**FRUTAROM INDUSTRIES LTD.**

INTERIM FINANCIAL INFORMATION

(Unaudited)

30 SEPTEMBER 2011

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INTERIM FINANCIAL INFORMATION

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TABLE OF CONTENTS

**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 2011 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 11.54% of total consolidated assets as of 30 September 2011 and whose revenues included in consolidation constitute approximately 12.28% and 12.4% 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.

| | |
|---|---|
| Haifa, Israel | Kesselman & Kesselman |
| 23 November , 2011 | Certified Public Accountants (lsr.) |
| | A member firm of PricewaterhouseCoopers International Limited |

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*Telephone: +972 -4- 8605000, Fax:+972 -4- 8605001, www.pwc.co.il*

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2011

| | 30 September | | 31 December |
|---|---|---|---|
| | **2011** | **2010** | **2010** |
| | **(Unaudited)** | | **(Audited)** |
| | **U.S. dollars in thousands** | | |
| **A s s e t s** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | 37,219 | 45,878 | 44,389 |
| Accounts receivable: | | | |
| Trade | 91,484 | 79,007 | 69,820 |
| Other | 7,860 | 10,526 | 10,836 |
| Prepaid expenses and advances to suppliers | 4,838 | 4,459 | 2,736 |
| Inventory | 105,556 | 85,202 | 86,485 |
| | 246,957 | 225,072 | 214,266 |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment | 140,048 | 124,912 | 126,122 |
| Intangible assets | 222,959 | 180,076 | 177,136 |
| Deferred income tax assets | 2,183 | 1,493 | 1,362 |
| Prepaid expenses in respect of operating lease | 73 | 153 | 163 |
| | 365,263 | 306,634 | 304,783 |
| **Total assets** | 612,220 | 531,706 | 519,049 |

| | |
|---|---|
| | ) 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: 23, November 2011.

| | 30 September 2011 | 30 September 2010 | 31 December 2010 |
|---|---|---|---|
| | (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 | 101,895 | 34,234 | 32,302 |
| Accounts payable: | | | |
| Trade | 40,454 | 37,185 | 30,380 |
| Other | 32,971 | 34,992 | 31,231 |
| Provisions | 230 | 221 | 207 |
| | 175,550 | 106,632 | 94,120 |
| **NON-CURRENT LIABILITIES:** | | | |
| Long-term loans, net of current maturities | 4,355 | 41,458 | 32,028 |
| Retirement benefit obligations, net | 11,855 | 10,832 | 11,242 |
| Deferred income tax liabilities | 24,911 | 21,255 | 21,867 |
| | 41,121 | 73,545 | 65,137 |
| **Total liabilities** | 216,671 | 180,177 | 159,257 |
| **EQUITY:** | | | |
| Ordinary shares | 16,597 | 16,597 | 16,597 |
| Capital surplus | 97,160 | 96,478 | 96,630 |
| Translation differences | 22,462 | 17,908 | 17,611 |
| Retained earnings | 262,346 | 222,787 | 231,615 |
| Less - cost of company shares held by subsidiary | (3,016) | (2,241) | (2,661) |
| **Total equity** | 395,549 | 351,529 | 359,792 |
| **Total equity and liabilities** | 612,220 | 531,706 | 519,049 |

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

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2010** |
| | **(Unaudited)** | | | | **(Audited)** |
| | **U.S. dollars in thousands (except for income per share data)** | | | | |
| SALES | 386,871 | 338,692 | 135,253 | 110,957 | 451,066 |
| COST OF SALES | 245,059 | 205,169 | 87,582 | 67,802 | 276,242 |
| **GROSS PROFIT** | 141,812 | 133,523 | 47,671 | 43,155 | 174,824 |
| Selling, marketing, research and development expenses – net | 64,840 | 57,116 | 23,001 | 19,157 | 77,061 |
| General and administrative expenses | 28,979 | 25,576 | 10,446 | 8,792 | 35,099 |
| Other expenses (income) – net | 1,479 | (81) | 1,346 | 250 | (318) |
| **INCOME FROM OPERATIONS -** | 46,514 | 50,912 | 12,878 | 14,956 | 62,982 |
| FINANCIAL EXPENSES (INCOME) - net | 2,564 | 3,366 | 2,627 | (208) | 3,196 |
| **INCOME BEFORE TAX ON INCOME** | 43,950 | 47,546 | 10,251 | 15,164 | 59,786 |
| INCOME TAX | 9,839 | 12,263 | 1,582 | 4,017 | 15,675 |
| **INCOME FOR THE PERIOD** | 34,111 | 35,283 | 8,669 | 11,147 | 44,111 |
| **EARNINGS PER SHARE:** | | | | | |
| Basic | 0.59 | 0.62 | 0.15 | 0.19 | 0.77 |
| Fully diluted | 0.59 | 0.61 | 0.15 | 0.19 | 0.77 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | **U.S. dollars in thousands** | | | | |
|---|---|---|---|---|---|
| **INCOME FOR THE PERIOD** | 34,111 | 35,283 | 8,669 | 11,147 | 44,111 |
| **OTHER COMPREHENSIVE INCOME-** translation differences | 4,851 | (155) | (15,231) | 19,940 | (452) |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | 38,962 | 35,128 | (6,562) | 31,087 | 43,659 |

