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INTERNATIONAL FLAVORS & FRAGRANCES INC

Form 10-Q

August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 2015

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4858

INTERNATIONAL FLAVORS &  
FRAGRANCES INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of  
incorporation or organization)

521 West 57th Street, New York, N.Y. 10019-2960

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (212) 765-5500

13-1432060

(I.R.S. Employer  
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Number of shares outstanding as of July 28, 2015: 80,585,508



## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## INTERNATIONAL FLAVORS &amp; FRAGRANCES INC.

## CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS)

(Unaudited)

|                                                                                                                                                                                                                               | June 30, 2015 | December 31, 2014 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                 |               |                   |
| Current Assets:                                                                                                                                                                                                               |               |                   |
| Cash and cash equivalents                                                                                                                                                                                                     | \$377,254     | \$478,573         |
| Trade receivables (net of allowances of \$8,128 and \$9,147, respectively)                                                                                                                                                    | 566,414       | 493,768           |
| Inventories: Raw materials                                                                                                                                                                                                    | 268,015       | 275,161           |
| Work in process                                                                                                                                                                                                               | 19,075        | 17,705            |
| Finished goods                                                                                                                                                                                                                | 274,625       | 275,863           |
| Total Inventories                                                                                                                                                                                                             | 561,715       | 568,729           |
| Deferred income taxes                                                                                                                                                                                                         | 14,923        | 27,709            |
| Prepaid expenses and other current assets                                                                                                                                                                                     | 201,948       | 141,248           |
| Total Current Assets                                                                                                                                                                                                          | 1,722,254     | 1,710,027         |
| Property, plant and equipment, at cost                                                                                                                                                                                        | 1,778,469     | 1,766,746         |
| Accumulated depreciation                                                                                                                                                                                                      | (1,063,660)   | (1,046,478)       |
|                                                                                                                                                                                                                               | 714,809       | 720,268           |
| Goodwill                                                                                                                                                                                                                      | 752,726       | 675,484           |
| Other intangible assets, net                                                                                                                                                                                                  | 156,248       | 76,557            |
| Deferred income taxes                                                                                                                                                                                                         | 175,447       | 183,047           |
| Other assets                                                                                                                                                                                                                  | 132,144       | 129,238           |
| Total Assets                                                                                                                                                                                                                  | \$3,653,628   | \$3,494,621       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                                   |               |                   |
| Current Liabilities:                                                                                                                                                                                                          |               |                   |
| Bank borrowings and overdrafts and current portion of long-term debt                                                                                                                                                          | \$8,793       | \$8,090           |
| Accounts payable                                                                                                                                                                                                              | 241,532       | 229,866           |
| Accrued payroll and bonus                                                                                                                                                                                                     | 47,664        | 71,264            |
| Dividends payable                                                                                                                                                                                                             | 38,060        | 37,968            |
| Other current liabilities                                                                                                                                                                                                     | 187,472       | 171,620           |
| Total Current Liabilities                                                                                                                                                                                                     | 523,521       | 518,808           |
| Long-term debt                                                                                                                                                                                                                | 989,196       | 934,232           |
| Deferred gains                                                                                                                                                                                                                | 45,081        | 46,535            |
| Retirement liabilities                                                                                                                                                                                                        | 353,914       | 354,333           |
| Other liabilities                                                                                                                                                                                                             | 115,242       | 118,024           |
| Total Other Liabilities                                                                                                                                                                                                       | 1,503,433     | 1,453,124         |
| Commitments and Contingencies (Note 13)                                                                                                                                                                                       |               |                   |
| Shareholders' Equity:                                                                                                                                                                                                         |               |                   |
| Common stock 12 1/2¢ par value; authorized 500,000,000 shares; issued 115,858,190 shares as of June 30, 2015 and December 31, 2014 and outstanding 80,725,633 and 80,777,590 shares as of June 30, 2015 and December 31, 2014 | 14,470        | 14,470            |
| Capital in excess of par value                                                                                                                                                                                                | 133,051       | 140,008           |
| Retained earnings                                                                                                                                                                                                             | 3,508,347     | 3,350,734         |
| Accumulated other comprehensive loss                                                                                                                                                                                          | (556,248)     | (540,430)         |

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|                                                                                                                  |             |              |   |
|------------------------------------------------------------------------------------------------------------------|-------------|--------------|---|
| Treasury stock, at cost - 35,132,557 shares as of June 30, 2015 and<br>35,080,600 shares as of December 31, 2014 | (1,476,620  | ) (1,446,221 | ) |
| Total Shareholders' Equity                                                                                       | 1,623,000   | 1,518,561    |   |
| Noncontrolling interest                                                                                          | 3,674       | 4,128        |   |
| Total Shareholders' Equity including noncontrolling interest                                                     | 1,626,674   | 1,522,689    |   |
| Total Liabilities and Shareholders' Equity                                                                       | \$3,653,628 | \$3,494,621  |   |

