

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
31 MARCH 2012

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TABLE OF CONTENTS

	Page
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	2
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION – IN U.S. DOLLARS:	
Condensed Consolidated Statement of Financial Position	3-4
Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income	5
Condensed Consolidated Statement of Changes in Shareholders' Equity	6-8
Condensed Consolidated Statement of Cash Flows	9-10
Explanatory notes to Condensed Consolidated Financial information:	11-17



Report on Review of Interim Financial Information to the shareholders of Frutarom Industries LTD.

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 31 March, 2012 and the related condensed consolidated statement of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 25.14% of total consolidated assets as of 31 March, 2012 and whose revenues included in consolidation constitute approximately 24.41% of total consolidated revenues for the three-month period ended on that date. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

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

Conclusion

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

Haifa, Israel

29, May, 2012

Kesselman & Kesselman

Certified Public Accountants (Isr.)

A member firm of PricewaterhouseCoopers International Limited

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2012

	<u>31 March</u>		<u>31 December</u>
	<u>2012</u>	<u>2011</u>	<u>2011</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	37,526	33,665	36,472
Accounts receivable:			
Trade	115,933	85,106	86,054
Other	7,237	11,494	6,990
Prepaid expenses and advances to suppliers	11,705	5,163	5,916
Inventories	133,362	101,113	111,214
	<u>305,763</u>	<u>236,541</u>	<u>246,646</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	193,442	130,694	145,455
Intangible assets	285,652	189,682	255,710
Deferred income tax assets	2,580	1,594	2,073
Prepaid expenses in respect of operating lease	61	167	67
Others	631	-	-
	<u>482,366</u>	<u>322,137</u>	<u>403,305</u>
Total assets	<u>788,129</u>	<u>558,678</u>	<u>649,951</u>

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

Date of approval of the interim financial information by the board of directors: May 29, 2012

	<u>31 March</u>		<u>31 December</u>
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	112,143	41,031	52,699
Accounts payable:			
Trade	56,472	39,961	40,239
Other	49,903	33,323	38,444
Dividend payable	3,113	3,290	-
	<u>221,631</u>	<u>117,605</u>	<u>131,382</u>
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	111,727	26,052	88,947
Retirement benefit obligations	13,965	11,916	11,359
Deferred income tax liabilities	26,450	23,032	24,669
Other	750	-	-
	<u>152,892</u>	<u>61,000</u>	<u>124,975</u>
Total liabilities	<u>374,523</u>	<u>178,605</u>	<u>256,357</u>
EQUITY:			
Equity attributable to owners of the parent			
Ordinary shares	16,597	16,597	16,597
Other capital surplus	97,835	96,825	97,356
Translation differences	19,894	28,074	12,356
Retained earnings	280,558	241,456	270,266
Less - cost of company shares held by subsidiary	(3,199)	(2,879)	(2,981)
	<u>411,685</u>	<u>380,073</u>	<u>393,594</u>
Non-controlling interests	1,921	-	-
Total equity	<u>413,606</u>	<u>380,073</u>	<u>393,594</u>
Total equity and liabilities	<u>788,129</u>	<u>558,678</u>	<u>649,951</u>

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

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

	3 months ended		Year ended
	31 March		31 December
	2012	2011	2011
	(Unaudited)		(Audited)
	U.S. dollars in thousands,		
	except for income per share data		
SALES	151,217	121,033	518,443
COST OF SALES	96,285	75,370	329,866
GROSS PROFIT	54,932	45,663	188,577
Selling, marketing, research and development expenses- net	25,260	20,099	88,641
General and administrative expenses	13,016	8,887	39,231
Other expenses (income) - net	(1,181)	49	2,041
INCOME FROM OPERATIONS	17,837	16,628	58,664
FINANCIAL EXPENSES (INCOME) – net	923	(874)	5,798
INCOME BEFORE TAXES ON INCOME	16,914	17,502	52,866
TAXES ON INCOME	3,413	4,371	10,835
INCOME FOR THE PERIOD	13,501	13,131	42,031
PROFIT ATTRIBUTABLE TO:			
OWNERS OF THE PARENT	13,405	13,131	42,031
NON-CONTROLLING INTERESTS	96	-	-
TOTAL INCOME	13,501	13,131	42,031
EARNINGS PER SHARE:			
Basic	0.23	0.23	0.73
Fully diluted	0.23	0.23	0.73

