

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
31 MARCH 2010

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Report on Review 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 31 March, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period 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 10.49% of total consolidated assets as of 31 March, 2010 and whose revenues included in consolidation constitute approximately 11.6% of total consolidated revenues for the three-month period ended on that date. 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.

Sincerely,
Kesselman & Kesselman

Haifa, 16 May, 2010

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2010

	<u>31 March</u>		<u>31 December</u>
	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	36,805	27,625	42,940
Financial assets at fair value through profit or loss	-	44	-
Accounts receivable:			
Trade	74,031	70,980	65,194
Other	12,960	10,454	13,380
Prepaid expenses and advances to suppliers	5,433	4,030	3,018
Inventories	77,546	91,450	79,113
	<u>206,775</u>	<u>204,583</u>	<u>203,645</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	121,814	*123,946	*127,549
Intangible assets	179,067	180,635	191,145
Deferred income tax assets	3,883	3,204	3,653
Prepaid expenses in respect of operating lease	123	* -	*121
	<u>304,887</u>	<u>307,785</u>	<u>322,468</u>
Total assets	<u>511,662</u>	<u>512,368</u>	<u>526,113</u>

* Reclassified see note 3.b.1.

_____) 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: May 16, 2010

	31 March		31 December
	2010	2009	2009
	(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 43,827 53,701 46,911

Accounts payable:

 Trade 29,675 28,639 28,290

 Other 27,803 28,890 25,788

Provisions 398 934 407

Dividend payable 2,777 2,455 -

	<u>104,480</u>	<u>114,619</u>	<u>101,396</u>
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NON-CURRENT LIABILITIES:

Long-term loans, net of current maturities 56,597 92,630 70,204

Retirement benefit obligations 10,710 10,786 11,605

Deferred income tax liabilities 23,243 21,256 24,433

	<u>90,550</u>	<u>124,672</u>	<u>106,242</u>
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Total liabilities

	<u>195,030</u>	<u>239,291</u>	<u>207,638</u>
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EQUITY:

Ordinary shares 16,597 16,490 16,597

Capital surplus 97,191 95,951 96,995

Translation differences 7,653 1,300 18,063

Retained earnings 198,571 162,648 190,237

Less - cost of company shares held by subsidiary (3,380) (3,312) (3,417)

Total equity	<u>316,632</u>	<u>273,077</u>	<u>318,475</u>
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Total equity and liabilities	<u>511,662</u>	<u>512,368</u>	<u>526,113</u>
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The accompanying notes are an integral part of these condensed financial statements.

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME AND CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2010

	3 months ended		Year ended
	31 March		31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	U.S. dollars in thousands,		
	except for income per share data		
SALES	113,470	98,424	425,179
COST OF SALES	69,996	63,200	269,677
GROSS PROFIT	43,474	35,224	155,502
Selling, marketing, research and development expenses- net	18,709	17,090	75,408
General and administrative expenses	8,270	7,798	33,004
Other expenses (income) - net	(62)	107	(195)
INCOME FROM OPERATIONS	16,557	10,229	47,285
FINANCIAL EXPENSES – net	1,257	3,310	4,344
INCOME BEFORE TAXES ON INCOME	15,300	6,919	42,941
TAXES ON INCOME	4,189	1,318	9,721
INCOME FOR THE PERIOD	11,111	5,601	33,220
EARNINGS PER SHARE:			
Basic	0.19	0.10	0.58
Fully diluted	0.19	0.10	0.58
	U.S. dollars in thousands		
INCOME FOR THE PERIOD	11,111	5,601	33,220
OTHER COMPREHENSIVE INCOME - Translation differences	(10,410)	(8,536)	8,227
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	701	(2,935)	41,447

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

FRUTAROM INDUSTRIES LTD.**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2010

