

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
30 SEPTEMBER 2009

FRUTAROM INDUSTRIES LTD.

INTERIM REPORT

(Unaudited)

30 SEPTEMBER 2009

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Auditor's Review Report to the Shareholders of Frutarom Industries Ltd.

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 September, 2009 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the nine 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 3.18% of total consolidated assets as of 30 September, 2009 and whose revenues included in consolidation constitute approximately 6.72% and 7.27% of total consolidated revenues for the nine 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.

Kesselman & Kesselman

Haifa, November 23, 2009

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2009

	<u>30 September</u>		<u>31 December</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>		<u>(Audited)</u>
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	34,134	29,919	37,229
Financial assets at fair value through profit or loss	48	555	52
Accounts receivable:			
Trade	76,928	88,326	68,204
Other	11,789	14,919	11,573
Prepaid expenses and advances to suppliers	3,630	2,804	2,564
Inventories	83,265	100,011	94,916
	<u>209,794</u>	<u>236,534</u>	<u>214,538</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	128,410	130,640	125,705
Intangible assets	197,917	176,579	166,083
Deferred income tax assets	3,362	2,765	2,990
Prepaid expense in respect of operating lease	1,499	1,868	1,476
	<u>331,188</u>	<u>311,852</u>	<u>296,254</u>
Total assets	<u>540,982</u>	<u>548,386</u>	<u>510,792</u>

_____) Chairman of the Board
Dr. John Farber)
_____) President and CEO
Ori Yehudai)
_____) Executive Vice
Alon Granot) President and CFO

Date of approval of the interim financial information by the board of directors: November 23, 2009

	<u>30 September</u>		<u>31 December</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
	<u>U.S. dollars in thousands</u>		
	<u>(Unaudited)</u>		<u>(Audited)</u>
Liabilities and shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	55,815	36,703	42,784
Accounts payable:			
Trade	28,825	33,370	26,705
Other	29,049	38,130	27,801
Provisions for other liabilities	787	365	1,028
	<u>114,476</u>	<u>108,568</u>	<u>98,318</u>
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	79,520	126,730	99,383
Retirement benefit obligations	11,889	11,379	11,269
Deferred income tax liabilities	23,205	21,385	22,142
Provisions for other liabilities net of current maturities	-	1,420	1,420
	<u>114,614</u>	<u>160,914</u>	<u>134,214</u>
Total liabilities	<u>229,090</u>	<u>269,482</u>	<u>232,532</u>
EQUITY:			
Share capital	16,500	16,490	16,490
Capital surplus	96,384	95,502	95,802
Currency translation differences	19,354	16,413	9,836
Retained earnings	182,740	153,461	159,502
Less - cost of company shares held by subsidiary	(3,086)	(2,962)	(3,370)
Total equity	<u>311,892</u>	<u>278,904</u>	<u>278,260</u>
Total equity and liabilities	<u>540,982</u>	<u>548,386</u>	<u>510,792</u>

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

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENTS OF INCOME AND CONDESED CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2009	2008	2009	2008	2008
U.S. dollars in thousands (except for income per share data)					
	(Unaudited)		(Unaudited)		(Audited)
SALES	316,721	374,625	111,580	120,022	473,286
COST OF SALES	200,824	234,808	70,351	74,724	297,015
GROSS PROFIT	115,897	139,817	41,229	45,298	176,271
SELLING, MARKETING, RESEARCH AND DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:					
Selling, marketing, research and development - net	54,788	65,412	19,169	21,350	85,003
General and administrative	24,703	27,120	8,712	8,714	35,206
OTHER EXPENSES (INCOME) - net	90	(893)	17	271	(549)
INCOME FROM OPERATIONS	36,316	48,178	13,331	14,963	56,611
FINANCIAL EXPENSES - net	3,460	7,520	85	2,545	10,550
PROFIT BEFORE TAXES ON INCOME	32,856	40,658	13,246	12,418	46,061
TAXES ON INCOME	7,133	9,470	3,215	2,982	8,832
NET INCOME FOR THE PERIOD	25,723	31,188	10,031	9,436	37,229
NET INCOME PER SHARE:					
Basic	0.45	0.55	0.18	0.17	0.65
Fully diluted	0.45	0.54	0.17	0.16	0.64

STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
NET INCOME FOR THE PERIOD	25,723	31,188	10,031	9,436	37,229
OTHER COMPREHENSIVE INCOME-					
FOREIGN CURRENCY TRANSLATION DIFFERNCES	9,518	(1,225)	6,297	(12,514)	(7,802)
COMPREHENSIVE INCOME FOR THE PREIOD	35,241	29,963	16,328	(3,078)	29,427

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

FRUTAROM INDUSTRIES LTD.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U.S. dollars in thousands					
BALANCE AT 1 JANUARY 2009 (audited)	16,490	95,802	9,836	159,502	(3,370)	278,260
CHANGES DURING THE 9 MONTHS ENDED 30 SEPTEMBER 2009 (unaudited):						
Total comprehensive income for 9 months ended 30 September 2009	-	-	9,518	25,723	-	35,241
Plans for allotment of company shares to employees of subsidiary - Receipts in respect of allotment of company shares to employees	-	-	-	-	284	284
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	10	95	-	-	-	105
Recognition of compensation related to employee stock and options grants	-	487	-	-	-	487
Dividend paid including erosion (note 5)	-	-	-	(2,485)	-	(2,485)
BALANCE AT 30 SEPTEMBER 2009 (unaudited)	<u>16,500</u>	<u>96,384</u>	<u>19,354</u>	<u>182,740</u>	<u>(3,086)</u>	<u>311,892</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U . S . d o l l a r s i n t h o u s a n d s					
BALANCE AT 1 JULY 2009 (unaudited)	16,500	96,146	13,057	172,709	(3,132)	295,280
CHANGES DURING THE 3 MONTHS ENDED 30 SEPTEMBER 2009 (unaudited):						
Total comprehensive income for 3 months ended 30 September 2009	-	-	6,297	10,031	-	16,328
Plans for allotment of company shares to employees of subsidiary - Receipts in respect of allotment of company shares to employees	-	-	-	-	46	46
Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and options grants	-	238	-	-	-	238
BALANCE AT 30 SEPTEMBER 2009 (unaudited)	<u>16,500</u>	<u>96,384</u>	<u>19,354</u>	<u>182,740</u>	<u>(3,086)</u>	<u>311,892</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	U . S . d o l l a r s i n t h o u s a n d s					
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):						
Total comprehensive income for 9 months ended 30 September 2008	-	-	(1,225)	31,188	-	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	-	-	-	(3,006)	-	(3,006)
BALANCE AT 30 SEPTEMBER 2008 (unaudited)	<u>16,490</u>	<u>95,502</u>	<u>16,413</u>	<u>153,461</u>	<u>(2,962)</u>	<u>278,904</u>

FRUTAROM INDUSTRIES LTD.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
 FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	Share capital	Capital surplus	Currency translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . d o l l a r s i n t h o u s a n d s					
BALANCE AT 1 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):						
Total comprehensive income for 3 months ended 30 September 2008	-	-	(12,514)	9,436	-	(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.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Currency translation differences</u>	<u>Retained earnings</u>	<u>Cost of company shares held by subsidiary</u>	<u>Total</u>
	<u>U.S. dollars in thousands (audited)</u>					
BALANCE AT 1 JANUARY 2008	16,466	94,392	17,638	125,279	(2,660)	251,115
CHANGES IN 2008:						
Total comprehensive income for the year ended 31 December 2008	-	-	(7,802)	37,229	-	29,427
Plan for allotment of Company shares to employees of subsidiary:						
Purchase of Company shares by subsidiary	-	-	-	-	(1,160)	(1,160)
Receipts in respect of allotment of Company shares to employees	-	-	-	-	450	450
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 option grants	-	1,173	-	-	-	1,173
Dividend paid including erosion	-	-	-	(3,006)	-	(3,006)
BALANCE AT 31 DECEMBER 2008	<u>16,490</u>	<u>95,802</u>	<u>9,836</u>	<u>159,502</u>	<u>(3,370)</u>	<u>278,260</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2009