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

	U.S. dollars in thousands		
INCOME FOR THE PERIOD	13,501	13,131	42,031
OTHER COMPREHENSIVE INCOME - translation differences	7,538	10,463	(5,255)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	21,039	23,594	36,776
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE PARENT	20,943	23,594	36,776
NON-CONTROLLING INTERESTS	96	-	-
TOTAL INCOME	21,039	23,594	36,776

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

(Continued) - 1

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT								
	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total company's shareholders' equity	Non- controlling interests	Total
	U . S . d o l l a r s i n t h o u s a n d s							
BALANCE AT 1 JANUARY 2012 (audited)	16,597	97,356	12,356	270,266	(2,981)	393,594	-	393,594
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2012 (unaudited):								
Comprehensive income -								
income for the period	-	-	-	13,405	-	13,405	96	13,501
Other comprehensive income -								
translation differences	-	-	7,538	-	-	7,538	-	7,538
Total comprehensive income for the period	-	-	7,538	13,405	-	20,943	96	21,039
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of the Company shares by subsidiary	-	-	-	-	(579)	(579)	-	(579)
Receipts in respect of allotment of company shares to employees	-	(58)	-	-	361	303	-	303
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants	-	537	-	-	-	537	-	537
Dividend including erosion	-	-	-	(3,113)	-	(3,113)	-	(3,113)
	-	479	-	(3,113)	(218)	(2,852)	-	(2,852)
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 31 MARCH 2012 (unaudited)	16,597	97,835	19,894	280,558	(3,199)	411,685	1,921	413,606

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	Cost of company shares held by subsidiary	Total
	U . S . d o l l a r s i n t h o u s a n d s					
BALANCE AT 1 JANUARY 2011 (audited)	16,597	96,630	17,611	231,615	(2,661)	359,792
CHANGES DURING THE 3 MONTHS ENDED 31 MARCH 2011 (unaudited):						
Comprehensive income -						
income for the period	-	-	-	13,131	-	13,131
Other comprehensive income -						
translation differences	-	-	10,463	-	-	10,463
Total comprehensive income for the period	-	-	10,463	13,131	-	23,594
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of the Company shares by subsidiary	-	-	-	-	(350)	(350)
Receipts in respect of allotment of company shares to employees	-	(88)	-	-	132	44
Allotment of shares and options to senior employees- recognition of compensation related to employee stock and options grants	-	283	-	-	-	283
Dividend including erosion	-	-	-	(3,290)	-	(3,290)
	-	195	-	(3,290)	(218)	(3,313)
BALANCE AT 31 MARCH 2011 (unaudited)	<u>16,597</u>	<u>96,825</u>	<u>28,074</u>	<u>241,456</u>	<u>(2,879)</u>	<u>380,073</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 THREE-MONTH PERIOD ENDED 31 MARCH 2012

	<u>Ordinary shares</u>	<u>Other 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 2011 (audited)	16,597	96,630	17,611	231,615	(2,661)	359,792
CHANGES DURING THE YEAR ENDED DECEMBER 2010 (audited):						
Comprehensive income:						
Income for the year	-	-	-	42,031	-	42,031
Other comprehensive income -						
Translation differences	-	-	(5,255)	-	-	(5,255)
Total comprehensive income for the year	-	-	(5,255)	42,031	-	36,776
Plan for allotment of Company shares to employees of subsidiary:	-	-	-	-	(892)	(892)
Purchase of Company shares by subsidiary						
Receipts in respect of allotment of Company shares to employees	-	(382)	-	-	572	190
Allotment of shares and options to senior employees-						
Recognition of compensation related to employee stock and option grants	-	1,108	-	-	-	1,108
Dividend paid	-	726	-	(3,380)	(320)	(2,974)
BALANCE AT 31 DECEMBER 2011 (audited)	<u>16,597</u>	<u>97,356</u>	<u>12,356</u>	<u>270,266</u>	<u>(2,981)</u>	<u>393,594</u>

