

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
30 JUNE 2010

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Review Report of Interim Financial Information

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 10.24% of total consolidated assets as of 30 June 2010 and whose revenues included in consolidation constitute approximately 12.1% and 12.6% of total consolidated revenues for the six and three-month periods ended on that date, respectively. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

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

Conclusion

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

Sincerely,
Kesselman & Kesselman

Haifa, Israel
16 August 2010

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2010

	30 JUNE		31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	41,218	25,784	42,940
Financial assets at fair value through profit or loss	-	47	-
Accounts receivable:			
Trade	72,201	74,962	65,194
Other	9,565	10,825	13,380
Prepaid expenses and advances to suppliers	5,106	4,373	3,018
Inventory	77,733	88,203	79,113
	205,823	204,194	203,645
NON-CURRENT ASSETS:			
Property, plant and equipment	117,503	*129,024	*127,549
Intangible assets	167,410	194,939	191,145
Deferred income tax assets	1,637	3,356	3,653
Prepaid expenses in respect of operating lease	142	*-	*121
	286,692	327,319	322,468
Total assets	492,515	531,513	526,113

* 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: 16 August, 2010

	<u>30 June</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>		

Liabilities and shareholders' equity

CURRENT LIABILITIES:

Short-term bank credit and loans and current maturities of long-term loans	33,013	56,453	46,911
Accounts payable:			
Trade	34,030	26,749	28,290
Other	31,082	26,523	25,788
Provisions	215	896	407
	<u>98,340</u>	<u>110,621</u>	<u>101,396</u>

NON-CURRENT LIABILITIES:

Long-term loans, net of current maturities	45,173	92,259	70,204
Retirement benefit obligations, net	9,867	11,439	11,605
Deferred income tax liabilities	19,376	21,914	24,433
	<u>74,416</u>	<u>125,612</u>	<u>106,242</u>
Total liabilities	<u>172,756</u>	<u>236,233</u>	<u>207,638</u>

EQUITY:

Ordinary shares	16,597	16,500	16,597
Capital surplus	96,931	96,146	96,995
Translation differences	(2,032)	13,057	18,063
Retained earnings	211,640	172,709	190,237
Less - cost of company shares held by subsidiary	(3,377)	(3,132)	(3,417)
Total equity	<u>319,759</u>	<u>295,280</u>	<u>318,475</u>
Total equity and liabilities	<u>492,515</u>	<u>531,513</u>	<u>526,113</u>

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

FRUTAROM INDUSTRIES LTD.

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

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2010	2009	2010	2009	2009
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	227,735	205,141	114,265	106,717	425,179
COST OF SALES	137,367	130,473	67,371	67,273	269,677
GROSS PROFIT	90,368	74,668	46,894	39,444	155,502
Selling, marketing, research and development expenses - net	37,959	35,619	19,250	18,529	75,408
General and administrative expenses	16,784	15,991	8,514	8,193	33,004
Other expenses (income) - net	(331)	73	(269)	(34)	(195)
OPERATING INCOME	35,956	22,985	19,399	12,756	47,285
FINANCIAL EXPENSES - net	3,574	3,375	2,317	65	4,344
INCOME BEFORE TAX ON INCOME	32,382	19,610	17,082	12,691	42,941
INCOME TAX	8,246	3,918	4,057	2,600	9,721
INCOME FOR THE PERIOD	24,136	15,692	13,025	10,091	33,220
EARNINGS PER SHARE:					
Basic	0.42	0.28	0.23	0.18	0.58
Fully diluted	0.42	0.27	0.23	0.17	0.58
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	24,136	15,692	13,025	10,091	33,220
OTHER COMPREHENSIVE INCOME -					
Increase (decrease) in capital reserve due to translation differences	(20,095)	3,221	(9,685)	11,757	8,227
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4,041	18,913	3,340	21,848	41,447