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

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 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 2011 (audited)** | 16,597 | 96,630 | 17,611 | 231,615 | (2,661) | 359,792 |
| **CHANGES DURING THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2011 (unaudited):** | | | | | | |
| **Comprehensive income -** | | | | | | |
| Income for the period | - | - | - | 34,111 | - | 34,111 |
| **Other comprehensive income -** | | | | | | |
| Translation differences | - | - | 4,851 | - | - | 4,851 |
| **Total comprehensive income for the period** | - | - | 4,851 | 34,111 | - | 38,962 |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Acquisition of company shares by subsidiary | - | - | - | - | (885) | (885) |
| Receipts in respect of allotment of company shares to employees | - | (354) | - | - | 530 | 176 |
| Allotment of shares and options to senior employees - | | | | | | |
| Recognition of compensation related to employee stock and options grants | - | 884 | - | - | - | 884 |
| Dividend paid, including erosion (note 9) | - | - | - | (3,380) | - | (3,380) |
| | - | 530 | - | (3,380) | (355) | (3,205) |
| **BALANCE AT 30 SEPTEMBER 2011 (unaudited)** | 16,597 | 97,160 | 22,462 | 262,346 | (3,016) | 395,549 |

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 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 2011 (unaudited)** | 16,597 | 96,949 | 37,693 | 253,677 | (2,747) | 402,169 |
| **CHANGES DURING THE 3 MONTH PERIOD ENDED 30 SEPTEMBER 2011 (unaudited):** | | | | | | |
| **Comprehensive income -** | | | | | | |
| Income for the period | - | - | - | 8,669 | - | 8,669 |
| **Other comprehensive income -** | | | | | | |
| Translation differences | - | - | (15,231) | - | - | (15,231) |
| **Total comprehensive income for the period** | - | - | (15,231) | 8,669 | - | (6,562) |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Acquisition of company shares by subsidiary | - | - | - | - | (441) | (441) |
| Receipts in respect of allotment of company shares to Employees | - | (115) | - | - | 172 | 57 |
| Allotment of shares and options to senior employees- | | | | | | |
| Recognition of compensation related to employee stock and options grants | - | 326 | - | - | - | 326 |
| | - | 211 | - | - | (269) | (58) |
| **BALANCE AT 30 SEPTEMBER 2011 (unaudited)** | 16,597 | 97,160 | 22,462 | 262,346 | (3,016) | 395,549 |

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 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 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 | - | - | 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- Receipts in respect of allotment of company shares to employees | - | (757) | - | - | 1,136 | 379 |
| Allotment of shares and options to senior employees- Recognition of compensation related to employee stock and options grants | - | 304 | - | - | - | 304 |
| | - | (453) | - | - | 1,136 | 683 |
| **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 NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 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 2010** | 16,597 | 96,995 | 18,063 | 190,237 | (3,417) | 318,475 |
| **CHANGES DURING THE YEAR ENDED 31 DECEBMBER 2010:** | | | | | | |
| **Comprehensive income:** | | | | | | |
| Income for the year | - | - | - | 44,111 | - | 44,111 |
| **Other comprehensive income -** | | | | | | |
| Translation differences | - | - | (452) | - | - | (452) |
| **Total comprehensive income for the year** | - | - | (452) | 44,111 | - | 43,659 |
| Plans for allotment of company shares to employees of subsidiary: | | | | | | |
| Acquisition of company shares by subsidiary | - | - | - | - | (1,261) | (1,261) |
| Receipts in respect of allotment of company shares to employees | | (1,344) | - | - | 2,017 | 673 |
| Allotment of shares and options to senior employees - | | | | | | |
| Recognition of compensation related to employee stock and options grants | - | 979 | - | - | - | 979 |
| Dividend paid, including erosion | - | - | - | (2,733) | - | (2,733) |
| | - | (365) | - | (2,733) | 756 | (2,342) |
| **BALANCE AT 31 DECEMBER 2010** | 16,597 | 96,630 | 17,611 | 231,615 | (2,661) | 359,792 |

