

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
30 SEPTEMBER 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 September 2010 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 10.51% of total consolidated assets as of 30 September 2010 and whose revenues included in consolidation constitute approximately 12.27% and 12.61% 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.

Sincerely,
Kesselman & Kesselman

Haifa, Israel
15 November 2010

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2010

	<u>30 September</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	45,878	34,134	42,940
Financial assets at fair value through profit or loss	-	48	-
Accounts receivable:			
Trade	79,007	76,928	65,194
Other	10,526	11,789	13,380
Prepaid expenses and advances to suppliers	4,459	3,630	3,018
Inventory	85,202	83,265	79,113
	<u>225,072</u>	<u>209,794</u>	<u>203,645</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	124,912	*129,856	*127,549
Intangible assets	180,076	197,917	191,145
Deferred income tax assets	1,493	3,362	3,653
Prepaid expenses in respect of operating lease	153	*53	*121
	<u>306,634</u>	<u>331,188</u>	<u>322,468</u>
Total assets	<u>531,706</u>	<u>540,982</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: 15 November, 2010.

	<u>30 September</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
Accounts payable:
Trade
Other
Provisions

34,234	55,815	46,911
37,185	28,825	28,290
34,992	29,049	25,788
221	787	407
<u>106,632</u>	<u>114,476</u>	<u>101,396</u>

LONG TERM LIABILITIES:

Long-term loans, net of current maturities
Retirement benefit obligations, net
Deferred income tax liabilities

41,458	79,520	70,204
10,832	11,889	11,605
21,255	23,205	24,433
<u>73,545</u>	<u>114,614</u>	<u>106,242</u>
<u>180,177</u>	<u>229,090</u>	<u>207,638</u>

Total liabilities

EQUITY:

Ordinary shares
Capital surplus
Translation differences
Retained earnings
Less - cost of company shares held by subsidiary

16,597	16,500	16,597
96,478	96,384	96,995
17,908	19,354	18,063
222,787	182,740	190,237
(2,241)	(3,086)	(3,417)
<u>351,529</u>	<u>311,892</u>	<u>318,475</u>
<u>531,706</u>	<u>540,982</u>	<u>526,113</u>

Total equity

Total equity and liabilities

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

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENT OF INCOME AND CONDESED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 2010

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2010	2009	2010	2009	2009
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	338,692	316,721	110,957	111,580	425,179
COST OF SALES	205,169	200,824	67,802	70,351	269,677
GROSS PROFIT	133,523	115,897	43,155	41,229	155,502
Selling, marketing, research and development expenses – net	57,116	54,788	19,157	19,169	75,408
General and administrative expenses	25,576	24,703	8,792	8,712	33,004
Other expenses (income) - net	(81)	90	250	17	(195)
OPERATING INCOME	50,912	36,316	14,956	13,331	47,285
Financial expenses (income)- net	3,366	3,460	(208)	85	4,344
INCOME BEFORE TAX ON INCOME	47,546	32,856	15,164	13,246	42,941
Income tax	12,263	7,133	4,017	3,215	9,721
INCOME FOR THE PERIOD	35,283	25,723	11,147	10,031	33,220
EARNINGS PER SHARE:					
Basic	0.62	0.45	0.19	0.18	0.58
Fully diluted	0.61	0.45	0.19	0.17	0.58
	U.S. dollars in thousands				
INCOME FOR THE PERIOD	35,283	25,723	11,147	10,031	33,220
OTHER COMPREHENSIVE INCOME -					
Increase (decrease) in capital reserve due to translation differences	(155)	9,518	19,940	6,297	8,227
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	35,128	35,241	31,087	16,328	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 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 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 9 MONTH PERIOD ENDED 30 SEPTEMBER 2010 (unaudited):						
Comprehensive income :						
Income for the period	-	-	-	35,283	-	35,283
Other comprehensive income -						
Translation differences	-	-	(155)	-	-	(155)
Total comprehensive income for the period	-	-	(155)	35,283	-	35,128
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	-	(1,252)	-	-	1,879	627
Allotment of shares and options to senior employees -						
Recognition of compensation related to employee stock and options grants	-	735	-	-	-	735
Dividend paid, including erosion.	-	-	-	(2,733)	-	(2,733)
	-	(517)	-	(2,733)	1,176	(2,074)
BALANCE AT 30 SEPTEMBER 2010 (unaudited)	16,597	96,478	17,908	222,787	(2,241)	351,529

