

FRUTAROM INDUSTRIES LTD.
INTERIM FINANCIAL INFORMATION
(Unaudited)
30 JUNE 2012

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Review Report of Interim Financial Information

Introduction

We have reviewed the accompanying financial information of Frutarom Industries Ltd. and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 24.93% of total consolidated assets as of 30 June 2012 and whose revenues included in consolidation constitute approximately 25.21% and 26.88% of total consolidated revenues for the six and three-month periods ended on that date, respectively. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

Scope of review

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

Conclusion

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

Haifa, Israel

August 20, 2012

Kesselman & Kesselman

Certified Public Accountants (Isr.)

A member firm of PricewaterhouseCoopers International Limited

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2012

	<u>30 June</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	38,639	33,907	36,472
Accounts receivable:			
Trade	117,279	88,946	86,054
Other	5,953	8,184	6,990
Prepaid expenses and advances to suppliers	8,836	5,358	5,916
Inventory	122,663	105,520	111,214
	<u>293,370</u>	<u>241,915</u>	<u>246,646</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	184,549	134,926	145,455
Intangible assets	273,337	191,608	255,710
Deferred income tax assets	2,630	1,408	2,073
Other	461	136	67
	<u>460,977</u>	<u>328,078</u>	<u>403,305</u>
Total assets	<u>754,347</u>	<u>569,993</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: August 20, 2012

	<u>30 June</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 shareholders' equity			
CURRENT LIABILITIES:			
Short-term bank credit and loans and current maturities of long-term loans	56,347	52,623	52,699
Accounts payable:			
Trade	50,579	39,831	40,239
Other	48,242	29,909	38,444
	<u>155,168</u>	<u>122,363</u>	<u>131,382</u>
NON-CURRENT LIABILITIES:			
Long-term loans, net of current maturities	147,057	8,896	88,947
Retirement benefit obligations, net	13,195	12,451	11,359
Deferred income tax liabilities	25,021	24,114	24,669
Other	1,026	-	-
	<u>186,299</u>	<u>45,461</u>	<u>124,975</u>
Total liabilities	<u>341,467</u>	<u>167,824</u>	<u>256,357</u>
EQUITY:			
Equity attributable to owners of the parent:			
Ordinary shares	16,597	16,597	16,597
Capital surplus	97,823	96,949	97,356
Translation differences	5,065	37,693	12,356
Retained earnings	294,068	253,677	270,266
Less - cost of company shares held by subsidiary	(2,716)	(2,747)	(2,981)
Non-controlling interests	<u>2,043</u>	<u>-</u>	<u>-</u>
Total equity	<u>412,880</u>	<u>402,169</u>	<u>393,594</u>
Total equity and liabilities	<u>754,347</u>	<u>569,993</u>	<u>649,951</u>

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

FRUTAROM INDUSTRIES LTD.

CONDESED CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2012	2011	2012	2011	2011
	(Unaudited)				(Audited)
	U.S. dollars in thousands				
	(except for income per share data)				
SALES	316,013	251,618	164,796	130,585	518,443
COST OF SALES	199,311	157,477	103,026	82,107	329,866
GROSS PROFIT	116,702	94,141	61,770	48,478	188,577
Selling, marketing, research and development expenses – net	52,737	41,839	27,477	21,740	88,641
General and administrative expenses	25,130	18,533	12,114	9,646	39,231
Other expenses (income) - net	(787)	133	394	84	2,041
INCOME FROM OPERATIONS	39,622	33,636	21,785	17,008	58,664
FINANCIAL EXPENSES (INCOME) - net	5,236	(63)	4,313	811	5,798
INCOME BEFORE TAX ON INCOME	34,386	33,699	17,472	16,197	52,866
TAX ON INCOME	7,337	8,257	3,924	3,886	10,835
INCOME FOR THE PERIOD	27,049	25,442	13,548	12,311	42,031
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	26,831	25,442	13,426	12,311	42,031
NON-CONTROLLING INTERESTS	218	-	122	-	-
TOTAL INCOME	27,049	25,442	13,548	12,311	42,031
EARNINGS PER SHARE:					
Basic	0.47	0.44	0.23	0.21	0.73
Fully diluted	0.47	0.44	0.23	0.21	0.73

CONDESED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	U.S. dollars in thousands				
INCOME FOR THE PERIOD	27,049	25,442	13,548	12,311	42,031
OTHER COMPREHENSIVE INCOME - translation differences	(7,291)	20,082	(14,829)	9,619	(5,255)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	19,758	45,524	(1,281)	21,930	36,776
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	19,540	45,524	(1,403)	21,930	36,776
NON-CONTROLLING INTERESTS	218	-	122	-	-
TOTAL INCOME	19,758	45,524	(1,281)	21,930	36,776