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

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2010** |
| | **U.S. dollars in thousands** | | | | |
| | **(Unaudited)** | | **(Unaudited)** | | **(Audited)** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | |
| Cash generated from operations (See appendix) | 42,038 | 54,170 | 17,188 | 21,131 | 69,692 |
| Income tax paid | (9,546) | (5,188) | (633) | (2,739) | (7,626) |
| Net cash provided by operating activities | 32,492 | 48,982 | 16,555 | 18,392 | 62,066 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES:** | | | | | |
| Purchase of property, plant and equipment | (5,364) | (5,896) | (2,086) | (2,006) | (8,465) |
| Purchase of intangibles | (2,193) | (1,054) | (802) | (443) | (2,326) |
| Interest received | 604 | 323 | 449 | 23 | 163 |
| Acquisition of operations (notes 4, 5, 6 and 7) | (68,360) | - | (59,247) | - | - |
| Proceeds from sale of property, plant and equipment | 182 | 737 | (6) | 51 | 807 |
| Net cash used in investing activities | (75,131) | (5,890) | (61,692) | (2,375) | (9,821) |
| **CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:** | | | | | |
| Interest paid | (1,329) | (1,427) | (512) | (423) | (1,884) |
| Repayment of long-term bank loans | (23,996) | (34,890) | (6,897) | (9,910) | (43,697) |
| Receipt (discharge) of short-term bank credit and loans – net | 65,634 | (964) | 55,527 | 960 | (2,147) |
| Purchase of company shares by subsidiary – net of receipts in respect of the shares | (709) | (76) | (384) | 379 | (588) |
| Dividend paid | (3,380) | (2,733) | - | - | (2,733) |
| Net cash from (used in) financing activities | 36,220 | (40,090) | 47,734 | (8,994) | (51,049) |
| **INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT** | (6,419) | 3,002 | 2,597 | 7,023 | 1,196 |
| Balance of cash and cash equivalents and bank credit at beginning of period | 44,389 | 42,940 | 33,907 | 41,218 | 42,940 |
| Profits (losses) from exchange differences on cash, cash equivalents and bank credit | (751) | (64) | 715 | (2,363) | 253 |
| **BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD** | 37,219 | 45,878 | 37,219 | 45,878 | 44,389 |

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

**FRUTAROM INDUSTRIES LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE AND THREE-MONTH PERIODS ENDED 30 SEPTEMBER 2011

**Appendix for Condensed Consolidated Statement of Cash Flows – net cash generated from operations:**

| | 9 months ended 30 September | | 3 months ended 30 September | | Year ended 31 December |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | U.S. dollars in thousands | | | | |
| **Income before tax** | 43,950 | 47,546 | 10,251 | 15,164 | 59,786 |
| **Adjustments required to reflect the cash flows from operating activities:** | | | | | |
| Depreciation and amortization | 14,864 | 13,510 | 5,347 | 4,587 | 18,081 |
| Recognition of compensation related to employee stock and option grants | 884 | 735 | 326 | 304 | 979 |
| Liability for employee rights upon retirement – net | 146 | (270) | (51) | (80) | 221 |
| Loss (gain) from sale of fixed assets | 18 | (511) | 14 | (32) | (508) |
| Increase (decrease) in provisions – net | 23 | (186) | 38 | 6 | (200) |
| Erosion of loans | - | (137) | (275) | 44 | (142) |
| Interest paid - net | 725 | 1,104 | 63 | 400 | 1,721 |
| | 16,660 | 14,245 | 5,462 | 5,229 | 20,152 |
| **Operating changes in working capital:** | | | | | |
| Decrease (increase) in accounts receivable: | | | | | |
| Trade | (17,087) | (13,420) | (2,910) | (1,480) | (5,272) |
| Other | 2,460 | 1,430 | 1,760 | 334 | 2,723 |
| Increase (decrease) in accounts payable: | | | | | |
| Trade | 8,547 | 9,057 | 1,287 | 1,824 | 2,388 |
| Other | (1,960) | 1,136 | 62 | 1,344 | (2,444) |
| Decrease (increase) in inventory | (10,532) | (5,824) | 1,276 | (1,284) | (7,641) |
| | (18,572) | (7,621) | 1,475 | 738 | (10,246) |
| **Cash flows from operating activities** | 42,038 | 54,170 | 17,188 | 21,131 | 69,692 |

