 2007:** | | | | | | |
| Net income not recognized in the net profit - changes in currency translation | | | 11,922 | | | 11,922 |
| Net income | | | | 24,193 | | 24,193 |
| Total recognized income for 2007 | | | | | | 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) |
| **BALANCE AT 31 DECEMBER 2007** | 16,466 | 94,392 | 17,638 | 125,279 | (2,660) | 251,115 |

**FRUTAROM INDUSTRIES LTD.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2008

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2007** |
| | U.S. dollars in thousands | | | | |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | |
| Cash generated from operations (Note 5) | 28,956 | 11,819 | 17,849 | 6,697 | 24,032 |
| Income tax paid | (7,733) | (5,848) | (5,206) | (1,427) | (8,908) |
| Net cash provided by operating activities | 21,223 | 5,971 | 12,643 | 5,270 | 15,124 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | |
| Purchase of property, plant and equipment | (8,673) | (10,035) | (2,845) | (3,012) | (14,685) |
| Purchase of other assets | (37) | (2,611) | (25) | (771) | (2,820) |
| Interest received* | | | | | 867 |
| Acquisition of subsidiary – net of cash acquired | (51,761) | (22,209) | (22,562) | (1,972) | (91,108) |
| Acquisition of operations – net of cash acquired | | (8,427) | | (8,427) | (8,427) |
| Reimbursement in respect of acquisition of operations | | 2,389 | | 2,389 | 2,389 |
| Proceeds from sale of property, plant and equipment | 3,958 | 566 | 64 | 286 | 708 |
| Short-term marketable securities – net | 722 | 2,829 | 42 | 34 | 2,199 |
| Net cash used in investing activities | (55,791) | (37,498) | (25,326) | (11,473) | (110,877) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | |
| Receipts from senior employees in respect of allotment of shares | 261 | 199 | 131 | | 199 |
| Interest paid* | (5,063) | (200) | (1,932) | (71) | |
| Receipt (repayment) of short-term bank credit and loans | (2,470) | 32,744 | 68 | 9,507 | 20,521 |
| Receipt of long-term bank credit and loans | 63,176 | | 23,785 | | 89,483 |
| Repayment of long-term bank loans and credit | (16,430) | | (6,263) | | (2,166) |
| Purchase of company shares by subsidiary – net of receipts in respect of the shares | (302) | (320) | (122) | (554) | (960) |
| Dividend paid | (3,006) | (2,572) | | | (2,572) |
| Net cash provided by financing activities | 36,166 | 29,851 | 15,667 | 8,882 | 104,505 |
| **NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS** | 76 | 571 | 1,407 | 430 | 1,681 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 1,674 | (1,105) | 4,391 | 3,109 | 10,433 |
| **BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 28,177 | 17,744 | 25,460 | 13,530 | 17,744 |
| **BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD** (Note 4) | 29,851 | 16,639 | 29,851 | 16,639 | 28,177 |

* Reclassified.

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

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2008

(UNAUDITED)

**1. General:**

**a)** The interim consolidated financial statements of the group as of March 31, 2008 (hereinafter - the interim financial statements) and for the 9 and 3-month periods ended on that date (hereafter – the interim financial statements) have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (hereinafter - IAS 34) and the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

**b)** The principal accounting policies set out below have been consistently applied to all the periods presented, except for the matter described in 1c below and the classification of interest paid or received in the statement of cash flows from operating activities in accordance with IAS 7.

The interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of amounts funded in respect of employee retirement obligations, financial assets and financial liabilities at fair value through profit or, that are presented at their fair value.

Costs incurred unevenly during the year are anticipated or deferred for interim reporting purposes if, and only if, it is appropriate to anticipate or defer such costs at the end of the reported year.

Income tax for interim periods is included based on the best management's estimate of the weighted average annual income tax rate expected for the full financial year.

**c) Basis of preparation**

1) Interpretation that came into effect during the 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 recognized as an asset in a defined benefit plan. It also explains how the pension asset or liability of a defined benefit plan 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.