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

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

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 company's shareholders' equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
	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 6 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	26,831	-	26,831	218	27,049
Other comprehensive income -								
Translation differences	-	-	(7,291)	-	-	(7,291)	-	(7,291)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(7,291)</u>	<u>26,831</u>	<u>-</u>	<u>19,540</u>	<u>218</u>	<u>19,758</u>
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	(579)	(579)	-	(579)
Receipts in respect of allotment of company shares to employees	-	(380)	-	-	844	464	-	464
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	847	-	-	-	847	-	847
Dividend paid, including erosion	-	-	-	(3,029)	-	(3,029)	-	(3,029)
	<u>-</u>	<u>467</u>	<u>-</u>	<u>(3,029)</u>	<u>265</u>	<u>(2,297)</u>	<u>-</u>	<u>(2,297)</u>
Non-controlling interest arising on business combination	-	-	-	-	-	-	1,825	1,825
BALANCE AT 30 JUNE 2012 (unaudited)	<u>16,597</u>	<u>97,823</u>	<u>5,065</u>	<u>294,068</u>	<u>(2,716)</u>	<u>410,837</u>	<u>2,043</u>	<u>412,880</u>

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

FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 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 company's shareholders' equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
	U . S . d o l l a r s i n t h o u s a n d s							
BALANCE AT 1 APRIL 2012 (unaudited)	16,597	97,835	19,894	280,558	(3,199)	411,685	1,921	413,606
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2012 (unaudited):								
Comprehensive income:								
Income for the period	-	-	-	13,426	-	13,426	122	13,548
Other comprehensive income -								
Translation differences	-	-	(14,829)	-	-	(14,829)	-	(14,829)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(14,829)</u>	<u>13,426</u>	<u>-</u>	<u>(1,403)</u>	<u>122</u>	<u>(1,281)</u>
Plans for allotment of company shares to employees of subsidiary:								
Acquisition of company shares by subsidiary	-	-	-	-	-	-	-	-
Receipts in respect of allotment of company shares to employees	-	(322)	-	-	483	161	-	161
Allotment of shares and options to senior employees -								
Recognition of compensation related to employee stock and options grants	-	310	-	-	-	310	-	310
Erosion of dividend paid	-	-	-	84	-	84	-	84
	<u>-</u>	<u>(12)</u>	<u>-</u>	<u>84</u>	<u>483</u>	<u>555</u>	<u>-</u>	<u>555</u>
BALANCE AT 30 JUNE 2012 (unaudited)	<u>16,597</u>	<u>97,823</u>	<u>5,065</u>	<u>294,068</u>	<u>(2,716)</u>	<u>410,837</u>	<u>2,043</u>	<u>412,800</u>

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FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	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 6 MONTH PERIOD ENDED 30						
JUNE 2011 (unaudited):						
Comprehensive income:						
Income for the period	-	-	-	25,442	-	25,442
Other comprehensive income -						
Translation differences	-	-	20,082	-	-	20,082
Total comprehensive income for the period	-	-	20,082	25,442	-	45,524
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	(444)	(444)
Receipts in respect of allotment of company shares to employees	-	(239)	-	-	358	119
Allotment of shares and options to senior employees -						
Recognition of compensation related to employee stock and options grants	-	558	-	-	-	558
Dividend paid, including erosion	-	-	-	(3,380)	-	(3,380)
	-	319	-	(3,380)	(86)	(3,147)
BALANCE AT 30 JUNE 2011 (unaudited)	16,597	96,949	37,693	253,677	(2,747)	402,169

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	<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</u>					
BALANCE AT 1 APRIL 2011 (unaudited)	16,597	96,825	28,074	241,456	(2,879)	380,073
CHANGES DURING THE 3 MONTH PERIOD ENDED 30 JUNE 2011 (unaudited):						
Comprehensive income:						
Income for the period	-	-	-	12,311	-	12,311
Other comprehensive income -						
Translation differences	-	-	9,619	-	-	9,619
Total comprehensive income for the period	-	-	9,619	12,311	-	21,930
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	(94)	(94)
Receipts in respect of allotment of company shares to employees	-	(151)	-	-	226	75
Allotment of shares and options to senior employees -						
Recognition of compensation related to employee stock and options grants	-	275	-	-	-	275
Erosion of dividend paid	-	-	-	(90)	-	(90)
	-	124	-	(90)	132	166
BALANCE AT 30 JUNE 2011 (unaudited):	<u>16,597</u>	<u>96,949</u>	<u>37,693</u>	<u>253,677</u>	<u>(2,747)</u>	<u>402,169</u>