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

**FRUTAROM INDUSTRIES LTD.**

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 SEPTEMBER 2011

(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 (hereafter – the Group). 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, 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**

a. The interim condensed consolidated financial information of the group as of 30 September 2011 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, 2010 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. Estimates –

The preparation of interim financial statements requires management to exercise its judgment; it also requires the use of accounting estimates and assumptions that affect the application of the group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may differ from those estimates.

In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the consolidated annual financial statements for the year ended December 31, 2010.

**NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:**

a. The accounting policies used in preparation of the interim financial information are consistent with 2010 annual financial statements except as described below:

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

**NOTE 3 - PRINCIPAL ACCOUNTING POLICIES** (continued):

b. As specified in the annual financial statements of the group for the year 2010, standards, amendments and interpretations to existing standards came into effect and are effective for reporting period commencing on January 1, 2011, 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.

c. Additional new standards and amendments to existing standards that are not yet in effect and that the company elected not to early adopt are listed in the group's 2010 annual financial statements. In addition to these standards and amendments, the following standards were issued in May and June 2011, which are not yet effective and the group has not elected to early adopt them:

- IFRS 10 - "Consolidated Financial Statements" (hereinafter - IFRS 10)
- IAS 27 (Amendment) - "Separate Financial Statements" (hereinafter - IAS 27 Amendment)
- IFRS 12 - "Disclosures of Interests in Other Entities" (hereinafter - IFRS 12);
- IFRS 13 - "Fair Value Measurement" (hereinafter - IFRS 13).
- IAS 1-"Presentation of financial statements" (hereinafter – IAS 1 Amendment).
- IAS 19-" Employee Benefit" (hereinafter – IAS 19 Amendment).

At this stage, the group is evaluating the impact and timing of implementing these standards in the future.

Following are summaries of key provisions in IFRS that are relevant to operations of the group:

1) IFRS 10

IFRS 10 replaces all existing provisions relating to control and financial statements consolidation currently within IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 - "Consolidation - Special Purpose Entities". IFRS 10 redefines "control". The new definition focuses on the requirement to have power over the investee and to have exposure, or rights, to variable returns from its involvement with the investee. Power is defined as existing rights that give the current ability to direct the relevant activities. IFRS 10 also includes provisions relating to the distinction between participating rights and protective rights and provisions relevant to cases in which an investor is acting on behalf of another entity or group of entities (agent/principal relationships). The core principle by which a consolidated entity presents a parent and its subsidiaries as if they are a single entity is maintained, as well as the consolidation technique. Early implementation is possible. An entity electing early implementation will be required to disclose this fact and to also early adopt IFRS 11, IFRS 12, IAS 27 Amendment and IAS 28R on that date.
Company's management estimate that first time adoption of this standard is not expected to have a material effect.

**NOTE 3 - PRINCIPAL ACCOUNTING POLICIES** (continued):

2) IAS 27R

IAS 27R supersedes IAS 27 and it applies only to entities preparing separate financial statements. The previously existing guidelines included in IAS 27 with regard to accounting treatment applied to separate financial statements has remained unchanged in IAS 27R. IAS 27R is applicable for annual reporting periods beginning on or after 1 January 2013. Early adoption is allowed. An entity may apply IAS 27R to an earlier accounting period, but if doing so it must disclose the fact that is has early adopted the standard and also apply IFRS10, IFRS11 IFRS12 and IAS 28R.