	Ordinary shares	Capital Surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U.S. dollars in thousands					
BALANCE AT 1 JANUARY 2010 (audited)	16,597	96,995	18,063	190,237	(3,417)	318,475
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2010 (unaudited):						
Comprehensive income -						
income for the period	-	-	-	11,111	-	11,111
Other comprehensive income -						
translation differences	-	-	(10,410)	-	-	(10,410)
Total comprehensive income for the period	-	-	(10,410)	11,111	-	701
Plans for allotment of company shares to employees of subsidiary - receipts in respect of allotment of company shares to employees	-	-	-	-	37	37
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants	-	196	-	-	-	196
Dividend (note 4)	-	-	-	(2,777)	-	(2,777)
	-	196	-	(2,777)	37	(2,544)
BALANCE AT 31 MARCH 2010 (unaudited)	<u>16,597</u>	<u>97,191</u>	<u>7,653</u>	<u>198,571</u>	<u>(3,380)</u>	<u>316,632</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2010

	Ordinary shares	Capital Surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	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 3 MONTHS ENDED 31 MARCH 2009 (unaudited):						
Comprehensive income -						
income for the period	-	-	-	5,601	-	5,601
Other comprehensive income -						
translation differences	-	-	(8,536)	-	-	(8,536)
Total comprehensive income for the period	-	-	(8,536)	5,601	-	(2,935)
Plans for allotment of company shares to employees of subsidiary - receipts in respect of allotment of company shares to employees	-	-	-	-	58	58
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants	-	149	-	-	-	149
Dividend	-	-	-	(2,455)	-	(2,455)
	-	149	-	(2,455)	58	(2,248)
BALANCE AT 31 MARCH 2009 (unaudited)	<u>16,490</u>	<u>95,951</u>	<u>1,300</u>	<u>162,648</u>	<u>(3,312)</u>	<u>273,077</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONOSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2010

	Ordinary shares	Capital surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . dollars in thousands (audited)					
BALANCE AT 1 JANUARY 2009	16,490	95,802	9,836	159,502	(3,370)	278,260
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2009:						
Comprehensive income -						
income for the period	-	-	-	33,220	-	33,220
Other comprehensive income -						
translation differences	-	-	8,227	-	-	8,227
Total comprehensive income for the period	-	-	8,227	33,220	-	41,447
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	(517)	(517)
Receipts in respect of allotment of company shares to employees	-	-	-	-	470	470
Allotment of shares and options to senior employees:						
Receipts from issuance of shares to senior employees	107	485	-	-	-	592
Recognition of compensation related to employee stock and options grants	-	708	-	-	-	708
Dividend paid including erosion	-	-	-	(2,485)	-	(2,485)
	<u>107</u>	<u>1,193</u>	<u>-</u>	<u>(2,485)</u>	<u>(47)</u>	<u>(1,232)</u>
BALANCE AT 31 DECEMBER 2009	<u>16,597</u>	<u>96,995</u>	<u>18,063</u>	<u>190,237</u>	<u>(3,417)</u>	<u>318,475</u>

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2010

	3 months ended		Year ended
	31 March		31 December,
	2010	2009	2009
	U.S. dollars in thousands		
	(Unaudited)	(Audited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (Note 7)	7,784	13,802	96,294
Income tax paid	(2,542)	(3,073)	(11,434)
Net cash provided by operating activities	<u>5,242</u>	<u>10,729</u>	<u>84,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,875)	(1,562)	(5,397)
Purchase of intangibles	(181)	(622)	(1,196)
Interest received	47	158	995
Acquisition of operations – net of cash acquired	-	(29,398)	(37,236)
Proceeds from sale of property, plant and equipment	111	587	1,716
Disposal of securities classified at fair value through profit or loss	-	8	52
Net cash used in investing activities	<u>(1,898)</u>	<u>(30,829)</u>	<u>(41,066)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipts from senior employees in respect of allotment of shares	-	-	592
Interest paid	(541)	(1,388)	(4,525)
Receipt of long-term bank loans	-	9,245	12,848
Repayment of long-term bank loans	(11,257)	(15,218)	(43,622)
Receipt of short-term bank credit and loans – net	988	15,694	358
Purchase of company shares by subsidiary – net of receipts in respect of the shares	37	58	(47)
Dividend paid	-	-	(2,485)
Net cash provided by (used in) financing activities	<u>(10,773)</u>	<u>8,391</u>	<u>(36,881)</u>
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(7,429)	(11,709)	6,913
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK CREDIT AT BEGINNING OF PERIOD	42,940	37,229	37,229
PROFITS (LOSSES) FROM EXCHANGE DIFFERENCES ON CASH, CASH EQUIVALENTS AND BANK CREDIT	1,294	1,928	(1,202)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD (Note 6)	<u>36,805</u>	<u>27,448</u>	<u>42,940</u>