See Notes to Consolidated Financial Statements

INTERNATIONAL FLAVORS & FRAGRANCES INC.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(AMOUNT IN THOUSANDS EXCEPT PER SHARE AMOUNTS)  
(Unaudited)

|                                                    | Three Months Ended June 30, |           | Six Months Ended June 30, |             |
|----------------------------------------------------|-----------------------------|-----------|---------------------------|-------------|
|                                                    | 2015                        | 2014      | 2015                      | 2014        |
| Net sales                                          | \$767,541                   | \$788,414 | \$1,542,448               | \$1,558,638 |
| Cost of goods sold                                 | 422,501                     | 435,767   | 851,131                   | 864,579     |
| Gross profit                                       | 345,040                     | 352,647   | 691,317                   | 694,059     |
| Research and development expenses                  | 62,514                      | 66,431    | 125,976                   | 127,934     |
| Selling and administrative expenses                | 134,063                     | 132,919   | 254,898                   | 256,653     |
| Restructuring and other charges, net               | (358)                       | 182       | (170)                     | 304         |
| Operating profit                                   | 148,821                     | 153,115   | 310,613                   | 309,168     |
| Interest expense                                   | 11,407                      | 11,403    | 22,502                    | 23,080      |
| Other expense (income), net                        | 436                         | (4,641)   | (5,275)                   | (3,198)     |
| Income before taxes                                | 136,978                     | 146,353   | 293,386                   | 289,286     |
| Taxes on income                                    | 31,604                      | 36,068    | 59,754                    | 72,294      |
| Net income                                         | 105,374                     | 110,285   | 233,632                   | 216,992     |
| Other comprehensive income (loss), after tax:      |                             |           |                           |             |
| Foreign currency translation adjustments           | 17,557                      | 7,570     | (32,958)                  | (1,826)     |
| (Losses) gains on derivatives qualifying as hedges | (5,966)                     | 1,598     | 6,117                     | 2,058       |
| Pension and postretirement net liability           | 5,476                       | 4,400     | 11,023                    | 8,765       |
| Other comprehensive income (loss)                  | 17,067                      | 13,568    | (15,818)                  | 8,997       |
| Total comprehensive income                         | \$122,441                   | \$123,853 | \$217,814                 | \$225,989   |
| Net income per share - basic                       | \$1.30                      | \$1.35    | \$2.88                    | \$2.66      |
| Net income per share - diluted                     | \$1.29                      | \$1.35    | \$2.86                    | \$2.64      |
| Average number of shares outstanding - basic       | 80,790                      | 80,949    | 80,729                    | 81,003      |
| Average number of shares outstanding - diluted     | 81,192                      | 81,430    | 81,201                    | 81,583      |
| Dividends declared per share                       | \$0.47                      | \$0.39    | \$0.94                    | \$0.78      |
| See Notes to Consolidated Financial Statements     |                             |           |                           |             |

INTERNATIONAL FLAVORS & FRAGRANCES INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(DOLLARS IN THOUSANDS)  
(Unaudited)

|                                                                                                                                                | Six Months Ended June 30, |           |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------|
|                                                                                                                                                | 2015                      | 2014      |
| Cash flows from operating activities:                                                                                                          |                           |           |
| Net income                                                                                                                                     | \$233,632                 | \$216,992 |
| Adjustments to reconcile to net cash provided by operating activities:                                                                         |                           |           |
| Depreciation and amortization                                                                                                                  | 41,041                    | 49,131    |
| Deferred income taxes                                                                                                                          | 17,891                    | 10,228    |
| Loss (gain) on disposal of assets                                                                                                              | 14                        | (1,569)   |
| Stock-based compensation                                                                                                                       | 12,860                    | 14,034    |
| Pension contributions                                                                                                                          | (57,493)                  | (9,812)   |
| Changes in assets and liabilities, net of acquisitions:                                                                                        |                           |           |
| Trade receivables                                                                                                                              | (92,329)                  | (50,236)  |
| Inventories                                                                                                                                    | (9,834)                   | 1,850     |
| Accounts payable                                                                                                                               | 28,435                    | (30,831)  |
| Accruals for incentive compensation                                                                                                            | (21,191)                  | (54,970)  |
| Other current payables and accrued expenses                                                                                                    | 20,204                    | (12,382)  |
| Other assets/liabilities, net                                                                                                                  | (6,912)                   | 21,595    |
| Net cash provided by operating activities                                                                                                      | 166,318                   | 154,030   |
| Cash flows from investing activities:                                                                                                          |                           |           |
| Cash paid for acquisition, net of cash received (including \$15 million of contingent consideration related to the Aromor acquisition in 2014) | (188,835)                 | (102,500) |
| Additions to property, plant and equipment                                                                                                     | (37,937)                  | (60,244)  |
| Proceeds from life insurance contracts                                                                                                         | 548                       | 17,750    |
| Maturity of net investment hedges                                                                                                              | 9,735                     | (472)     |
| Proceeds from disposal of assets                                                                                                               | 1,515                     | 2,074     |
| Net cash used in investing activities                                                                                                          | (214,974)                 | (143,392) |
| Cash flows from financing activities:                                                                                                          |                           |           |
| Cash dividends paid to shareholders                                                                                                            | (75,927)                  | (63,417)  |
| Net change in revolving credit facility borrowings and overdrafts                                                                              | (283)                     | 2,106     |
| Deferred financing costs                                                                                                                       | —                         | (1,023)   |
| Repayments of debt                                                                                                                             | (30,000)                  | —         |
| Proceeds from issuance or drawdown of long-term debt                                                                                           | 86,162                    | —         |
| Proceeds from issuance of stock under stock plans                                                                                              | 286                       | 1,024     |
| Excess tax benefits on stock-based payments                                                                                                    | 11,608                    | 5,788     |
| Purchase of treasury stock                                                                                                                     | (38,813)                  | (34,103)  |
| Net cash used in financing activities                                                                                                          | (46,967)                  | (89,625)  |
| Effect of exchange rate changes on cash and cash equivalents                                                                                   | (5,696)                   | 335       |
| Net change in cash and cash equivalents                                                                                                        | (101,319)                 | (78,652)  |
| Cash and cash equivalents at beginning of year                                                                                                 | 478,573                   | 405,505   |
| Cash and cash equivalents at end of period                                                                                                     | \$377,254                 | \$326,853 |
| Interest paid, net of amounts capitalized                                                                                                      | \$23,827                  | \$23,709  |
| Income taxes paid                                                                                                                              | \$46,071                  | \$45,484  |
| See Notes to Consolidated Financial Statements                                                                                                 |                           |           |