3) IFRS 12

IFRS 12 sets disclosure requirements for accounting matters covered by IFRS 10 and IFRS 11 and replaces the disclosure requirements in IAS 28. IFRS 12 requires an entity to disclose information to enable users of the financial statements to evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities. These disclosure requirements in IFRS 12 that have to do with these matters: critical judgments and assumptions, interest in subsidiaries, interest in joint arrangements and associates and interest in consolidated structured entities. IFRS 12 will be implemented for annual periods commencing on January 1, 2013, and thereafter. Early implementation is permitted. An entity can provide some or all disclosure requirements in IFRS 12 in periods prior to its first-time implementation, without being required to fully implement IFRS 12 on that date, or IFRS 10, IFRS 11, IAS 27 Amendment and IAS 28R.

Company's management estimate that first time adoption of this standard is not expected to have a material effect.

4) IFRS 13

IFRS 13 provides guidance for measuring fair value and contains relevant disclosure provisions. However, it does not state when or what financial statement items require measurement at fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. Fair value will be measured using assumptions that market participants would use when pricing the asset or liability. IFRS 13 includes many detailed provisions relating to the use of techniques for fair value hierarchy, based on the types of data used in the fair value measurement method and prioritization of fair value measurements. IFRS 13 also includes guidance on bid-ask spreads in measuring fair value and using bid prices for asset positions and ask prices for liability positions is permitted but not mandatory. The disclosure requirements of IFRS 13 expand the level of disclosure currently existing in IFRSs relating to fair value measurements. IFRS 13 is mandatory for annual periods commencing on 1 January 2013 or thereafter. Early implementation is permitted along with appropriate disclosure of this fact. IFRS 13 will be implemented retrospectively commencing on the annual period in which it will be implemented for the first time. The disclosure requirements in IFRS 13 are not mandatory for implementation on comparative information relating to periods prior to first-time implementation.

**NOTE 3 - PRINCIPAL ACCOUNTING POLICIES** (continued):

Company's management estimate that first time adoption of this standard is not expected to have a material effect.

5) Amendment to IAS 1

The amendment to IAS 1 changes the manner of disclosure of other comprehensive income items (hereafter – OCI) as part of the statement of comprehensive income.
Set forth below is a summary of the main amendments made to IAS 1:

- Items presented as part of the OCI should be separated into two groups based on whether the items can be recycled in the future into profit or loss or not. Accordingly, items that cannot be reclassified into profit or loss in the future would be presented separately from items that can be recycled in the future into profit or loss.

- Entities electing to present OCI items before the tax associated with these items will be required to present the tax effect separately for each of the two groups of the OCI items.

- The name of the statement of comprehensive income was changed to "statement of profit or loss and other comprehensive income". Nevertheless, IAS 1 allows entities to use other names.

The amendment to IAS 1 will be applied to annual reporting periods commencing July 1, 2012 or thereafter, with full retrospective application. Early adoption is allowed.
Company's management estimate that first time adoption of this standard is not expected to have a material effect.

6) Amendment to IAS 19

The amendment to IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefit and to the disclosures for all employee benefits. Set forth below is a summary of the key changes:

- "Actuarial gains and losses" are renamed "remeasurements" and will be recognized immediately in OCI. Actuarial gains and losses will no longer be deferred using the “corridor” approach or recognized in profit or loss.
- Past-service costs will be recognized immediately in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period.
- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" currently applied under IAS 19.
- The distinction between short-term and long-term benefits for measurement purposes shall be based on when payment is expected, not when payment can be demanded.
- Any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.

**NOTE 3 - PRINCIPAL ACCOUNTING POLICIES** (continued):

- There are additional disclosure requirements compared with IAS 19 in its present version.

The amendment is effective for periods beginning on or after 1 January 2013. Earlier application is permitted. The amendment should be applied retrospectively in accordance with IAS 8 - "Accounting policies, changes in accounting estimates and errors", except for:

a) An entity needs not to adjust the carrying amount of assets outside the scope of IAS 19 (2011) for changes in employee benefits costs that were included in the carrying amount before the date of initial application of the amendment.

b) Comparative information for the disclosures required in the amendment to IAS 19 about the sensitivity of the defined benefit obligation will not needed in financial statements for periods beginning before 1 January 2014.

The Group is studying the expected effect on Amendment to IAS 19 on its financial statements and the timing of its adoption.