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2009	2008	2009	2008	2008
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Note 9)	70,958	28,956	31,552	17,849	51,560
Income tax paid	(13,059)	(7,733)	(4,053)	(5,206)	(14,540)
Net cash provided by operating activities	57,899	21,223	27,499	12,643	37,020
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(3,511)	(8,673)	(847)	(2,845)	(10,462)
Purchase of intangibles	(1,085)	(37)	(311)	(25)	(943)
Interest received	200	-	37	-	264
Acquisition of subsidiary – net of cash acquired	-	(51,761)	-	(22,562)	(51,761)
Acquisition of operations – net of cash acquired (Notes 2, 3 and 4)	(37,015)	-	(127)	-	-
Reimbursement in respect of acquisition of operations	-	-	-	-	425
Proceeds from sale of property, plant and equipment	879	3,958	260	64	8,245
Realization of marketable securities classified at fair value through profit or loss	4	722	(1)	42	1,227
Net cash used in investing activities	(40,528)	(55,791)	(989)	(25,326)	(53,005)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Receipts from senior employees in respect of allotment of shares	105	261	-	131	261
Interest paid	(3,637)	(5,063)	(928)	(1,932)	(8,015)
Receipt of long-term bank loans	12,848	63,176	-	23,785	82,117
Repayment of long-term bank loans	(33,392)	(16,430)	(8,662)	(6,263)	(27,621)
Receipt (repayment of) short-term bank credit and loans - net	7,056	(2,470)	(7,548)	68	(19,917)
Purchase of company shares by subsidiary – net of receipts in respect of the shares	284	(302)	46	(122)	(710)
Dividend paid	(2,485)	(3,006)	-	-	(3,006)
Net cash provided by (used in) financing activities	(19,221)	36,166	(17,092)	15,667	23,109
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(1,850)	1,598	9,418	2,984	7,124
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK CREDIT AT BEGINNING OF PERIOD	37,229	28,177	25,784	25,460	28,177
EARNINGS ON EXCHANGE RATE DIFFERENCES IN RESPECT OF CASH AND CASH EQUIVALENTS AND BANK CREDIT	(1,245)	76	(1,068)	1,407	1,928
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD (Note 8)	34,134	29,851	34,134	29,851	37,229

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

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2009

(UNAUDITED)

1. General:

- a) The interim condensed consolidated financial information of the group as of 30 September, 2009 and for the 9 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") and accordance with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2008 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) The principal accounting policies and calculation methods used in preparation of the interim financial information are consistent with those used in preparation of the annual financial statements as of 31 December 2008 and for the year then ended, except as described below:

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) Standards and interpretations to existing standards that came into effect and are effective for reporting period commencing on January 1, 2009, but whose first time implementation had no material effect on the group's financial statements:
- (a) IAS 1 (Revised), "Presentation of financial statements". The revised standard 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" are required to be shown in a performance statement. 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). The group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.
 - (b) International Financial Reporting Standard No. 8 - "Operating Segments".
 - (c) Amendment to IAS 23, "Borrowing costs".
 - (d) IFRIC 16 issued by the International Financial Reporting Interpretation Committee - "Hedges of a Net Investment in a Foreign Operation".
 - (e) Amendment to IFRS 2 - "Share-Based Payment".
 - (f) Amendment to International Accounting Standard No. 36 - "Impairment of Assets".
 - (g) Amendments to International Accounting Standard No. 38 - "Intangible Assets".
 - (h) Amendment to International Accounting Standard No. 19 - "Employee Benefits".

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(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. Acquisition of Oxford Chemicals Limited

On 30 January, 2009, the Company acquired, through a subsidiary, the operation of Oxford Chemicals Limited (hereafter- Oxford).

Oxford is a UK resident company engaged in the development, manufacture and marketing of unique raw materials for the flavor and fragrances industry.

The consideration paid in cash in respect of the acquisition was £ 8,250 thousands (U.S. \$ 11,734 thousands); the acquisition was financed by a long-term loan.

The cost of acquisition was allocated to tangible assets, intangible assets (including goodwill) and to acquired liabilities based on their fair value at the date of acquisition. The fair value of the assets and liabilities is subject to a final assessment being performed for the Company.

The cost of acquisition presented in these financial statements includes acquisition costs. The cost of acquisition amounts to £ 8,630 thousands (U.S. \$ 12,274 thousands).