(b) IFRIC 11 to IFRS 2 – "Group and Treasury Shares Transactions" – provides guidance whether share-based transactions involving treasury shares or involving group entities (for example, options, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This implementation of the interpretation did not have a material impact on the group's financial statements

**1**. **General** (Continued):

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 (Revised) – "Consolidated and Separate Financial Statements" (hereafter – IAS 27R) (in effect commencing July 1, 2009).
IAS27R requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gain and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010. It is expected that the implementation of the standard would not have a material effect on the financial statements.

(b) International Financial Reporting Standard No. 3 (Revised) – "Business Combinations" (hereafter – IFRS3R) (in effect commencing July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition –by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010. Group's management examines the potential impact of implementation of IFRS3R on its financial statements in futures reporting periods.

(c) International Accounting Standard No. 1 (Revised) – "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 prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring "non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition tot the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1 January 2009, but it is unlikely that the implementation of this standard would have a material impact on its financial statements.

(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, nor will the manner in which the segments are reported.

1. **General** (Continued)**:**

(e) IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It 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 IAS 23 (Amended) from 1 January 2009 but it is not expected that the implementation thereof would have a material effect on its financial statements.

(f) IFRIC 16 issued by the International Financial Reporting Interpretation Committee – "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008; hereafter – IFRIC 16). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements in IAS 21, "The Effects of Changes in Foreign Exchange Rates", do apply to the hedged item. The Group would apply IFRIC 16 from 1 January 2009 but it is not expected that the implementation thereof would have a material impact on its financial statements.

(g) IFRS 2 (Amendment), "Share-based Payment" (effective from 2 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected that the application will have a material impact on the its financial statements.

(h) IAS 32 (Amendment), "Financial Instruments: Presentation" and IAS 1 (Amendment), "Presentation of Financial Statements" – "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amended standards require entities to classify the puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009, but it is not expected that the application will have a material impact on its financial statements.

(i) IFRS 5 (Amendment), "Non-Current Assets Held-for-Sale and Discontinued Operations" (and consequential amendment to IFRS 1, "First Time Adoption") (effective from July1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The group will apply the IFRS 5 (Amendment) from 1 January 2010.

1. **General** (Continued)**:**

(j) IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 "Financial Instruments: Recognition and Measurement". This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from 1 January 2009.

(k) IAS 28 (Amendment), "Investments in Associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial Instruments: Disclosures") (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The group will apply IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

(l) IAS 36 (Amendment), "Impairment of Assets" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

(m) IAS 38 (Amendment), "Intangible Assets" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The group will apply IAS 38 (Amendment) from 1 January 2009.

(n) IAS 19 (Amendment), "Employee Benefits" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service given rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

**1. General** (Continued)**:**

- IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent.

The group will apply IAS 19 (Amendment) from 1 January 2009.

(o) IAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is including in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, "Operating Segments", which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cask flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the group will not formally document and test this relationship.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The group will apply IAS 39 (Amendment) from 1 January 2009.

(p) IAS 1 (Amendment), "Presentation of Financial Statements" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" are examples of current assets and liabilities, respectively. The group will apply IAS 1 (Amendment) from 1 January 2009.

**1. General** (Continued)**:**

(q) There are a number of minor amendments to IFRS 7, "Financial Instruments: Disclosures", IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", IAS 10, "Events after Reporting Period", IAS 18, " "Revenue" and IAS 34, "Interim Financial Reporting", which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's financial statements.

3) Standards, amendments and interpretations effective as from 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) Interpretation to existing standards that is not yet effective and not relevant to Group's operations.
The interpretation to existing standards has been published and is mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but is not relevant for the group operations:

(a) IAS 16 (Amendment), "Property, Plant and Equipment" (and consequential amendment to IAS 7, "Statement of Cash Flows" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the group's operations because none of the group's company's ordinary activities comprise renting and subsequently selling assets.