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

	3 months ended		Year ended
	31 March		31 December,
	2012	2011	2011
U.S. dollars in thousands			
	(Unaudited)	(Audited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (see appendix)	20,465	7,014	47,363
Income tax paid	(2,775)	(4,215)	(11,788)
Net cash provided by operating activities	<u>17,690</u>	<u>2,799</u>	<u>35,575</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(3,600)	(1,742)	(7,835)
Purchase of intangibles	(653)	(558)	(2,564)
Interest received	170	120	642
Acquisition of subsidiaries - net of cash acquired	(63,597)	-	(57,963)
Acquisition of operations (notes 4)	-	(9,113)	(43,698)
Reimbursement in respect of acquisition of operation	-	-	3,850
Proceeds from sale of property, plant and equipment	72	47	289
Net cash used in investing activities	<u>(67,608)</u>	<u>(11,246)</u>	<u>(107,279)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interest paid	(1,379)	(364)	(2,207)
Receipt of long-term bank loans	18,788	-	102,002
Repayment of long-term bank loans	(11,956)	(7,671)	(40,064)
Receipt of short-term bank credit and loans – net	46,213	6,956	8,201
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(276)	(306)	(702)
Dividend paid	-	-	(3,380)
Net cash used in financing activities	<u>51,390</u>	<u>(1,385)</u>	<u>63,850</u>
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT	1,472	(9,832)	(7,854)
BALANCE OF CASH AND CASH EQUIVALENTS AND BANK CREDIT AT BEGINNING OF PERIOD	36,472	44,389	44,389
LOSSES FROM EXCHANGE DIFFERENCES ON CASH, CASH EQUIVALENTS AND BANK CREDIT	(690)	(892)	(63)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	<u>37,254</u>	<u>33,665</u>	<u>36,472</u>

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

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2012

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

	3 months ended		Year ended
	31 March		31 December,
	2012	2011	2011
	U.S. dollars in thousands		
	(Unaudited)		(Audited)
Income before taxes on income	16,914	17,502	52,866
Adjustments required to reflect the cash flows from operating activities:			
Depreciation and amortization	6,585	4,570	20,612
Recognition of compensation related to employee stock and options grants	537	283	1,108
Liability for employee rights upon retirement – net	50	29	225
Loss (income) on from sale of fixed assets	24	(11)	17
Increase (decrease) in provisions – net	-	(2)	29
Erosion of loans	-	146	-
Interest paid – net	1,209	244	1,565
Gain on a bargain purchase	(1,729)	-	-
	<u>6,676</u>	<u>5,259</u>	<u>23,556</u>
Operating changes in working capital:			
Increase in accounts receivable:			
Trade	(9,684)	(11,919)	(12,035)
Other	173	(2,828)	(3,046)
Increase (decrease) in accounts payable and accruals:			
Trade	9,766	8,083	8,342
Other	1,764	813	(5,524)
Increase in inventory	(5,144)	(9,896)	(16,796)
	<u>(3,125)</u>	<u>(15,747)</u>	<u>(29,059)</u>
Net cash flow from operating activities	<u>20,465</u>	<u>7,014</u>	<u>47,363</u>

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

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(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, 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 CONDESED CONSOLIDATED FINANCIAL STATEMENTS

- a.** The interim condensed consolidated financial information of the group as of 31 March , 2012 and for the 3 month period ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 2011 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, 2011.

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES:

- a.** The accounting policies used in preparation of the interim financial information are consistent with the 2011 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.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 3 - PRINCIPAL ACCOUNTING POLICIES (continued):

- b. As specified in the annual financial statements of the group for the year 2011, 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 2011 annual financial statements.

NOTE 4 – BUSINESS COMBINATIONS

a. Acquisition of Savoury Flavours

On January 4, 2012, Frutarom signed, through a UK subsidiary, an agreement for the purchase of 100% of the share capital of UK company Savoury Flavours (Holding) Limited and its subsidiaries (hereafter – "Savoury Flavours") in consideration for \$ 5.9 million (£ 3.8 million) and an additional consideration to be computed in accordance with performances based on a mechanism set in the agreement; in the opinion of the Company, the additional consideration shall not exceed 5% of the amount of the transaction.

Founded in 1999, Savoury Flavours develops, manufactures, and markets savory taste solutions, including mainly flavors, seasoning compounds, marinades, and sauces, specializing in snacks and convenience foods. It has a development, manufacturing, and marketing site in the United Kingdom, and a wide customer base including food manufacturers and private label manufacturers in the U.K. and in emerging markets.

In the 12 months ended December 31, 2011, Savoury Flavours' sales turnover total \$7.1 million.