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 6 MONTH PERIOD ENDED 30 JUNE 2010 (unaudited):						
Comprehensive income -						
Income for the period	-	-	-	24,136	-	24,136
Other comprehensive income -						
Translation differences	-	-	(20,095)	-	-	(20,095)
Total comprehensive income for the period	-	-	(20,095)	24,136	-	4,041
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	(703)	(703)
Receipts in respect of allotment of company shares to employees	-	(495)	-	-	743	248
Allotment of shares and options to senior employees -						
Recognition of compensation related to employee stock and options grants	-	431	-	-	-	431
Dividend paid, including erosion.	-	-	-	(2,733)	-	(2,733)
	-	(64)	-	(2,733)	40	(2,757)
BALANCE AT 30 JUNE 2010 (unaudited)	<u>16,597</u>	<u>96,931</u>	<u>(2,032)</u>	<u>211,640</u>	<u>(3,377)</u>	<u>319,759</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	<u>Ordinary shares</u>	<u>Capital Surplus</u>	<u>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</u>					
BALANCE AT 1 APRIL 2010 (unaudited)	16,597	97,191	7,653	198,571	(3,380)	316,632
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2010 (unaudited):						
Comprehensive income -						
Income for the period	-	-	-	13,025	-	13,025
Other comprehensive income -						
Translation differences capital reserve	-	-	(9,685)	-	-	(9,685)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(9,685)</u>	<u>13,025</u>	<u>-</u>	<u>3,340</u>
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary					(703)	(703)
Receipts on allocation of shares to employees.	-	(495)	-	-	706	211
Allocation of options and options to senior employees-						
Recognition of the benefit component in allocating employee shares and options	-	235	-	-	-	235
Erosion of dividend paid	-	-	-	44	-	44
	<u>-</u>	<u>(260)</u>	<u>-</u>	<u>44</u>	<u>3</u>	<u>(213)</u>
BALANCE AT 30 JUNE 2010 (unaudited):	<u>16,597</u>	<u>96,931</u>	<u>(2,032)</u>	<u>211,640</u>	<u>(3,377)</u>	<u>319,759</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	<u>Ordinary shares</u>	<u>Capital Surplus</u>	<u>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</u>					
BALANCE AT 1 JANUARY 2009 (audited)	16,490	95,802	9,836	159,502	(3,370)	278,260
CHANGES DURING THE 6 MONTH PERIOD ENDED 30 JUNE 2009 (unaudited):						
Comprehensive income -						
Income for the period	-	-	-	15,692	-	15,692
Other comprehensive income -						
Translation differences	-	-	3,221	-	-	3,221
Total comprehensive income for the period	-	-	3,221	15,692	-	18,913
Plans for allotment of company shares to employees of subsidiary -						
Receipts in respect of allotment of company shares to employees	-	-	-	-	238	238
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	-	249	-	-	-	249
Dividend paid, including erosion	-	-	-	(2,485)	-	(2,485)
	<u>10</u>	<u>344</u>	<u>-</u>	<u>(2,485)</u>	<u>238</u>	<u>(1,893)</u>
BALANCE AT 30 JUNE 2009 (unaudited)	<u>16,500</u>	<u>96,146</u>	<u>13,057</u>	<u>172,709</u>	<u>(3,132)</u>	<u>295,280</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	<u>Ordinary shares</u>	<u>Capital surplus</u>	<u>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</u>					
BALANCE AT 1 APRIL 2009 (unaudited)	16,490	95,951	1,300	162,648	(3,312)	273,077
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2009(unaudited):						
Comprehensive income -						
income for the period	-	-	-	10,091	-	10,091
Other comprehensive income -						
translation differences	-	-	11,757	-	-	11,757
Total comprehensive income for the period	-	-	11,757	10,091	-	21,848
Plans for allotment of company shares to employees of subsidiary-						
Receipts in respect of allotment of company shares to employees	-	-	-	-	180	180
Allotment of shares and options to senior employees:						
Allotment of share capital to senior employees	10	95	-	-	-	105
Recognizing benefit component in allocating shares and options to employees	-	100	-	-	-	100
Erosion of dividend paid	-	-	-	(30)	-	(30)
	<u>10</u>	<u>195</u>	<u>-</u>	<u>(30)</u>	<u>180</u>	<u>355</u>
BALANCE AT 30 JUNE 2009	<u>16,500</u>	<u>96,146</u>	<u>13,057</u>	<u>172,709</u>	<u>(3,132)</u>	<u>295,280</u>

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	<u>Ordinary shares</u>	<u>Capital Surplus</u>	<u>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 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 year	-	-	-	33,220	-	33,220
Other comprehensive income -						
Translation differences	-	-	8,227	-	-	8,227
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>8,227</u>	<u>33,220</u>	<u>-</u>	<u>41,447</u>
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:						
Allotment of equity component in options to senior employee	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>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2010