**NOTE 4 - ACQUISITION OF THE OPERATIONS OF RIEBER & SON ASA:**

On February 1, 2011 the Group acquired via a Norwegian subsidiary the industrial savory business of Rieber & Son ASA (hereafter – Rieber).
The Rieber operations include developing, producing and marketing savory flavoring solutions, including flavoring extracts, spice blends and other functional raw materials for the food industry, especially for the meat and seafood industry and the convenience food market. The Rieber operations has a development, production and marketing site in Norway and a broad customer base, including some leading food producers, especially in Scandinavia.

The cost of acquisition presented in the finanical statements amounts to 24,540 thousands Norwegian Krones ($ 4,279 thousands); the acquisition was financed by self funds.

The cost of acquisition was fully allocated to intangible assets which were acquired based on their fair value at the time of the acquisition. Determination of the fair falue of the acquired assets is subject to final allocation of the consideration of the purchase to the fair value of assets, Allocation which is performed by the Company.
Frutarom is working to merge the Rieber Activity with the Group’s existing activities in Germany and Scandinavia and until this acquisition is completed, the activity's products are manufactured in accordance with a production agreement between Frutarom and Rieber.

The acquired operations generated revenue of $ 4,723 thousands and net income (after acquisition costs) of $ 271 thousands for the period from the acquisition date through September 30, 2011.

**NOTE 4 - ACQUISITION OF THE OPERATIONS OF RIEBER & SON ASA** (continued):

Set forth below are the assets and liabilities of Rieber at the date of acquisition:

| | **Fair value** | **Value of acquired operations in Rieber's books of accounts** |
|---|---|---|
| | **U.S. dollars in thousands** | |
| Non-current assets- | | |
| Intangible assets: | | |
| Goodwill | 3,540 | - |
| Product formulas | 373 | - |
| Customer relations | 366 | - |
| | 4,279 | - |

The product formulas and customer relations are amortized over economic life of 20 years and 10 years respectively. The goodwill is not amortized but rather tested at least once a year for impairment.

**NOTE 5 - ACQUISITION OF THE EAST ANGLIAN FOOD INGREDIENTS LTD. OPERATIONS:**

On January 31, 2011, the Group acquired via a UK subsidiary the operations of the UK company East Anglian Food Ingredients Ltd ("EAFI").

EAFI is engaged in development, production and marketing of savory flavoring, included flavoring extracts, spice blends and other functional raw materials for the food industry, with focus on the meat and seafood industry, convenience food, snacks and processed meat and fish. EAFI has a development, production and marketing site in the UK and a broad customer base.

The cost of acquisition presented in these financial statements amounts to $ 4,834 thousands (£ 3,000 thousands); the acquisition was funded from self funds.

The cost of acquisition was fully allocated to acquire tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition.

The intangible assets that were recognized include: product formulas in the total amount of £ 146 thousands ($ 235 thousands), amortized over economic life of 20 years.
The acquired operations were merged to the existing operations of the subsidiary in U.K.

**NOTE 5 - ACQUISITION OF THE EAST ANGLIAN FOOD INGREDIENTS LTD. OPERATIONS** (continued):

Assets and liabilities of EAFI at the date of acquisition:

| | Fair value | Value of acquired operations in EAFI's books of accounts |
|---|---|---|
| | U.S. dollars in thousands | |
| Current assets: | | |
| Accounts receivable: | | |
| Trade | 1,072 | 1,152 |
| Inventory | 1,909 | 2,135 |
| Non-current assets: | | |
| Fixed assets | 2,438 | 1,644 |
| Intangible assets- | | |
| Product formulas | 235 | - |
| Current liabilities : | | |
| Accounts payable and accruals - trade | (693) | (693) |
| Deferred income taxes | (127) | - |
| | 4,834 | 4,238 |

The acquired operations generated revenue of $ 6,636 thousands and net income (after acquisition costs) of $ 307 thousands, for the period from the acquisition date through September 30, 2011.

**NOTE 6 - ACQUISITION OF THE CHRISTIAN HANSEN ITALIA S.P/A OPERATIONS:**

On May 25, 2011, the group signed, via a UK subsidiary, an agreement to acquire assets and operations of Christian Hansen ITALIA S.p/a ("CH"). On July 29, 2011, the transaction was closed.