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

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2010

(UNAUDITED)

NOTE 1 - GENERAL:

- a.** Frutarom Industries Ltd. is a global company, founded in 1933. The Company operates through the consolidated company (hereafter - Frutarom Ltd.) and the companies under its control. 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.** The Company's activity is subject to seasonal fluctuations, with generally higher sales in the first half of a given year and lower sales in the second half of a given year (in particular in the fourth quarter).
Many of the Company's products are used by its customers in the manufacture of beverages and dairy products such as soft drinks, ice cream and yogurts, for which demand generally increases during the summer months. As a result, sales of certain flavors and fine ingredients produced by the Company are higher in the first half of the year than in the second half.

NOTE 2 - BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial information of the group as of 31 March , 2010 and for the 3 month period 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, 2009 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.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

- a.** The principal accounting policies and calculation methods used in preparation of the interim financial information are consistent with those used in preparation of the 2009 annual financial statements 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.

- b. Amendments to existing Standards that came in to effect and is mandatory for accounting period commencing 1 January 2010:**

1. Amendment to IAS 17 – "Leases" (hereafter – IAS 17). The said amendment is part of the annual improvements project of the IASB published in April 2009. This Amendment deletes the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As part of the amendment, the clear-cut requirement included in the past in IAS 17, whereunder lease of land in respect of which it is not projected that ownership in land would be transfer to the lessee at the end of lease period, would be classified as an operating lease would be cancelled. In accordance with the amendment, leases of land should be classified by an entity as either finance or

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

31 MARCH 2010

(UNAUDITED)

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

operating, using the general principles of IAS 17. The Amendment to IAS 17 is to be applied retroactively to reporting periods commencing January 1, 2010. The Group applied the said amendment retroactively commencing January 1, 2010.

The Group is a party to several land lease contracts with the Israel Land Administration (hereafter – administration leased land). Through the 2009 financial statements, the group classified its administration leased land as an operating lease (since there was no option that the land would be acquired by the Group or that ownership would be transferred to the Group at the end of the lease period). In light of the said amendment of IAS 17 and due to the long lease period of the said land, the Group examined the classification of the lease contracts in accordance with the general guidelines set out in IAS 17 as to classification of leases. The Group reached the conclusion that at the date of entering into the lease contract, the present value of the minimal lease payments of Group's administration lease land has substantially constituted the full fair value of the leased land; therefore, under the amendment to IAS 17, the lease of the said land should be presented as financial lease.

Set forth below is the effect of the change in accounting policy due to first time application of the said amendment to IAS 17 on the financial information for the 3-month period ended 31, March 2010 and on the comparative figures presented as part of the financial information for the interim period:

	As reported in the past (31.3.2010 – as would have been reported had the amendment to IAS 17 not come into effect)	Effect of retroactive application	As reported in the financial information for this interim period
	U.S. dollars in thousands		
Effect on statement of financial position:			
Statement of financial position as of 31 March 2010:			
Prepaid expenses in respect of operating lease	1,549	(1,426)	123
Property, plant and equipment	<u>120,388</u>	<u>1,426</u>	<u>121,814</u>
Statement of financial position as of 31 March 2009:			
Prepaid expenses in respect of operating lease	1,466	(1,466)	-
Property, plant and equipment	<u>122,480</u>	<u>1,466</u>	<u>123,946</u>
Statement of financial position as of 31 December 2009:			
Prepaid expenses in respect of operating lease	1,557	(1,436)	121
Property, plant and equipment	<u>126,113</u>	<u>1,436</u>	<u>127,549</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