The intangible assets that were recognized include: products formulas at the total amount of £ 697 thousands (U.S. \$ 991 thousands), customer relationships at the total amount of £ 153 thousands (U.S. \$ 218 thousands) and goodwill at the total amount of £ 4,171 thousands (U.S. \$ 5,932 thousands).

The products formula and customers relationship are amortized over an economic life of 20 years and 10 years, respectively.

The goodwill is not amortized but tested annually for impairment.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

2. Acquisition of Oxford Chemicals Limited (continued):

Set forth below are data included in the consolidated financial statements as of 30 September, 2009:

	30 September 2009
	U.S. dollars in thousands
	(Unaudited)
Current assets:	
Cash and cash equivalents	771
Accounts receivable:	
Trade	2,459
Other	269
Inventories	2,119
Non-current assets:	
Property, plant and equipment	2,644
Intangible assets	8,027
Accounts payable:	
Trade	(1,414)
Other	(653)
Deferred income taxes	(327)
	<u>13,895</u>

The acquired operation resulted with revenues (Including financing expenses in respect of loans used in order to finance the purchase) of £ 6,532 thousands (U.S. \$ 10,094 thousands) and net income of £ 330 thousands (U.S. \$ 510 thousands), net of re-organization expenses of £ 295 thousands (U.S. \$ 456 thousands) for the period from 1 February 2009 to 30 September 2009.

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

	Fair value	Value in books of acquired company
	U.S. dollars in thousands	
Current assets:		
Accounts receivable:		
Trade	1,724	1,724
Other	188	188
Inventories	2,112	2,364
Non-current assets:		
Property, plant and equipment	2,792	2,792
Intangibles assets	1,209	
Goodwill	5,932	
Deferred income taxes	31	
Current liabilities:		
Accounts payable:		
Trade	(1,182)	(1,182)
Other	(532)	(532)
	<u>*12,274</u>	<u>5,354</u>

* The balance does not include additional acquisition costs of £ 380 thousands (U.S. \$ 540 thousands).

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

3. Acquisition of Flavor Specialties Inc.

On 4 March, 2009, the Company acquired, through a subsidiary, the operation of the U.S. company Flavors Specialties Inc. (hereafter – FSI).

FSI is a company engaged in the development, production and marketing of flavor extracts and botanical extracts, mainly for the food and beverages industries.

The consideration paid in cash in respect of the acquisition was \$ 17,223 thousands; the acquisition was financed by bank credit.

The purchase agreement stipulates a mechanism for the payment of a future consideration based on the average EBITDA achieved by FSI in the course of the 24 months ending 31 December 2010, multiplied by 5.5 so that the total consideration may increase to \$ 27 million or decrease to \$ 13.35 million.

The said mechanism would increase the consideration in case where the average EBITDA of the acquired operations would exceed \$ 3.1; the said mechanism would decrease the consideration in case where the average EBITDA of the acquired operations would decrease below \$ 2.7 million.

The cost of acquisition was allocated to tangible assets and intangible assets (including goodwill) acquired based on their fair value at the date of acquisition. The fair value of the assets and liabilities is subject to a final assessment being performed for the Company.

The cost of acquisition presented in these financial statements includes acquisition costs. The cost of acquisition amounts to U.S. \$ 17,458 thousands.

The intangible assets that were recognized include: products formulas at the total amount of U.S. \$ 2,868 thousands, customer relationships at the total amount of U.S. \$ 2,850 thousands and goodwill at the total amount of U.S. \$ 8,530 thousands.

The products formula and customers relationship are amortized over an economic life of 20 years and 7 years, respectively.

The goodwill is not amortized but tested annually for impairment.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

3. Acquisition of Flavor Specialties Inc. (continued):

Set forth below are data included in the consolidated financial statements as of 30 September, 2009:

	30 September 2009
	U.S. dollars in thousands
	(Unaudited)
Current assets:	
Cash and cash equivalents	614
Accounts receivable:	
Trade	976
Other	85
Inventories	1,302
Non-current assets:	
Property, plant and equipment	440
Intangible assets	13,926
Current liabilities:	
Accounts payable:	
Trade	(213)
Other	(76)
Deferred taxes	(98)
	<u>16,956</u>

The acquired operation resulted with revenues (Including financing expenses in respect of loans used in order to finance the purchase) of U.S. \$ 4,595 thousands and net income of U.S. \$ 202 thousands, net for the period from 4 March, 2009 to 30 September, 2009.