Notes to Consolidated Financial Statements

Note 1. Consolidated Financial Statements:

Basis of Presentation

These interim statements and related management's discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the related notes and management's discussion and analysis of results of operations, liquidity and capital resources included in our 2014 Annual Report on Form 10-K ("2014 Form 10-K"). These interim statements are unaudited. The year-end balance sheet data included in this Form 10-Q filing was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America. We have historically operated and continue to operate on a 52/53 week fiscal year ending on the Friday closest to the last day of the quarter. For ease of presentation, June 30 and December 31 are used consistently throughout this Form 10-Q and these interim financial statements and related notes to represent the period-end dates. For the 2015 and 2014 quarters, the actual closing dates were July 3, and June 27, respectively. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented. When used herein, the terms "IFF," the "Company," "we," "us" and "our" mean International Flavors & Fragrances Inc. and its consolidated subsidiaries.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued authoritative guidance relating to the measurement of inventory costs, which more closely aligns the measurement of inventory in Generally Accepted Accounting Principles with the measurement of inventory in International Financial Reporting Standards. This guidance is effective for years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements.

In April 2015, the FASB issued authoritative guidance which provides a practical expedient related to the measurement date of defined benefit plan assets and obligations. This guidance is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In April 2015, the FASB issued authoritative guidance which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is effective for annual and interim periods beginning after December 15, 2015. The Company has determined that the adoption of this guidance will not have a significant impact on its consolidated financial statements.

In February 2015, the FASB issued authoritative guidance related to accounting for consolidation of certain legal entities. The guidance will change the analysis that a reporting entity must perform to determine the criteria for consolidating certain types of entities. This guidance is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued authoritative guidance to clarify the principles to be used to recognize revenue and, in July 2015, delayed the effective adoption date of that guidance by one year. The guidance is applicable to all entities and, based on the revised adoption date, is effective for annual and interim periods beginning after December 15, 2017. Adoption as of the original effective date is permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements.

Accounts Receivable

The Company sells certain accounts receivable on a non-recourse basis to unrelated financial institutions under "factoring" agreements that are sponsored, solely and individually, by certain customers. The Company accounts for these transactions as sales of receivables, removes the receivables sold from its financial statements, and records cash proceeds when received by the Company. The beneficial impact on cash from operations from participating in these

programs increased approximately \$1.3 million for the six months ended June 30, 2015 compared to an increase of approximately \$22.3 million for the six months ended June 30, 2014. The cost of participating in these programs was immaterial to our results in all periods.

## Note 2. Net Income Per Share:

Net income per share is based on the weighted average number of shares outstanding. A reconciliation of the shares used in the computation of basic and diluted net income per share is as follows:

| (SHARES IN THOUSANDS)              | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                    | 2015                        | 2014   | 2015                      | 2014   |
| Basic                              | 80,790                      | 80,949 | 80,729                    | 81,003 |
| Assumed dilution under stock plans | 402                         | 481    | 472                       | 580    |
| Diluted                            | 81,192                      | 81,430 | 81,201                    | 81,583 |

There were no stock options or stock-settled appreciation rights ("SSARs") excluded from the computation of diluted net income per share for the three and six months ended June 30, 2015 and 2014.