The Savory operation of CH (the "Acquired operation" ) develops, produces and markets innovative savory solutions (the non-sweet taste spectrum) including flavors, seasoning compounds and functional ingredients for the food industry, with special emphasis on processed meat and convenience food applications. The Acquired operation has a customer base comprised mainly of the Italian meat processors; The activity also enjoys export sales in Russia, Ukraine, Poland, the Czech Republic and France. The acquisition include among the assets purchased a plant located in Parma, Italy, which according to the group estimation will enable the group to grow its activities and to take advantage of operational synergies with its existing savory activities in Europe and advanced R&D laboratories. The Acquired Activity has some 45 employees.
The Acquired operation is highly synergetic with the activity of the German companies Gewurzmuller and Nesse (acquired by the group in 2007 and 2006 respectively), the German Savory Functional Systems activity of Chr. Hansen (acquired in 2009) along with the acquisitions of EAFI and Rieber completed in early 2011.

**NOTE 6 - ACQUISITION OF THE CHRISTIAN HANSEN ITALIA S.P/A OPERATIONS** (continued):

The cost of acquisition presented in these financial statements amounts to $ 36,067 thousands (€ 25,000 thousands); The acquisition was financed by a short term loan of Libor + 1.6% that will be replaced by a long term loan of whose terms are under negotiation with the lender. In accordance with adjustments mechanisms set in the acquisition agreement, the group is expected to receive from the sellers a refund in the total amount of $ 1,483 thousands (€ 1,028 thousands).

The cost of acquisition was fully allocated to acquire tangible assets, intangible assets and liabilities based on their fair value on the date of the acquisition.
The fair value of the acquired assets and liabilities is subject to a final purchase price allocation analysis commissioned for the company, which has not been completed as of the date of approving these financial statements, and includes dividing intangible assets into components as will be determined by the valuation.

Assets and liabilities of CH at the date of acquisition:

| | Fair value | Value of acquired operations in CH's books of accounts |
|---|---|---|
| | U.S. dollars in thousands | |
| Current assets: | | |
| Accounts receivable: | | |
| Inventory | 3,833 | 3,888 |
| Refund receivable | 1,483 | - |
| Non-current assets: | | |
| Deferred income taxes | 638 | - |
| Property, plant and equipment | 13,024 | 14,719 |
| Intangible assets | 20,034 | - |
| Current liabilities : | | |
| Accounts payable and accruals -others | (868) | (589) |
| Non-current liabilities : | | |
| Long-term loans | (1,845) | (1,845) |
| Retirement benefit obligations, net | (232) | (232) |
| | 36,067 | 15,941 |

The acquired operations generated revenue of $ 3,205 thousands and net income of $ 185 thousands (net loss after acquisition costs of $ 729 thousands), for the period from the acquisition date through September 30, 2011.

## NOTE 7 - ACQUISITION OF AROMCO LTD.:

On August 19, 2011, the Group acquired via a UK subsidiary 100% of share capital of a UK company - Aromco Ltd. ("Aromco").
Aromco develops, manufactures, and markets flavors for the food and beverage industry. Aromco is active in developing markets in Eastern Europe, Africa and Asia as well as in the UK. Aromco has approximately 40 employees and operates a factory in Hertfordshire, England.
The acquired operation is highly synergetic with the flavors activity of the group. The group intends to operate in order to merge Aromco's activity with its global activity by initiating global operational synergies.

The cost of acquisition presented in these financial statements amounts to $ 24,614 thousands (£ 15,000 thousands); The acquisition was financed by a short-term bridge loan at Libor + 2.25% that will be replaced by a long-term loan whose terms are under negotiation with the lender.

The cost of acquisition was fully allocated to acquire tangible assets, intangible assets and liabilities at their fair value on the date of acquisition.
The fair value of acquired assets and liabilities is subject to a final purchase price allocation analysis commissioned for the Company, which has not yet completed for the date of these financial statements approval.

The intangible assets that were recognized include: product formulas in the total amount of £ 2,044 thousands ($ 3,354 thousands), customer relations in the total amount of £ 2,895 thousands ($ 4,750 thousands) and goodwill in the total amount of £ 9,828 thousands ($ 16,127 thousands).