Savoury Flavours' production site is located close to EAFI's production site (savory operation that was acquired in 2011). Frutarom has started the merger and combination of the two operations as well as with integrating those operations into Frutarom's savory operations in the UK, and will continue doing so over the coming months. The geographic proximity, along with the two companies' complementary product portfolios and technologies, will allow significant business synergies between Savoury Flavours' and Frutarom's fast growing activities in savory foods categories in the UK and worldwide.

The transaction was financed using bank credit. The transaction was completed on the day the said agreement was signed.

The cost of acquisition was fully allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. Determination of the fair value of the acquired assets and liabilities is subject to final allocation of the consideration of the purchase to the fair value of assets, Allocation which is performed by the Company and has not yet been completed as of the date of approval of these financial statements.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 4 – BUSINESS COMBINATIONS (continued):

Assets and liabilities of Savoury Flavours at date of acquisition:

	<u>Fair value</u> <u>U.S. dollars in</u> <u>thousands</u>
Current assets:	
Accounts receivable:	
Trade	1,078
Inventory	990
Others	123
Non-current assets:	
Fixed assets	170
Intangible assets	4,984
Current liabilities :	
Accounts payable and accruals-	
Trade	(526)
Others	(429)
Deferred income taxes	(578)
	<u>5,812</u>

The acquired operations generated revenue of \$ 1,553 thousands and net income of \$102 thousands (after acquisition and finance costs), for the period from the acquisition date through March 31, 2012.

b. Acquisition of Etol

In the first quarter, Frutarom acquired, through a Swiss subsidiary, 98% of the share capital of the public Slovenian company Etol in consideration for €34.6 million. On May 8, 2012, Etol was delisted from the Slovenian Stock Exchange. Frutarom will acquire the remaining shares of Etol from the remaining shareholders in consideration for €per share (a total of € 0.8 million) in accordance with the Slovenian law, so that the total cost of acquisition of all of Etol's shares shall be €35.4 million (\$ 45.8 million).

Etol, founded in 1924, develops, manufactures and markets sweet and savory flavors, focusing on natural flavor products for the food and beverage industry. Etol also has great experience in the development of fruit based flavors and products and Food Systems, specializing in local fruits of the region, as well as extensive activities in the growing area of bases for beverages that plans to further invest in order to substantially expand its global activity. Etol also has trade and marketing activities for products it does not manufacture, targeted for European countries, which will be integrated into the trade and marketing sector, together with the trade and marketing sector in Israel. Trade and marketing activities are not counted among Frutarom's core activities.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 4 – BUSINESS COMBINATIONS (continued):

In the twelve months ended December 31, 2011, Etol's sales turnover amounted to €51.3 million (\$ 71.4 million).

Etol has a sophisticated and innovative plant located on some 70 dunam of land east of Ljubljana in Slovenia. Etol's products are sold to a wide customer base in Central and Eastern Europe and in emerging markets, including Russia, Poland, the Ukraine, Croatia, Serbia, Belarus, Hungary, Slovakia, Macedonia, the Czech Republic, Kazakhstan, Turkey and other emerging markets characterized by higher than average growth rates in comparison with the world average market growth as well as developed countries such as the UK, Switzerland and Germany. Leading food and beverage manufacturers in the countries it operates in number among Etol's customers, including large multi-national food companies. The acquisition is synergetic with Frutarom's activities.

Frutarom is acting to integrate Etol's research and development, marketing and sales, logistics, procurement and manufacture with its own global operations, creating operational synergies and cross-selling.

The consideration paid in cash amounted to \$ 44,718 thousands (€34,601 thousands) and was fully funded by short-term bank credit, the company intends to replace it in 2012 to long-term credit.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. The intangible assets recognized include product formulas in the total amount of € 2,472 thousands (\$ 3,195 thousands), customer relations in the total amount of €1,267 thousands (\$ 1,637 thousands) and gain on a bargain purchase in the total amount of €1,338 thousands (\$ 1,729 thousands). The product formulas and customer relations are amortized over an economic useful life of 20 years and 10 years, respectively. The gain on a bargain purchase was recorded as a one-off expense in the statement of income.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 4 – BUSINESS COMBINATIONS (continued):

Assets and liabilities of Etol at date of acquisition:

	<u>Fair value</u> <u>U.S. dollars in</u> <u>thousands</u>
Current assets:	
Cash and cash equivalents	1,068
Accounts receivable:	
Trade	16,092
Inventory	10,435
Others	4,925
Non-current assets:	
Fixed assets	38,647
Computer software	1,752
Other non-current assets	629
Intangible assets:	
Product formulas	3,195
Customer relations	1,637
Gain on a bargain purchase	(1,729)
Current liabilities :	
Accounts payable and accruals-	
Trade	(4,049)
Others	(4,004)
Deferred income taxes	(534)
Retirement benefit obligations, net	(2,144)
Long term loans	(21,202)
	<u>44,718</u>

The acquired operations generated revenue of \$ 15,361 thousands and net income of \$ 2.5 million (net of acquisition, finance and gain on a bargain purchase) .

c. Acquisition of Mylner Industria E Comercio Ltda

On February 6, 2012 Frutarom signed, through a subsidiary, an agreement for the acquisition of 100% of the share capital of the Brazilian company Mylner Industria E Comercio (hereafter – “Mylner”) and its parent company Vila Osorio Participacoes in consideration for \$ 15.7 million (27.1 Brazilian real). Frutarom also paid a total of 4.4 Brazilian reais for the cash balance of Mylner out of which a total of 2.7 Brazilian real (capitalized value – 2.5 million Brazilian real) was not paid yet and used as security for the seller's indemnification liability in accordance with the purchase agreement, to be realized in installments over 3 years.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 4 – BUSINESS COMBINATIONS (continued):

Mylnar, founded in 1974, develops, produces and markets sweet flavors for beverages and baked goods, and natural flavor products. Mylner has a modern development, production, and marketing site in the area of Sao Paulo, Brazil, including land for future expansion, and employs some 70 workers. Mylner's wide customer base includes leading food manufacturers mainly in Brazil, and in other developing countries in Latin America

In 2011, Mylner sales turnover amounted to \$ 11.4 million (app. 19 million Brazilian real). The transaction was financed by bank credit and was completed on the date of signing the agreement.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities which were acquired based on their fair value at the time of the acquisition. Determination of the fair value of the acquired assets and liabilities is subject to final assessment of allocation of the consideration of the purchase to the fair value of assets and liabilities; this assessment is performed for the Company and has not yet been completed as of the date of approval of these financial statements.

Assets and liabilities of Mylner at date of acquisition:

	<u>Fair value</u> <u>U.S. dollars in</u> <u>thousands</u>
Current assets:	
Cash and cash equivalents	2,542
Accounts receivable:	
Trade	766
Inventory	1,053
Non-current assets:	
Fixed assets	1,359
Intangible assets	12,974
Current liabilities :	
Accounts payable and accruals-	
Trade	(578)
Others	(858)
Short term bank credit	(5)
Deferred income taxes	(12)
Non-current liabilities -	
Others	(782)
	<u>16,459</u>

The acquired operations generated revenue of \$1,602 thousands and net income of \$ 272 thousands (before acquisition and finance costs in the amount of \$316 thousands) for the period from the acquisition date through March 31, 2012.

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2012

(UNAUDITED)

NOTE 5 – DIVIDEND

On 14, March 2012, the Company’s Board of Directors declared the distribution of a dividend of NIS 0.2 per share, in the total amount of \$ 3,113 thousands.

NOTE 6 – SEGMENT REPORTING

For management purposes, the Group is organized on a worldwide basis into two major operating activities: Flavour and Fine Ingredients. Another operating activity is Trade and Marketing. Results of operation of the segments are being measured based on operating profit.

Segment data provided to the President and the CEO in respect of the reported segments is as follows:

	Flavors operations	Fine ingredients operations	Trade and Marketing operations	Eliminations	Total Consolidated
	U.S. dollars in thousands				
3 months ended 31 March 2012 (unaudited):					
Revenues	108,966	37,468	5,386	(603)	<u>151,217</u>
Segment results	14,002	3,646	362	(173)	<u>17,837</u>
3 months ended 31 March 2011 (unaudited):					
Revenues	80,211	39,137	2,394	(709)	<u>121,033</u>
Segment results	11,204	5,451	191	(218)	<u>16,628</u>
Year ended 31 December 2011 (audited):					
Revenues	369,894	145,008	6,373	(2,832)	<u>518,443</u>
Segment results	46,811	11,745	353	(245)	<u>58,664</u>

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

	3 months ended 31 March		Year ended 31 December
	2012	2011	2011
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Reported segment profits	17,837	16,628	58,664
Financing expenses (income)	923	(874)	5,798
Profit before taxes on income	<u>16,914</u>	<u>17,502</u>	<u>52,866</u>