The Company has issued shares of purchased restricted common stock ("PRS") which contain rights to nonforfeitable dividends while these shares are outstanding and thus are considered participating securities. Such securities are required to be included in the computation of basic and diluted earnings per share pursuant to the two-class method. The Company did not present the two-class method since the difference between basic and diluted net income per share for both unrestricted common shareholders and PRS shareholders was less than \$0.01 per share for each period presented, and the number of PRS outstanding as of June 30, 2015 and 2014 was immaterial. Net income allocated to such PRS was \$0.5 million and \$0.7 million during the three months ended June 30, 2015 and 2014, respectively and \$1.1 million and \$1.4 million during the six months ended June 30, 2015 and 2014, respectively.

## Note 3. Acquisitions:

## 2015 Activity

## Ottens Flavors

During the second quarter of 2015, the Company completed the acquisition of 100% of the outstanding shares of Henry H. Ottens Manufacturing Co., Inc. ("Ottens Flavors"). Ottens Flavors was acquired in order to strengthen the IFF Flavors business in North America. The Company paid approximately \$199.2 million (including approximately \$10.4 million of cash acquired) for this acquisition, which was funded from existing resources. The purchase price exceeded the fair value of existing net assets by approximately \$162 million. The excess was allocated principally to identifiable intangible assets (approximately \$85 million) and goodwill (approximately \$77 million). Separately identifiable intangible assets are principally related to customer relationships and proprietary flavors technology. The intangible assets are being amortized using lives ranging from 5-17 years. The purchase price allocation is preliminary pending final valuations and is expected to be completed by the third quarter of 2015, with the assignment of final values and applicable useful lives of intangible assets. No pro forma financial information for 2015 is presented as the impact of the acquisition is immaterial.

## Lucas Meyer

On July 30, 2015, the Company completed the acquisition of 100% of the outstanding shares of Lucas Meyer Cosmetics, a business of Unipex Group, ("Lucas Meyer") for approximately Euro 283 million (\$311 million). (The total shares acquired include shares effectively acquired pursuant to put and call option agreements). The purchase price was funded from existing resources. Lucas Meyer was acquired in order to strengthen and expand our product portfolio. This acquisition will be accounted for as a business combination and is not expected to have a material impact on the consolidated financial statements.

## 2014 Activity

## Aromor

During the first quarter of 2014, the Company completed the acquisition of 100% of the equity of Aromor Flavors and Fragrances Ltd. ("Aromor"). Aromor is part of the IFF Fragrances Ingredients business. The Company paid \$102.6 million (including \$0.1 million of cash acquired) for this acquisition, which was funded out of existing cash resources. The purchase price exceeded the carrying value of existing net assets by approximately \$56 million. The excess was allocated principally to identifiable intangible assets (approximately \$53 million), goodwill (approximately \$10 million) and approximately \$9 million to deferred tax liabilities. Separately identifiable intangible assets are principally related to technological know-how. The intangible assets are being amortized using lives ranging from 13-19 years. Additionally, the consideration included \$15 million related to post-combination contingent

consideration, held in escrow, which is being expensed by the Company as it is earned by the selling shareholders.

## Note 4. Restructuring and Other Charges, Net:

In 2014, the Company closed its fragrance ingredients manufacturing facility in Augusta, Georgia and consolidated production into other Company facilities. In connection with this closure, during 2014, the Company recorded total charges of \$13.8 million, consisting of \$2.2 million related to severance, \$10.3 million related to accelerated depreciation, and \$1.3 million in plant shutdown and other related costs. During the six months ended June 30, 2015, the Company recorded a net credit of \$0.2 million principally related to the reversal of severance accruals.

Changes in employee-related restructuring liabilities during the six months ended June 30, 2015, were as follows:

| (DOLLARS IN THOUSANDS)              | Employee-Related<br>Costs | Other  | Total    |
|-------------------------------------|---------------------------|--------|----------|
| December 31, 2014                   | \$759                     | \$—    | \$759    |
| Additional charges (reversals), net | (357                      | ) 187  | (170 )   |
| Payments and other costs            | (282                      | ) (187 | ) (469 ) |
| June 30, 2015                       | \$120                     | \$—    | \$120    |

## Note 5. Other Intangible Assets, Net:

Other intangible assets, net consist of the following amounts:

| (DOLLARS IN THOUSANDS)              | June 30,<br>2015 | December 31,<br>2014 |
|-------------------------------------|------------------|----------------------|
| Gross carrying value <sup>(1)</sup> | \$303,246        | \$218,676            |
| Accumulated amortization            | (146,998 )       | (142,119 )           |
| Total                               | \$156,248        | \$76,557             |

<sup>(1)</sup> Includes patents, trademarks, technological know-how and other intellectual property, valued at acquisition.

The increase in intangible assets for the six months ended June 30, 2015 relates to the acquisition of Ottens Flavors, as discussed in Note 3.