**1. General** (Continued)**:**

(b) IAS 27 (Amendment), "Consolidated and Separate Financial Statements (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, "Financial Instruments: Recognition and Measurement", is classified as held for sale under IFRS 5, "Non-Current Assets Held-for-Sale and Discontinued Operations", IAS 39 would continue to be applied. The amendment will not have an impact on the group's operations because it is the group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

(c) IAS 28 (Amendment), "Investments in Associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentations" and IFRS 7, "Financial Instruments: Disclosures") (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial Instruments: Disclosures". The amendment will not have an impact on the group's operations since there are no Investments in Associates in the group consolidated financial statements.

(d) IAS 29 (Amendment), "Financial Reporting in Hyperinflationary Economies (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the group's operations, as none of the group's subsidiaries or associates operate in hyperinflationary economies.

(e) IAS 31 (Amendment), "Interests in Joint Ventures" and consequential amendments to IAS 32 and IFRS 7 (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial Instruments: Disclosures". The amendment will not have an impact on the group's operations as there are no interests held in joint ventures.

(f) IAS 38 (Amendment), "Intangible Assets" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is "rarely, if ever" support for use of a method that results in a lower rate of amortization that the straight-line method. The amendment will not have an impact on the group's operations, as all intangible assets are amortised using the straight-line method.

**1. General** (Continued)**:**

(g) IAS 40 (Amendment), "Investment Property" (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measureable, the property is
measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the group's operations, as no investment properties are held by the group.

(h) IAS 41 (Amendment), "Agriculture" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the group's operations as no agricultural activities are undertaken.

(i) IAS 20 (Amendment), "Accounting for Government Grants and Disclosure of Government Assistance" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the group's operations as there are no loans received from the government.

(j) Minor amendments have been made to IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", and IAS 29, "Financial Reporting in Hyperinflationary Economies", IAS 40, "Investment Property", and IAS 41, "Agriculture", which are part of the IASB's annual improvements project published in May 2008 (not addressed above). It is not expected that these amendments would have a material effect on the financial statements of the group.

(k) IFRIC 15 issued by the International Financial Reporting Interpretation Committee - "Agreements for the Construction of Real Estate" - (effective from 1 January 2009; hereafter – IFRIC 15); this IFRIC includes guidelines for determining from the point of view of the contractor when construction and sale of Real Estate falls within the scope of IAS 11 – "Construction Contracts" (hereafter – IAS 11)– and when such construction and sale falls within the scope of IAS 18 – "Revenue" (hereafter – IAS 18). It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 also clarifies the proper timing for recognition of revenue arising from construction of Real Estate as above, in accordance with the requirements of each of the two relevant standards (IAS 11 and IAS 18). The Interpretation will not have an impact on the group's operations as there are no construction and sale of Real Estate.

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)

30 SEPTEMBER 2008

(UNAUDITED)

**1. General** (Continued)**:**

**d)** The Company's activity is subject to seasonal fluctuations, with generally higher sales in the first half of a given year and lower sales in the second half of a given year (in particular in the fourth quarter). Many of the Company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yogurts, for which demand generally increases during the summer months. As a result, sales of certain flavors and fine ingredients produced by the Company are higher in the first half of the year than in the second half.

**2. Dividend**

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

**3. Business Segment Data:**

| | Flavors Division | Fine ingredients division | Trade and Marketing division | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | |
| **9 months ended 30 September 2008** (unaudited): | | | | | |
| Revenues | 268,555 | 98,885 | 10,469 | (3,284) | 374,625 |
| Segment results | 39,545 | 7,258 | 690 | 685 | 48,178 |
| **9 months ended 30 September 2007** (unaudited): | | | | | |
| Revenues | 169,223 | 86,127 | 7,938 | (3,391) | 259,897 |
| Segment results | 19,681 | 7,600 | 386 | (455) | 27,212 |
| **3 months ended 30 September 2008** (unaudited): | | | | | |
| Revenues | 86,077 | 31,086 | 3,888 | (1,029) | 120,022 |
| Segment results | 12,666 | 1,802 | 349 | 146 | 14,963 |
| **3 months ended 30 September 2007** (unaudited): | | | | | |
| Revenues | 57,601 | 28,091 | 3,260 | (1,260) | 87,692 |
| Segment results | 6,029 | 2,080 | 206 | 14 | 8,329 |
| **Year ended 31 December 2007** (audited): | | | | | |
| Revenues | 247,672 | 114,951 | 10,501 | (4,863) | 368,261 |
| Segment results | 26,823 | 7,904 | 497 | (698) | 34,526 |