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 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 JULY 2010 (unaudited)	16,597	96,931	(2,032)	211,640	(3,377)	319,759
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2010 (unaudited):						
Comprehensive income :						
Income for the period	-	-	-	11,147	-	11,147
Other comprehensive income -						
Translation differences capital reserve	-	-	19,940	-	-	19,940
Total comprehensive income for the period	-	-	19,940	11,147	-	31,087
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	-	-
Receipts on allocation of shares to employees.	-	(757)	-	-	1,136	379
Allocation of options and options to senior employees-						
Recognition of the benefit component in allocating employee shares and options	-	304	-	-	-	304
	-	(453)	-	-	1,136	683
BALANCE AT 30 SEPTEMBER 2010 (unaudited):	<u>16,597</u>	<u>96,478</u>	<u>17,908</u>	<u>222,787</u>	<u>(2,241)</u>	<u>351,529</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 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 9 MONTH PERIOD ENDED 30 SEPTEMBER 2009 (unaudited):						
Comprehensive income :						
Income for the period	-	-	-	25,723	-	25,723
Other comprehensive income -						
Translation differences	-	-	9,518	-	-	9,518
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>9,518</u>	<u>25,723</u>	<u>-</u>	<u>35,241</u>
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	-	-	-	(2,485)	-	(2,485)
	<u>10</u>	<u>582</u>	<u>-</u>	<u>(2,485)</u>	<u>284</u>	<u>(1,609)</u>
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 STATEMENT OF CHANGES IN EQUITY
FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 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 JULY 2009 (unaudited)	16,500	96,146	13,057	172,709	(3,132)	295,280
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2009 (unaudited):						
Comprehensive income :						
income for the period	-	-	-	10,031	-	10,031
Other comprehensive income -						
translation differences	-	-	6,297	-	-	6,297
Total comprehensive income for the period	-	-	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:						
Allotment of share capital to senior employees	-	-	-	-	-	-
Recognizing benefit component in allocating shares and options to employees	-	238	-	-	-	238
	-	238	-	-	46	284
BALANCE AT 30 SEPTEMBER 2009	16,500	96,384	19,354	182,740	(3,086)	311,892

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 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 . d o l l a r s i n t h o u s a n d s (a u d i t e d)</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 period	-	-	-	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>

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 2010

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2010	2009	2010	2009	2009
	U.S. dollars in thousands				
	(Unaudited)		(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net cash generated from operations (note 5)	54,170	70,958	21,131	31,552	96,294
Income tax paid	(5,188)	(13,059)	(2,739)	(4,053)	(11,434)
Net cash provided by operating activities	<u>48,982</u>	<u>57,899</u>	<u>18,392</u>	<u>27,499</u>	<u>84,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(5,896)	(3,511)	(2,006)	(847)	(5,397)
Purchase of intangibles	(1,054)	(1,085)	(443)	(311)	(1,196)
Interest received	323	200	23	37	995
Acquisition of operations – net of cash acquired	-	(37,015)	-	(127)	(37,236)
Proceeds from sale of property, plant and equipment	737	879	51	260	1,716
Disposal of securities classified at fair value through profit or loss	-	4	-	(1)	52
Net cash used in investing activities	<u>(5,890)</u>	<u>(40,528)</u>	<u>(2,375)</u>	<u>(989)</u>	<u>(41,066)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Receipts from senior employees in respect of allotment of shares	-	105	-	-	592
Interest paid	(1,427)	(3,637)	(423)	(928)	(4,525)
Receipt of long-term bank loans	-	12,848	-	-	12,848
Repayment of long-term bank loans	(34,890)	(33,392)	(9,910)	(8,662)	(43,622)
Receipt (repayment) of short-term bank credit and loans – net	(964)	7,056	960	(7,548)	358
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(76)	284	379	46	(47)
Dividend paid	(2,733)	(2,485)	-	-	(2,485)
Net cash used in financing activities	<u>(40,090)</u>	<u>(19,221)</u>	<u>(8,994)</u>	<u>(17,092)</u>	<u>(36,881)</u>
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	3,002	(1,850)	7,023	9,418	6,913
Balance of cash and cash equivalents and bank credit at beginning of period	42,940	37,229	41,218	25,784	37,229
Profits from exchange differences on cash, cash equivalents and bank credit	(64)	(1,245)	(2,363)	(1,068)	(1,202)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	<u>45,878</u>	<u>34,134</u>	<u>45,878</u>	<u>34,134</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 SEPTEMBER 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 September 2010 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"). 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 SEPTEMBER 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 September 2010 and on the comparative figures presented as part of the financial information for the interim period:

	As reported in the past (30.9.2010 – 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 September 2010:			
Prepaid expenses in respect of operating lease	1,559	(1,406)	153
Property, plant and equipment	<u>123,506</u>	<u>1,406</u>	<u>124,912</u>
Statement of financial position as of 30 September 2009:			
Prepaid expenses in respect of operating lease	1,499	(1,446)	53
Property, plant and equipment	<u>128,410</u>	<u>1,446</u>	<u>129,856</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 SEPTEMBER 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.
In addition, an update to IFRS 9 – Financial Instruments – was published (hereafter – the update to IFRS 9). This update is mandatory for annual reporting period beginning January 1, 2013 or thereafter.
The group did not elect early adoption of the said amendments to the improvements documents and the update to IFRS 9.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

30 SEPTEMBER 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:

	Flavors operations	Fine ingredients operations	Trade and Marketing operations	Eliminations	Total Consolidated
	U.S. dollars in thousands				
9 months ended 30 September 2010: (unaudited):					
Revenues	228,234	108,342	3,867	(1,751)	<u>338,692</u>
Segment results	36,320	14,720	88	(216)	<u>50,912</u>
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>
3 months ended 30 September 2010 (unaudited):					
Revenues	75,392	34,559	1,544	(538)	<u>110,957</u>
Segment results	11,130	3,692	32	102	<u>14,956</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>
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:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2010	2009	2010	2009	2009
	U.S. dollars in thousands				
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Reported segment income	50,912	36,316	14,956	13,331	47,285
Financing expenses (income)	3,366	3,460	(208)	85	4,344
Income before taxes on income	<u>47,546</u>	<u>32,856</u>	<u>15,164</u>	<u>13,246</u>	<u>42,941</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 SEPTEMBER 2010

(UNAUDITED)

NOTE 5 - CASH FLOW FROM OPERATING ACTIVITIES:

	9 months ended 30 September		3 months ended 30 September		Year ended 31 December
	2010	2009	2010	2009	2009
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	47,546	32,856	15,164	13,246	42,941
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	13,510	13,385	4,587	4,764	18,224
Recognition of compensation related to employee stock and option grants	735	487	304	238	708
Retirement benefit obligation, net	(270)	70	(80)	18	(50)
Deferred income tax – net	(1,010)	18	226	679	473
Loss (gain) from sale of property, plant and equipment	(511)	107	(32)	54	(256)
Increase (decrease) in provisions – net	(186)	(241)	6	(108)	(621)
Erosion of loans	(137)	(484)	44	182	(527)
Interest paid - net	1,104	3,436	400	890	3,530
	<u>13,235</u>	<u>16,778</u>	<u>5,455</u>	<u>6,717</u>	<u>21,481</u>
Changes in operating asset and liability items:					
Decrease (increase) in accounts receivable:					
Trade	(13,420)	(2,225)	(1,480)	(439)	8,807
Other	1,430	(1,006)	334	(6)	1,588
Increase (decrease) in accounts payable:					
Trade	9,057	(96)	1,824	1,822	(359)
Other	2,146	5,003	1,118	3,109	(1,829)
Decrease (increase) in inventory	(5,824)	19,648	(1,284)	7,103	23,665
	<u>(6,611)</u>	<u>21,324</u>	<u>512</u>	<u>11,589</u>	<u>31,872</u>
Cash flows from operating activities	<u>54,170</u>	<u>70,958</u>	<u>21,131</u>	<u>31,552</u>	<u>96,294</u>

NOTE 6 – 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.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 SEPTEMBER 2010

(UNAUDITED)

NOTE 7 – EQUITY:

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.