## Amortization

Amortization expense was \$3.0 million and \$2.8 million for the three months ended June 30, 2015 and 2014, respectively and \$4.9 million and \$3.9 million for the six months ended June 30, 2015 and 2014, respectively. Annual amortization is expected to be \$14.5 million for the full year 2015, \$14.2 million for the years 2016 through 2018, and \$13.5 million for the years 2019 through 2020.

## Note 6. Borrowings:

Debt consists of the following:

| (DOLLARS IN THOUSANDS)                         | Rate | Maturities | June 30, 2015 | December 31,<br>2014 |
|------------------------------------------------|------|------------|---------------|----------------------|
| Senior notes - 2007                            | 6.40 | % 2017-27  | \$500,000     | \$500,000            |
| Senior notes - 2006                            | 6.14 | % 2016     | 125,000       | 125,000              |
| Senior notes - 2013                            | 3.20 | % 2023     | 299,795       | 299,782              |
| Credit facility                                | 1.31 | % 2019     | 55,000        | —                    |
| Bank overdrafts and other                      |      |            | 13,948        | 12,335               |
| Deferred realized gains on interest rate swaps |      |            | 4,246         | 5,205                |
|                                                |      |            | 997,989       | 942,322              |
| Less: Current portion of long-term debt        |      |            | (8,793 )      | (8,090 )             |
|                                                |      |            | \$989,196     | \$934,232            |

Note 7. Income Taxes:

Uncertain Tax Positions

At June 30, 2015, the Company had \$15 million of unrecognized tax benefits recorded in Other liabilities. If these unrecognized tax benefits were recognized, the effective tax rate would be affected.

At June 30, 2015, the Company had accrued interest and penalties of \$0.7 million classified in Other liabilities.

As of June 30, 2015, the Company's aggregate provisions for uncertain tax positions, including interest and penalties, was \$15.7 million associated with various tax positions asserted in foreign jurisdictions, none of which is individually material.

The Company regularly repatriates a portion of current year earnings from select non-U.S. subsidiaries. No provision is made for additional taxes on undistributed earnings of subsidiary companies that are intended and planned to be indefinitely invested in such subsidiaries. We intend to, and have plans to, reinvest these earnings indefinitely in our foreign subsidiaries to fund local operations and/or capital projects.

The Company has ongoing income tax audits and legal proceedings which are at various stages of administrative or judicial review, of which the most significant items are discussed below. In addition, the Company has open tax years with various taxing jurisdictions that range primarily from 2005 to 2014. Based on currently available information, we do not believe the ultimate outcome of any of these tax audits and other tax positions related to open tax years, when finalized, will have a material impact on our financial position.

The Company also has other ongoing tax audits and legal proceedings that relate to indirect taxes, such as value-added taxes, capital tax, sales and use taxes and property taxes, which are discussed in Note 13.

Spanish Tax

As of December 31, 2014, the Company had one outstanding income tax case in Spain relating to fiscal year 2002, which had been previously appealed by the Company. As of December 31, 2014, the Company had fully reserved the original assessment asserted by the Spanish Tax Authority. During the first quarter of 2015, the Company received a favorable ruling on this appeal and accordingly, reversed the total reserve related to the 2002 fiscal year (with a value of Euro 1.9 million or \$2.3 million).

As of June 30, 2015, the three dividend withholding tax controversies in Spain have now been resolved. The Company made total payments of Euro 4.5 million (\$4.9 million) during the second quarter of 2015 related to the resolution of these three controversies.

Effective Tax Rate

The effective tax rate for the three months ended June 30, 2015 was 23.1% compared with 24.6% for the three months ended June 30, 2014. The quarter-over-quarter decrease is largely due to higher earnings from lower tax jurisdictions, lower loss provisions and lower expected repatriation costs in 2015. The effective tax rate for the six months ended June 30, 2015 was 20.4% compared with 25.0% for the six months ended June 30, 2014. The year-over-year decrease is primarily due to a benefit of \$10.5 million recorded in the first quarter of 2015, as a result of favorable tax rulings in Spain and another jurisdiction for which reserves were previously recorded.

Note 8. Stock Compensation Plans:

The Company has various plans under which its officers, senior management, other key employees and directors may be granted equity-based awards. Equity awards outstanding under the plans include PRS, restricted stock units ("RSUs"), stock options, SSARs and Long-Term Incentive Plan awards; liability-based awards outstanding under the plans are cash-settled RSUs.