## 4. 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:

| | 30 September | | 31 December |
|---|---|---|---|
| | **2008** | **2007** | **2007** |
| | **U.S. dollars in thousands** | | |
| Cash and cash equivalents | 29,919 | 17,229 | 31,942 |
| Bank overdrafts | (68) | (590) | (3,765) |
| | 29,851 | 16,639 | 28,177 |

## 5. Cash Flows from Operations:

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2007** |
| | **U.S. dollars in thousands** | | | | |
| | **(Unaudited)** | | **(Unaudited)** | | **(Audited)** |
| Profit before taxes on income | 40,658 | 25,323 | 12,418 | 6,606 | 31,603 |
| **Adjustments required to reflect the cash flows from operating activities:** | | | | | |
| Depreciation and amortization | 14,882 | 8,448 | 4,713 | 2,842 | 12,647 |
| Recognition of compensation related to employee stock and option grants | 873 | 900 | 300 | 300 | 1,200 |
| Liability for employee rights upon retirement – net | (101) | (151) | 46 | (148) | (5,521) |
| Deferred income taxes – net | 214 | (1,620) | (637) | (1,820) | 785 |
| Loss (gain) from sale of fixed assets | (3,638) | (309) | (717) | (207) | 42 |
| Decrease in provisions – net | (75) | (569) | (3) | | (545) |
| Interest paid (received)* | 5,063 | 200 | 1,932 | 71 | (867) |
| Erosion of long-term loans | 1,470 | | (235) | | 550 |
| Other | | 435 | | 148 | 593 |
| | 18,688 | 7,334 | 5,399 | 1,186 | 8,884 |
| **Changes in working capital:** | | | | | |
| Decrease (increase) in accounts receivable: | | | | | |
| Trade | (12,066) | (9,114) | 3,986 | 5,074 | (5,152) |
| Other | 808 | (1,482) | 117 | 2,950 | 6,506 |
| Increase (decrease) in accounts payable: | | | | | |
| Trade | (5,289) | (1,551) | (5,267) | (7,986) | 3,832 |
| Other* | (2,905) | 3,617 | 1,113 | 2,625 | (6,078) |
| Decrease (increase) in inventories | (10,938) | (12,308) | 83 | (3,758) | (15,563) |
| | (30,390) | (20,838) | 32 | (1,095) | (16,455) |
| Cash flows from operating activities | 28,956 | 11,819 | 17,849 | 6,697 | 24,032 |
| **Non-cash transactions:** | | | | | |
| Conversion of short term loans to long term | 18,941 | | | | |

* Reclassified.

## 6. Exercise of option for the purchase of Nesse

The company completed its exercise of the option for the purchase of the remaining 30% of Nesse's shares and the success fee payment in accordance with the payment mechanism based on the acquisition agreement and it holds 100% of the share capital of Nesse. Due to the above the company has paid on the 16th of April and the 9th of July 2008, a total of € 18,890,224 ($ 30,089,118), which was financed using long-term bank credit.

## 7. Payment of the future consideration for acquisition of Gewurzmuller group

On July 14, July 24 and September 8, 2008, the Company paid the balance of the consideration for the acquisition of the Gewurzmuller Group in accordance with the payment mechanism set in the acquisition agreement. The balance of the consideration paid aggregates € 13,868,285 (US$ 21,672,036), which was financed through long-term bank loans. Upon making the said payment, the final cost of purchase was settled with the sellers and thereby decreased by € 5,280,715 (US$ 8,052,562), and the amount of goodwill was changed accordingly.