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

	Fair value	Value in books of acquired company
	U.S. dollars in thousands	
Current assets:		
Accounts receivable:		
Trade	1,314	1,314
Other	13	13
Inventories	1,515	1,515
Non-current assets:		
Property, plant and equipment	590	590
Intangibles assets	5,718	
Goodwill	8,530	
Current liabilities:		
Accounts payable-		
Trade	(222)	(222)
	<u>*17,458</u>	<u>3,210</u>

* The balance does not include additional acquisition costs of U.S. \$ 235 thousands.

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

4. Acquisition of the Savory activity of the Christian Hansen Group

On June 18, 2009, the group acquired, through a subsidiary, the Savory operation (the non-sweet taste spectrum) of Christian Hansen group (hereafter – CH) in Germany.

The Savory Functional Systems activities of CH develops, produces, and markets unique and innovative savory solutions (the non sweet taste spectrum), including flavors, seasoning compounds and functional ingredients for the food industry, with special emphasis on the fields of processed meat and convenience food.

The consideration paid in cash in respect of the acquisition was € 5,275 thousands (\$ 7,354 thousands) and the acquisition was financed out of the group's own resources.

The cost of acquisition was allocated to tangible assets and intangible assets (including goodwill) acquired based on their fair value at the date of acquisition. The fair value of the assets and liabilities is subject to a final assessment being performed by the Company.

The cost of acquisition presented in these financial statements (including acquisition costs) amounts to € 5,425 thousands (\$ 7,563 thousands).

The intangible assets that were recognized include: products formulas at the total amount of € 335 thousands (\$ 467 thousands), customer relationships at the total amount of € 339 thousands (\$ 473 thousands) and goodwill at the total amount of € 3,005 thousands (\$ 4,190 thousands).

The products formula and customers relationship are amortized over an economic life of 20 years and 10 years, respectively. The goodwill is not amortized but tested annually for impairment.

The acquired operation is synergetic to the Company's savory operations in Germany and is being merged into the existing savory operation.

As mentioned above, the acquired operation was merged into the group's Savory operations in Germany and therefore it is impossible to separate the assets and liabilities attributed to the acquired operations from the group's Savory operations in Germany.

The acquired operation resulted with revenues of € 1,782 thousands (U.S. \$ 2,536 thousands) and net loss of € 47 thousands (U.S. \$ 69 thousands) net of reorganization expense of € 423 thousands (U.S. \$ 602 thousands) for the period from 18 June 2009 to 30 September 2009.

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

	Fair value	Value in books of acquired company
	U.S. dollars in thousands	
	<hr/>	<hr/>
Current assets:		
Accounts receivable-		
Other	74	
Inventories	1,097	1,171
Non-current assets:		
Property, plant and equipment	1,181	1,372
Intangibles assets	940	
Goodwill	4,190	
Deferred income taxes	81	
	<hr/>	<hr/>
	*7,563	2,543
	<hr/>	<hr/>

* The balance does not include additional acquisition costs of € 150 thousands (U.S. \$ 209 thousands).

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

5. Dividend

On 18 March 2009, the Company's Board of Directors declared the distribution of a dividend of NIS 0.18 per share, in the total amount of \$ 2,455 thousands. On 6 May, 2008, a dividend of \$ 2,485 thousands was paid to the shareholders.

6. Equity

In the 9 months period ended 30 September 2009, 40,000 options for the acquisition of 40,000 shares of NIS 1 par value (unaudited), which were granted in the past to a senior employee, were exercised (see note 12d to the annual financial statements). Total proceeds received in respect of exercise - \$ 105 thousands.

7. Business Segment Data:

The Company operates in three operating segments: the flavors division, the fine ingredients division and the trade and marketing division.

Performance of the segments is measured based on the operating profit.