Stock-based compensation expense and related tax benefits were as follows:

| (DOLLARS IN THOUSANDS)                            | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|---------------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                                   | 2015                        | 2014    | 2015                      | 2014     |
| Equity-based awards                               | \$7,473                     | \$9,338 | \$12,860                  | \$14,034 |
| Liability-based awards                            | 666                         | 1,519   | 2,573                     | 2,764    |
| Total stock-based compensation expense            | 8,139                       | 10,857  | 15,433                    | 16,798   |
| Less: tax benefit                                 | (2,225)                     | (3,345) | (4,412)                   | (5,071)  |
| Total stock-based compensation expense, after tax | \$5,914                     | \$7,512 | \$11,021                  | \$11,727 |

On May 6, 2015, the shareholders of the Company approved the 2015 Stock Award and Incentive Plan (the "2015 Plan"). The 2015 Plan replaces the 2010 Stock Award and Incentive Plan (the "2010 Plan"). The total number of shares authorized for issuance under the Plan is 1,500,000 shares plus shares that remained available for issuance under the 2010 Plan as of May 6, 2015 and any shares subject to outstanding awards under the 2010 Plan that are cancelled, forfeited or expire.

**Note 9. Segment Information:**

The Company is organized into two operating segments: Flavors and Fragrances. These segments align with the internal structure of the Company used to manage these businesses. Performance of these operating segments is evaluated based on segment profit which is defined as operating profit before Restructuring and other charges, net, Global expenses (as discussed below) and certain non-recurring items, Interest expense, Other income (expense), net and Taxes on income.

The Global expenses caption below represents corporate and headquarters-related expenses which include legal, finance, human resources, certain incentive compensation expenses and other R&D and administrative expenses that are not allocated to individual operating segments.

Reportable segment information is as follows:

| (DOLLARS IN THOUSANDS)                       | Three Months Ended June 30, |           | Six Months Ended June 30, |             |
|----------------------------------------------|-----------------------------|-----------|---------------------------|-------------|
|                                              | 2015                        | 2014      | 2015                      | 2014        |
| Net sales:                                   |                             |           |                           |             |
| Flavors                                      | \$372,478                   | \$375,513 | \$749,586                 | \$742,018   |
| Fragrances                                   | 395,063                     | 412,901   | 792,862                   | 816,620     |
| Consolidated                                 | \$767,541                   | \$788,414 | \$1,542,448               | \$1,558,638 |
| Segment profit:                              |                             |           |                           |             |
| Flavors                                      | \$84,015                    | \$90,805  | \$176,743                 | \$178,869   |
| Fragrances                                   | 79,924                      | 85,474    | 161,522                   | 172,638     |
| Global expenses                              | (8,629)                     | (19,869)  | (20,194)                  | (36,303)    |
| Restructuring and other charges, net         | 358                         | (182)     | 170                       | (304)       |
| Acquisition and related costs (1)            | (6,566)                     | —         | (7,066)                   | —           |
| Operational improvement initiative costs (2) | (281)                       | (3,113)   | (562)                     | (5,732)     |
| Operating profit                             | 148,821                     | 153,115   | 310,613                   | 309,168     |
| Interest expense                             | (11,407)                    | (11,403)  | (22,502)                  | (23,080)    |
| Other (expense) income, net                  | (436)                       | 4,641     | 5,275                     | 3,198       |
| Income before taxes                          | \$136,978                   | \$146,353 | \$293,386                 | \$289,286   |

(1) Acquisition and related costs are associated with the acquisitions of Ottens Flavors and Lucas Meyer as discussed in Note 3, including inventory step-up charges related to Ottens Flavors.

(2) Operational improvement initiative costs relate to the closing of a smaller facility in Europe and certain manufacturing activities in Asia, while transferring production to larger facilities in each respective region.

Net sales are attributed to individual regions based upon the destination of product delivery. Net sales related to the U.S. for the three months ended June 30, 2015 and 2014 were \$167 million and \$175 million, respectively and for the six months ended June 30, 2015 and 2014 were \$330 million and \$336 million, respectively. Net sales attributed to all

foreign countries in

total for the three months ended June 30, 2015 and 2014 were \$601 million and \$613 million, respectively and for the six months ended June 30, 2015 and 2014 were \$1,212 million and \$1,223 million, respectively. No country other than the U.S. had net sales in any period presented greater than 7.0% of total consolidated net sales.

#### Note 10. Employee Benefits:

Pension and other defined contribution retirement plan expenses included the following components:

| U.S. Plans<br>(DOLLARS IN THOUSANDS)            | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|-------------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                                 | 2015                        | 2014    | 2015                      | 2014     |
| Service cost for benefits earned                | \$984                       | \$885   | \$1,968                   | \$1,769  |
| Interest cost on projected benefit obligation   | 5,954                       | 6,232   | 11,907                    | 12,463   |
| Expected return on plan assets                  | (8,083)                     | (6,913) | (16,165)                  | (13,826) |
| Net amortization and deferrals                  | 5,203                       | 4,255   | 10,406                    | 8,509    |
| Net periodic benefit cost                       | 4,058                       | 4,459   | 8,116                     | 8,915    |
| Defined contribution and other retirement plans | 2,093                       | 1,791   | 4,228                     | 3,902    |
| Total expense                                   | \$6,151                     | \$6,250 | \$12,344                  | \$12,817 |