FRUTAROM INDUSTRIES LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	<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 2011	16,597	96,630	17,611	231,615	(2,661)	359,792
CHANGES DURING THE YEAR ENDED 31 DECEMBER 2011:						
Comprehensive income:						
Income for the year	-	-	-	42,031	-	42,031
Other comprehensive income -						
Translation differences	-	-	(5,255)	-	-	(5,255)
Total comprehensive income for the period			(5,255)	42,031	-	36,776
Plans for allotment of company shares to employees of subsidiary:						
Acquisition of company shares by subsidiary	-	-	-	-	(892)	(892)
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 options grants	-	1,108	-	-	-	1,108
Dividend paid, including erosion	-	-	-	(3,380)	-	(3,380)
	-	726	-	(3,380)	(320)	(2,974)
BALANCE AT 31 DECEMBER 2011	<u>16,597</u>	<u>97,356</u>	<u>12,356</u>	<u>270,266</u>	<u>(2,981)</u>	<u>393,594</u>

FRUTAROM INDUSTRIES LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

	6 months ended		3 months ended		Year ended
	30 June		30 June		31 December
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (see appendix)	43,074	24,850	22,609	17,836	47,363
Income tax paid	(3,129)	(8,913)	(354)	(4,698)	(11,788)
Net cash provided by operating activities	<u>39,945</u>	<u>15,937</u>	<u>22,255</u>	<u>13,138</u>	<u>35,575</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	(6,510)	(3,278)	(2,910)	(1,536)	(7,835)
Purchase of intangibles	(1,353)	(1,391)	(700)	(833)	(2,564)
Interest received	188	155	18	35	642
Acquisition of subsidiaries - net of cash acquired (note 4)	(65,088)	-	(1,491)	-	(57,963)
Acquisition of operations	-	(9,113)	-	-	(43,698)
Reimbursement in respect of acquisition of operation	-	-	-	-	3,850
Proceeds from sale of property, plant and equipment	109	188	37	141	289
Net cash used in investing activities	<u>(72,654)</u>	<u>(13,439)</u>	<u>(5,046)</u>	<u>(2,193)</u>	<u>(107,279)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
Interest paid	(3,575)	(817)	(2,196)	(453)	(2,207)
Receipt of long-term bank loans	81,239	-	62,451	-	102,002
Repayment of long-term bank loans	(47,550)	(17,099)	(35,594)	(9,428)	(40,064)
Receipt of short-term bank credit and loans – net	6,138	10,107	(40,075)	3,151	8,201
Purchase of company shares by subsidiary – net of receipts in respect of the shares	(115)	(325)	161	(19)	(702)
Dividend paid	(3,029)	(3,380)	(3,029)	(3,380)	(3,380)
Net cash used in financing activities	<u>33,108</u>	<u>(11,514)</u>	<u>(18,282)</u>	<u>(10,129)</u>	<u>63,850</u>
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND BANK CREDIT					
	399	(9,016)	(1,073)	816	(7,854)
Balance of cash and cash equivalents and bank credit at beginning of period	36,472	44,389	37,254	33,665	44,389
Profits (losses) from exchange differences on cash, cash equivalents and bank credit	350	(1,466)	1,040	(574)	(63)
BALANCE OF CASH, CASH EQUIVALENTS AND BANK CREDIT AT END OF PERIOD	<u>37,221</u>	<u>33,907</u>	<u>37,221</u>	<u>33,907</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 SIX AND THREE-MONTH PERIOD ENDED 30 JUNE 2012

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

	6 months ended		3 months ended		Year ended
	30 June		30 June		31 December
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Income before tax	34,386	33,699	17,472	16,197	52,866
Adjustments required to reflect the cash flows from operating activities:					
Depreciation and amortization	13,006	9,517	6,421	4,947	20,612
Recognition of compensation related to employee stock and option grants	847	558	310	275	1,108
Liability for employee rights upon retirement – net	43	197	(7)	168	225
Financial assets at fair value through profit or loss	205	-	205	-	-
Loss from sale of fixed assets	31	4	7	15	17
Erosion of loans	-	275	-	129	-
Interest paid - net	3,387	662	2,178	418	1,565
Gain on a bargain purchase	(1,729)	-	-	-	-
	<u>15,790</u>	<u>11,213</u>	<u>9,114</u>	<u>5,952</u>	<u>23,527</u>
Operating changes in working capital:					
Decrease (increase) in accounts receivable:					
Trade	(15,245)	(14,177)	(5,561)	(2,258)	(12,035)
Other	2,523	700	2,350	3,528	(3,046)
Increase (decrease) in accounts payable:					
Trade	5,346	7,260	(4,420)	(823)	8,342
Other	(801)	(2,037)	(2,565)	(2,848)	(5,495)
Increase in inventory	1,075	(11,808)	6,219	(1,912)	(16,796)
	<u>(7,102)</u>	<u>(20,062)</u>	<u>(3,977)</u>	<u>(4,313)</u>	<u>(29,030)</u>
Cash flows from operating activities	<u>43,074</u>	<u>24,850</u>	<u>22,609</u>	<u>17,836</u>	<u>47,363</u>