	Flavors Division	Fine ingredients division	Trade and Marketing division	Eliminations	Consolidated
	U.S. dollars in thousands				
9 months ended 30 September 2009 (unaudited):					
Revenues	220,434	92,867	5,717	(2,297)	<u>316,721</u>
Segment results	29,245	6,681	425	(35)	<u>36,316</u>
9 months ended 30 September 2008 (unaudited):					
Revenues	268,555	98,885	10,469	(3,284)	<u>374,625</u>
Segment results	39,545	7,258	690	685	<u>48,178</u>
3 months ended 30 September 2009 (unaudited):					
Revenues	77,296	33,541	1,484	(741)	<u>111,580</u>
Segment results	10,031	2,994	173	133	<u>13,331</u>
3 months ended 30 September 2008 (unaudited):					
Revenues	86,077	31,086	3,888	(1,029)	<u>120,022</u>
Segment results	12,666	1,802	349	146	<u>14,963</u>
Year ended 31 December 2008 (audited):					
Revenues	339,819	124,339	13,175	(4,047)	<u>473,286</u>
Segment results	47,557	8,332	814	(92)	<u>56,611</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

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

	9 months ended 30 September		3 months ended 30 September		Year ended December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment profits	36,316	48,178	13,331	14,963	56,611
Financing expenses	3,460	7,520	85	2,545	10,550
Profit before taxes on income	<u>32,856</u>	<u>40,658</u>	<u>13,246</u>	<u>12,418</u>	<u>46,061</u>

8. Cash and cash equivalents

Cash, cash equivalents and bank overdrafts at the end of the reported periods; include the following for the purposes of the cash flow statement:

	9 months ended 30 September		Year ended 31 December
	2009	2008	2008
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Cash and cash equivalents	34,134	29,919	37,229
Bank overdrafts		(68)	-
	<u>34,134</u>	<u>29,851</u>	<u>37,229</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

9. Cash Flows from Operations:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2009	2008	2009	2008	2008
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
Profit before taxes on income	32,856	40,658	13,246	12,418	46,061
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	13,385	14,882	4,764	4,713	18,551
Recognition of compensation related to employee stock and option grants	487	873	238	300	1,173
Liability for employee rights upon retirement – net	70	(101)	18	46	243
Deferred income taxes – net	18	214	679	(637)	1,879
Loss (gain) from sale of fixed assets	107	(3,638)	54	(717)	(3,231)
Increase (decrease) in provisions – net	(241)	(75)	(108)	(3)	588
Erosion of long-term loans	(484)	1,470	182	(235)	558
Interest paid	3,436	5,063	890	1,932	7,751
	<u>16,778</u>	<u>18,688</u>	<u>6,717</u>	<u>5,399</u>	<u>27,512</u>
Changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(2,225)	(12,066)	(439)	3,986	2,850
Other	(1,006)	808	(6)	117	1,114
Increase (decrease) in accounts payable:					
Trade	(96)	(5,289)	1,822	(5,267)	(11,991)
Other	5,003	(2,905)	3,109	1,113	(3,228)
Decrease (increase) in inventories	19,648	(10,938)	7,103	83	(10,758)
	<u>21,324</u>	<u>(30,390)</u>	<u>11,589</u>	<u>32</u>	<u>(22,013)</u>
Net cash flows from operating activities	<u>70,958</u>	<u>28,956</u>	<u>31,552</u>	<u>17,849</u>	<u>51,560</u>
Data regarding investment activity not involving cash flows-					
Refund receivable in respect of land in North of Israel					<u>359</u>

FRUTAROM INDUSTRIES LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

30 SEPTEMBER 2009

(UNAUDITED)

10. Taxes on income

The income of the group's Israeli subsidiaries (except for income from "approved enterprises and benefited enterprises") is taxed at the regular rate. Under the provisions of Amendment of the Income Tax Ordinance, 2005, of August 2005, the corporate tax rates have been gradually reduced; as a result, the corporate tax rates applicable as from tax year 2008 are as follows: 2008 – 27%, 2009 – 26%, 2010 – 25%.

On July 23, 2009, the Israel Economic Efficiency Law (Legislation Amendments for Applying the Economic Plan for the 2009 and 2010), 2009 (hereinafter – the 2009 Amendment), became effective, stipulating, among other things, an additional gradual decrease in tax rate in 2011 and thereafter, as follows: 2011 – 24%, 2012 – 23%, 2013 – 22%, 2014 – 21%, 2015 – 20%, and 2016 and thereafter – 18%.

The group's income tax expenses did not change materially as a result of the said law.