| Non-U.S. Plans<br>(DOLLARS IN THOUSANDS)        | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|-------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                 | 2015                        | 2014     | 2015                      | 2014     |
| Service cost for benefits earned                | \$4,102                     | \$4,002  | \$8,485                   | \$7,950  |
| Interest cost on projected benefit obligation   | 6,151                       | 8,541    | 12,543                    | 16,952   |
| Expected return on plan assets                  | (12,440)                    | (12,675) | (25,390)                  | (25,155) |
| Net amortization and deferrals                  | 3,314                       | 3,000    | 6,801                     | 5,954    |
| Net periodic benefit cost                       | 1,127                       | 2,868    | 2,439                     | 5,701    |
| Defined contribution and other retirement plans | 1,693                       | 1,444    | 3,288                     | 2,622    |
| Total expense                                   | \$2,820                     | \$4,312  | \$5,727                   | \$8,323  |

The Company expects to contribute a total of approximately \$30 million to its non-U.S. pension plans during 2015. During the three months ended June 30, 2015, there were no contributions made to the qualified U.S. pension plans, but during the six months ended June 30, 2015, \$35.0 million of contributions were made. In the three and six months ended June 30, 2015, \$3.4 million and \$22.5 million of contributions were made to the non-U.S. plans, respectively. In the three and six months ended June 30, 2015, \$1.1 million and \$2.1 million of benefit payments were made with respect to the Company's non-qualified U.S. pension plan, respectively.

Expense recognized for postretirement benefits other than pensions included the following components:

| (DOLLARS IN THOUSANDS)                        | Three Months Ended June 30, |       | Six Months Ended June 30, |         |
|-----------------------------------------------|-----------------------------|-------|---------------------------|---------|
|                                               | 2015                        | 2014  | 2015                      | 2014    |
| Service cost for benefits earned              | \$301                       | \$323 | \$601                     | \$645   |
| Interest cost on projected benefit obligation | 1,082                       | 1,238 | 2,164                     | 2,475   |
| Net amortization and deferrals                | (712)                       | (979) | (1,423)                   | (1,958) |
| Total postretirement benefit expense          | \$671                       | \$582 | \$1,342                   | \$1,162 |

The Company expects to contribute approximately \$5 million to its postretirement benefits other than pension plans during 2015. In the three and six months ended June 30, 2015, \$1.7 million and \$3.4 million of contributions were made.

## Note 11. Financial Instruments:

## Fair Value

Accounting guidance on fair value measurements specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. We determine the fair value of structured liabilities (where performance is linked to structured interest rates, inflation or currency risks) using the LIBOR swap curve and forward interest and exchange rates at period end. Such instruments are classified as Level 2 based on the observability of significant inputs to the model. We do not have any instruments classified as Level 1 or Level 3, other than those included in pension asset trusts as discussed in Note 13 of our 2014 Form 10-K.

These valuations take into consideration our credit risk and our counterparties' credit risk. The estimated change in the fair value of these instruments due to such changes in our own credit risk (or instrument-specific credit risk) was immaterial as of June 30, 2015.

The amounts recorded in the balance sheet (carrying amount) and the estimated fair values of financial instruments at June 30, 2015 and December 31, 2014 consisted of the following:

|                                                      | June 30, 2015   |            | December 31, 2014 |            |
|------------------------------------------------------|-----------------|------------|-------------------|------------|
|                                                      | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| (DOLLARS IN THOUSANDS)                               |                 |            |                   |            |
| Cash and cash equivalents <sup>(1)</sup>             | \$377,254       | \$377,254  | \$478,573         | \$478,573  |
| Credit facilities and bank overdrafts <sup>(2)</sup> | 68,948          | 68,948     | 12,335            | 12,335     |
| Long-term debt: <sup>(3)</sup>                       |                 |            |                   |            |
| Senior notes - 2007                                  | 500,000         | 576,942    | 500,000           | 587,650    |
| Senior notes - 2006                                  | 125,000         | 130,352    | 125,000           | 133,137    |
| Senior notes - 2013                                  | 299,795         | 294,136    | 299,782           | 296,290    |

(1) The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of those instruments.

(2) The carrying amount of our credit facilities and bank overdrafts approximates fair value as the interest rate is reset frequently based on current market rates as well as the short maturity of those instruments.

(3) The fair value of our long-term debt was calculated using discounted cash flows applying current interest rates and current credit spreads based on our own credit risk.

## Derivatives

We periodically enter into foreign currency forward contracts with the objective of reducing exposure to cash flow volatility associated with our intercompany loans, foreign currency receivables and payables, and anticipated purchases of certain raw materials used in operations. These contracts generally involve the exchange of one currency for a second currency at a future date, have maturities not exceeding twelve months and are with counterparties which are major international financial institutions.