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2010	2009	2010	2009	2009
U.S. dollars in thousands					
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (note 5)	33,039	39,406	25,255	25,604	96,294
Income tax paid	(2,449)	(9,006)	93	(5,933)	(11,434)
Net cash provided by operating activities	<u>30,590</u>	<u>30,400</u>	<u>25,348</u>	<u>19,671</u>	<u>84,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(3,890)	(2,664)	(2,015)	(1,102)	(5,397)
Purchase of intangibles	(611)	(881)	(430)	(259)	(1,196)
Interest received	300	163	253	5	995
Acquisition of operations – net of cash acquired	-	(36,888)	-	(7,490)	(37,236)
Proceeds from sale of property, plant and equipment	686	619	575	32	1,716
Disposal of securities classified at fair value through profit or loss	-	5	-	(3)	52
Net cash used in investing activities	<u>(3,515)</u>	<u>(39,646)</u>	<u>(1,617)</u>	<u>(8,817)</u>	<u>(41,066)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Receipts from senior employees in respect of allotment of shares	-	105	-	105	592
Interest paid	(1,004)	(2,708)	(463)	(1,320)	(4,525)
Receipt of long-term bank loans	-	12,848	-	3,603	12,848
Repayment of long-term bank loans	(24,980)	(24,730)	(13,723)	(9,512)	(43,622)
Receipt (repayment) of short-term bank credit and loans – net	(1,924)	14,604	(2,912)	(1,090)	358
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(455)	238	(492)	180	(47)
Dividend paid	(2,733)	(2,485)	(2,733)	(2,485)	(2,485)
Net cash used in financing activities	<u>(31,096)</u>	<u>(2,128)</u>	<u>(20,323)</u>	<u>(10,519)</u>	<u>(36,881)</u>
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	(4,021)	(11,374)	3,408	335	6,913
Balance of cash and cash equivalents and bank credit at beginning of period	42,940	37,229	36,805	27,448	37,229
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	2,299	(71)	1,005	(1,999)	(1,202)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	<u>41,218</u>	<u>25,784</u>	<u>41,218</u>	<u>25,784</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

30 JUNE 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 30 June 2010 and for the 6 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter - "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 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)

30 JUNE 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 as of 30 June 2010 and on the comparative figures presented as part of the financial information for the interim period:

	As reported in the past (30 June 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 30 June 2010:			
Prepaid expenses in respect of operating lease	1,558	(1,416)	142
Property, plant and equipment	<u>116,087</u>	<u>1,416</u>	<u>117,503</u>
Statement of financial position as of 30 June 2009:			
Prepaid expenses in respect of operating lease	1,456	(1,456)	-
Property, plant and equipment	<u>127,568</u>	<u>1,456</u>	<u>129,024</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)

30 JUNE 2010

(UNAUDITED)

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

2. Amendment to 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.
- c. Standards, amendments and interpretations to existing standards came into effect and are effective for reporting period commencing on 1 January 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. In addition to these standards and amendments, the IASB published in May 2010 an improvements document that includes additional amendments to existing IFRS standards, most of which will come into effect for annual periods commencing January 1, 2011 or thereafter.
The group did not elect to early adopt the amendments included in the improvements document.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

30 JUNE 2010

(UNAUDITED)

NOTE 4 – 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:

	<u>Flavors operations</u>	<u>Fine ingredients operations</u>	<u>Trade and Marketing operations</u>	<u>Eliminations</u>	<u>Total Consolidated</u>
	U.S. dollars in thousands				
6 months ended 30 June 2010: (unaudited):					
Revenues	152,842	73,783	2,323	(1,213)	<u>227,735</u>
Segment results	25,190	11,028	56	(318)	<u>35,956</u>
6 months ended 30 June 2009 (unaudited):					
Revenues	143,138	59,326	4,233	(1,556)	<u>205,141</u>
Segment results	19,214	3,687	252	(168)	<u>22,985</u>
3 months ended 30 June 2010 (unaudited):					
Revenues	77,396	36,171	1,113	(415)	<u>114,265</u>
Segment results	13,480	6,076	35	(192)	<u>19,399</u>
3 months ended 30 June 2009 (unaudited):					
Revenues	75,755	29,734	2,042	(814)	<u>106,717</u>
Segment results	11,075	1,742	134	(195)	<u>12,756</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>