FRUTAROM INDUSTRIES LTD.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- a. The interim condensed consolidated financial information of the group as of 30 June 2012 and for the 6 and 3 month periods ended on that date (hereinafter - the interim financial information) was prepared in accordance with International Accounting Standard No. 34 - "Interim Financial Reporting" (hereafter – "IAS 34"). The interim financial information should be read in conjunction with the annual financial statements as of 31 December, 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 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

30 JUNE 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, 2012, 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 that in the opinion of the Company shall not exceed £ 0.4 million. In addition, the Company paid £ 0.1 million due to working capital adjustment for the day of the acquisition.

Savoury Flavours, founded in 1999, 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 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.

The intangible assets recognized include product formulas in the total amount of £ 837 thousands (\$ 1,291 thousands), customer relations in the total amount of £ 336 thousands (\$ 518 thousands) and goodwill in the total amount of £ 2,492 thousands (\$ 3,843 thousands).

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(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:	
Product formulas	1,291
Customer relations	518
Goodwill	3,843
Current liabilities :	
Accounts payable and accruals-	
Trade	(526)
Others	(865)
Non- current liabilities :	
Deferred income taxes	(447)
Other	(363)
	<u>5,812</u>

The acquired operations generated revenue of \$ 3,550 thousands and net income of \$422 thousands (after acquisition and finance costs), for the period from the acquisition date through June 30, 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. On June 5, 2012 Frutarom has completed the acquisition of the remaining shares of Etol, So that the total cost of acquisition of all of Etol's shares amounted to approximately €35.4 million (\$ 45.7 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.

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NOTE 4 – BUSINESS COMBINATIONS (continued):

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.

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 as well as developed countries such as the UK, Switzerland and Germany. Among Etol's customers, leading food and beverage manufacturers in the countries it operates, 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 \$ 45,734 thousands (€35,387 thousands) and was fully funded by long-term bank 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.

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(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	(2,988)
Deferred income taxes	(534)
Retirement benefit obligations, net	(2,144)
Long term loans	(21,202)
	<u>45,734</u>

The acquired operations generated revenue of \$ 35,386 thousands and net income of \$ 5,084 thousands (net of acquisition, finance and gain on a bargain purchase of \$ 1,384 thousands) . for the period from the acquisition date through June 30, 2012.

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.

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(UNAUDITED)

NOTE 4 – BUSINESS COMBINATIONS (continued):

Mylner, 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	13,025
Current liabilities :	
Accounts payable and accruals-	
Trade	(578)
Others	(909)
Short term bank credit	(5)
Deferred income taxes	(12)
Non-current liabilities -	
Others	(782)
	<u>16,459</u>

The acquired operations generated revenue of \$3,980 thousands and net income of \$ 240 thousands (net of acquisition and finance expenses) for the period from the acquisition date through June 30, 2012.

FRUTAROM INDUSTRIES LTD.

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30 JUNE 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. On 6 May, 2012, a dividend of \$ 3,029 thousands was paid to the shareholders.

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				
6 months ended 30 June 2012: (unaudited):					
Revenues	231,435	73,992	11,685	(1,099)	316,013
Segment results	31,985	7,077	617	(57)	39,622
6 months ended 30 June 2011: (unaudited):					
Revenues	172,889	76,300	3,944	(1,515)	251,618
Segment results	24,681	8,591	300	64	33,636
3 months ended 30 June 2012 (unaudited):					
Revenues	122,469	36,524	6,299	(496)	164,796
Segment results	17,983	3,431	255	116	21,785
3 months ended 30 June 2011 (unaudited):					
Revenues	92,678	37,163	1,550	(806)	130,585
Segment results	13,477	3,140	109	282	17,008
Year ended 31 December 2011 (audited):					
Revenues	369,894	145,008	6,373	(2,832)	518,443
Segment results	46,811	11,745	353	(245)	58,664

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

	6 months ended 30 June		3 months ended 30 June		Year ended 31 December
	2012	2011	2012	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	U.S. dollars in thousands				
Reported segment income	39,622	33,636	21,785	17,008	58,664
Financing expenses (income)	5,236	(63)	4,313	811	5,798
Profit before taxes on income	34,386	33,699	17,472	16,197	52,866