31 MARCH 2010

(UNAUDITED)

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

2. International Financial Reporting Standard No. 8 – "Operating Segments" – (hereafter – Amendment to IFRS 8). The said amendment is part of the annual improvements project of the IASB published in April 2009. The Amendment to IFRS 8 includes minor wording modifications intended to clarify that a measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision maker. The group does not manage its assets on a segment basis and therefore does disclose this data in its financial statements.
- c. Standards, amendments and interpretations to existing standards came into effect and are effective for reporting period commencing on January 1, 2010, but first time implementation of these standards and interpretations had no material effect on the financial information for the interim period (including comparative figures) of the Group.
- d. New accounting standards and interpretations to existing standards that have not yet come into effect and for which the Group has not elected early adoption were specified in the Group's annual 2009 financial statements.

NOTE 4 – DIVIDEND

On 16, March 2010, the Company's Board of Directors declared the distribution of a dividend of NIS 0.18 per share, in the total amount of \$ 2,777 thousands. On 6 May, 2010, a dividend of \$ 2,733 thousands was paid to the shareholders.

NOTE 5 – 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				
3 months ended 31 March 2010 (unaudited):					
Revenues	75,446	37,612	1,210	(798)	<u>113,470</u>
Segment results	11,710	4,952	21	(126)	<u>16,557</u>
3 months ended 31 March 2009 (unaudited):					
Revenues	67,383	29,592	2,191	(742)	<u>98,424</u>
Segment results	8,139	1,945	118	27	<u>10,229</u>
Year ended 31 December 2009 (audited):					
Revenues	297,062	123,778	7,074	(2,735)	<u>425,179</u>
Segment results	37,712	9,193	480	(100)	<u>47,285</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

31 MARCH 2010

(UNAUDITED)

NOTE 5 – SEGMENT REPORTING (continued):

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

	3 months ended		Year ended
	31 March		31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Reported segment profits	16,557	10,229	47,285
Financing expenses	1,257	3,310	4,344
Profit before taxes on income	<u>15,300</u>	<u>6,919</u>	<u>42,941</u>

NOTE 6 – CASH AND CAHS EQUIVALENTS

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

	3 months ended		Year ended
	31 March		31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Cash and cash equivalents	36,805	27,625	42,940
Bank overdrafts	-	(177)	-
	<u>36,805</u>	<u>27,448</u>	<u>42,940</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

31 MARCH 2010

(UNAUDITED)

NOTE 7- CASH FLOW FROM OPERATING ACTIVITIES

	3 months ended		Year ended
	31 March		31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Profit before taxes on income	15,300	6,919	42,941
Adjustments required to reflect the cash			
flows from operating activities:			
Depreciation and amortization	4,569	4,102	18,224
Recognition of compensation related to employee stock and option grants	196	149	708
Liability for employee rights upon retirement – net	(173)	21	(50)
Deferred income taxes – net	(482)	(140)	473
Loss (gain) from sale of fixed assets	(55)	31	(256)
Decrease in provisions – net	(9)	-	(621)
Erosion of long-term loans	127	(755)	(527)
Interest paid - net	494	1,231	3,530
	<u>4,667</u>	<u>4,639</u>	<u>21,481</u>
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable:			
Trade	(11,592)	(1,886)	8,807
Other	(2,393)	(977)	1,588
Increase (decrease) in accounts payable:			
Trade	2,205	849	(359)
Other	1,298	990	(1,829)
Decrease (increase) in inventories	(1,701)	3,268	23,665
	<u>(12,183)</u>	<u>2,244</u>	<u>31,872</u>
 Cash flows from operating activities	 <u>7,784</u>	 <u>13,802</u>	 <u>96,294</u>