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

	<u>6 months ended 30 June</u>		<u>3 months ended 30 June</u>		<u>Year ended 31 December</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
	U.S. dollars in thousands				
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Reported segment income	35,956	22,985	19,399	12,756	47,285
Financing expenses	3,574	3,375	2,317	65	4,344
Profit before taxes on income	<u>32,382</u>	<u>19,610</u>	<u>17,082</u>	<u>12,691</u>	<u>42,941</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 JUNE 2010

(UNAUDITED)

NOTE 5- CASH FLOW FROM OPERATING ACTIVITIES:

	6 months ended		3 months ended		Year ended 31 December 2009
	30 June		30 June		
	2010	2009	2010	2009	
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	32,382	19,610	17,082	12,691	42,941
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	8,923	8,621	4,354	4,519	18,224
Recognition of compensation related to employee stock and option grants	431	249	235	100	708
Retirement benefit obligation, net	(190)	52	(17)	31	(50)
Deferred income tax – net	(1,236)	(661)	(754)	(521)	473
Loss (gain) from sale of property, plant and equipment	(479)	53	(424)	22	(256)
Increase in provisions – net	(192)	(133)	(183)	(133)	(621)
Erosion of loans	(181)	(666)	(308)	89	(527)
Interest paid - net	704	2,546	210	1,315	3,530
	<u>7,780</u>	<u>10,061</u>	<u>3,113</u>	<u>5,422</u>	<u>21,481</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable:					
Trade	(11,940)	(1,786)	(348)	100	8,807
Other	1,096	(1,000)	3,489	(23)	1,588
Increase (decrease) in accounts payable:					
Trade	7,233	(1,918)	5,028	(2,767)	(359)
Other	1,028	1,894	(270)	904	(1,829)
Decrease (increase) in inventory	(4,540)	12,545	(2,839)	9,277	23,665
	<u>(7,123)</u>	<u>9,735</u>	<u>5,060</u>	<u>7,491</u>	<u>31,872</u>
Cash flows from operating activities	<u>33,039</u>	<u>39,406</u>	<u>25,255</u>	<u>25,604</u>	<u>96,294</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 JUNE 2010

(UNAUDITED)

NOTE 6 - SUBSEQUENT EVENTS

On 15 July 2010, the Board of Directors approved a plan to allocate 1,000,000 options unregistered for trade that are exercisable into 1,000,000 ordinary shares of NIS 1 par value each, which will be allocated from the authorized, unissued capital of the company. 470,000 of these options will be allocated to 10 managers in the company and group companies, 275,000 to the President and CEO and 255,000 will be reserved for future allocations.

Every option will be exercisable for one share in consideration for an exercise price of NIS 30.26 ("The Exercise Price"). The exercise price is set in accordance with the closing rate of the Company's share on the last trading date prior to the decision of the Company's Board of Directors on the allocation of options.

Every option designated for future allocation which will be allocated to future offerees of the Company will be exercisable into a share in consideration for an exercise price which is equal to the average closing rates of the Company's share in the last ten trade days prior to the decision of the Board of Directors with respect to the future allocation, if and as far as such exists, and provided that the exercise price of each option designated for future allocation will not be less than the par value of the underlying share.

Maturity Period of the options will be such that the options will be fully exercisable after four years have passed from the date of their allocation as follows:

1. 1/3 of the options will be exercisable after 24 months have passed from the date of their allocation.
2. 1/3 of the options will be exercisable after 36 months have passed from the date of their allocation.
3. 1/3 of the options will be exercisable after 48 months have passed from the date of their allocation.

Expiration of the options will occur 6 years after the date of grant.

The theoretical economic value of the allotted options was based on the binomial model, annual standard deviation of approximately 38% and non risk interest rate per year of approximately 3.5%. According to the calculation mentioned above, the economic value for each option offered to the offerees is approximately US\$ 1.17 and the total expense to be recognized during the course of 4 years due to the allotment of the 745,000 options is approximately US\$ 0.9 million.

The options will be granted to a trustee for the offerees not before 30 days have passed from the date of the submittal of the plan for the approval of the Tax Authority and within a period to be set therefore under the approval of the Tel Aviv Stock Exchange Ltd. as far as such an approval is required.