Assets and liabilities of Aromco at the date of acquisition:

| | **Fair value** | **Value in Aromco's books of accounts** |
|---|---|---|
| | **U.S. dollars in thousands** | |
| Current assets: | | |
| Cash and cash equivalents | 1,434 | 1,434 |
| Accounts receivable: | | |
| Trade | 2,790 | 2,790 |
| Inventory | 1,058 | 906 |
| Others | 53 | 53 |
| Non-current assets: | | |
| Property, plant and equipment | 530 | 530 |
| Intangible assets: | | |
| Product formulas | 3,354 | - |
| Customer relations | 4,750 | - |
| Goodwill | 16,127 | - |
| Current liabilities : | | |
| Accounts payable and accruals : | | |
| Trade | (819) | (819) |
| Others | (2,456) | (2,456) |
| Deferred income taxes | (2,207) | (61) |
| | 24,614 | 2,377 |

The acquired operations generated revenue of $ 2,601 thousands and net of $ 360 thousands, for the period from the acquisition date through September 30, 2011.

## NOTE 8 - SEGMENT REPORTING

For management purposes, the Group is organized globally 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 2011** (unaudited): | | | | | |
| Revenues | 269,810 | 114,079 | 5,229 | (2,247) | 386,871 |
| Segment results | 35,931 | 10,330 | 330 | (77) | 46,514 |
| **9 months ended 30 September 2010** (unaudited): | | | | | |
| Revenues | 228,234 | 108,342 | 3,867 | (1,751) | 338,692 |
| Segment results | 36,320 | 14,720 | 88 | (216) | 50,912 |
| **3 months ended 30 September 2011** (unaudited): | | | | | |
| Revenues | 96,921 | 37,779 | 1,285 | (732) | 135,253 |
| Segment results | 11,250 | 1,739 | 30 | (141) | 12,878 |
| **3 months ended 30 September 2010** (unaudited): | | | | | |
| Revenues | 75,392 | 34,559 | 1,544 | (538) | 110,957 |
| Segment results | 11,130 | 3,692 | 32 | 102 | 14,956 |
| **Year ended 31 December 2010** (audited): | | | | | |
| Revenues | 306,374 | 141,540 | 5,425 | (2,273) | 451,066 |
| Segment results | 46,268 | 16,813 | 124 | (223) | 62,982 |

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 |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2010 |
| | U.S. dollars in thousands | | | | |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| Reported segment income | 46,514 | 50,912 | 12,878 | 14,956 | 62,982 |
| Financing expenses | 2,564 | 3,366 | 2,627 | (208) | 3,196 |
| Profit before taxes on income | 43,950 | 47,546 | 10,251 | 15,164 | 59,786 |

## NOTE 9 - DIVIDEND

On 23 March 2011, the Company's Board of Directors declared distribution of a dividend of NIS 0.2 per share, in the total amount of $ 3,290 thousands. On 5 May, 2011, a dividend of $ 3,380 thousands was paid to shareholders.

## NOTE 10 - SUBSEQUENT EVENTS

ACQUISITION OF THE FLAVOR SYSTEMS INTERNATIONAL INC.:

On September 13, 2011, the Group signed via a US subsidiary an agreement to acquire 100% of the share capital of the US company - Flavor Systems International Inc. ("Flavor Systems"). The transaction was closed on October 3, 2011 and the group paid $ 35.3 million in cash, which was financed by a short-term loan of Libor + 1%. This loan will be replaced by a long term-loan whose terms are under negotiation with the lender.

Flavor Systems has approximately 50 employees and focuses on the development, production and marketing of sweet and savory flavors to the food and beverages markets. Flavor Systems owns a plant and R&D laboratories, located in Cincinnati, in the Mid-West of the USA. The acquisition also includes a production site. The site will enable expansion of the group operation into market segments where the group is not active presently, such as the growing market for flavored coffee and shakes sold at convenience stores and large food chain stores in the USA and the group gains access for the first time to the US field of savory flavors market. The operation of the acquired company is synergic with the operation of Flavor Systems in Corona, USA, which was acquired by the Group in 2009.

The final price of the transaction will be determined in accordance with an agreed mechanism related to future considerations, based on a 6.5 multiplier of EBITDA exceeding $ 5 million gained by the operation of Flavor Systems during the 12 months starting on October 1, 2011 and ending on September 30, 2012 (the "EBITDA"), up to a ceiling of $ 10 million. In addition, in the event that the EBITDA during that period is less than $ 5 million, the sellers will repay an amount of up to $ 6 million to the group. Therefore, the consideration for the acquisition may range from $ 29.3 million to $ 45.3 million, according to this mechanism. In addition, the group paid $ 6.5 million for real-estate assets that are under the ownership by other companies owned of the shareholders of Flavor Systems.