During the six months ended June 30, 2015 and the year ended December 31, 2014, we entered into several forward currency contracts which qualified as net investment hedges, in order to mitigate a portion of our net European investments from foreign currency risk. The effective portions of net investment hedges are recorded in Other comprehensive income (“OCI”) as a component of Foreign currency translation adjustments in the accompanying Consolidated Statement of

Comprehensive Income. Realized gains (losses) are deferred in accumulated other comprehensive income ("AOCI") where they will remain until the net investments in our European subsidiaries are divested. The outstanding forward currency contracts have remaining maturities of approximately one year. Four of these forward currency contracts matured during the six months ended June 30, 2015.

During the six months ended June 30, 2015 and the year ended December 31, 2014, we entered into several forward currency contracts which qualified as cash flow hedges. The objective of these hedges is to protect against the currency risk associated with forecasted U.S. dollar (USD) denominated raw material purchases made by Euro (EUR) functional currency entities which result from changes in the EUR/USD exchange rate. The effective portions of cash flow hedges are recorded in OCI as a component of Gains/(losses) on derivatives qualifying as hedges in the accompanying Consolidated Statement of Comprehensive Income. Realized gains/(losses) in AOCI related to cash flow hedges of raw material purchases are recognized as a component of Cost of goods sold in the accompanying Consolidated Statement of Comprehensive Income in the same period as the related costs are recognized.

During 2014, we entered into interest rate swap agreements that effectively converted the fixed rate on a portion of our long-term borrowings to a variable short-term rate based on the LIBOR plus an interest markup. These swaps are designated as fair value hedges. Amounts recognized in Interest expense were immaterial for the three and six months ended June 30, 2015.

The following table shows the notional amount of the Company's derivative instruments outstanding as of June 30, 2015 and December 31, 2014:

| (DOLLARS IN THOUSANDS)     | June 30, 2015 | December 31, 2014 |
|----------------------------|---------------|-------------------|
| Foreign currency contracts | \$296,600     | \$191,150         |
| Interest rate swaps        | \$425,000     | \$425,000         |

The following tables show the Company's derivative instruments measured at fair value (Level 2 of the fair value hierarchy), as reflected in the Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014:

| (DOLLARS IN THOUSANDS)                | June 30, 2015                                                           |                                                                             |                     |
|---------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------|
|                                       | Fair Value of<br>Derivatives<br>Designated as<br>Hedging<br>Instruments | Fair Value of<br>Derivatives Not<br>Designated as<br>Hedging<br>Instruments | Total Fair<br>Value |
| Derivative assets <sup>(a)</sup>      |                                                                         |                                                                             |                     |
| Foreign currency contracts            | \$12,519                                                                | \$2,686                                                                     | \$15,205            |
| Interest rate swaps                   | 2,169                                                                   | —                                                                           | 2,169               |
|                                       | \$14,688                                                                | \$2,686                                                                     | \$17,374            |
| Derivative liabilities <sup>(b)</sup> |                                                                         |                                                                             |                     |
| Foreign currency contracts            | \$2,911                                                                 | \$3,178                                                                     | \$6,089             |
|                                       | \$2,911                                                                 | \$3,178                                                                     | \$6,089             |
| (DOLLARS IN THOUSANDS)                | December 31, 2014                                                       |                                                                             |                     |
|                                       | Fair Value of<br>Derivatives<br>Designated as<br>Hedging<br>Instruments | Fair Value of<br>Derivatives Not<br>Designated as<br>Hedging<br>Instruments | Total Fair<br>Value |
| Derivative assets <sup>(a)</sup>      |                                                                         |                                                                             |                     |
| Foreign currency contracts            | \$16,637                                                                | \$4,398                                                                     | \$21,035            |
| Interest rate swaps                   | 683                                                                     | —                                                                           | 683                 |
|                                       | \$17,320                                                                | \$4,398                                                                     | \$21,718            |
| Derivative liabilities <sup>(b)</sup> |                                                                         |                                                                             |                     |

|                            |     |         |         |
|----------------------------|-----|---------|---------|
| Foreign currency contracts | \$6 | \$1,055 | \$1,061 |
|----------------------------|-----|---------|---------|

(a) Derivative assets are recorded to Prepaid expenses and other current assets in the Consolidated Balance Sheet.

(b) Derivative liabilities are recorded as Other current liabilities in the Consolidated Balance Sheet.

The following table shows the effect of the Company's derivative instruments which were not designated as hedging instruments in the Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (in thousands):

| Derivatives Not Designated as Hedging Instruments | Amount of Gain (Loss) Recognized in Income on Derivative |         | Location of Gain (Loss) Recognized in Income on Derivative |
|---------------------------------------------------|----------------------------------------------------------|---------|------------------------------------------------------------|
|                                                   | Three Months Ended June 30, 2015                         | 2014    |                                                            |
| Foreign currency contracts                        | \$371                                                    | \$3,465 | Other expense (income), net                                |
| Derivatives Not Designated as Hedging Instruments | Amount of Gain (Loss) Recognized in Income on Derivative |         | Location of Gain (Loss) Recognized in Income on Derivative |
|                                                   | Six Months Ended June 30, 2015                           | 2014    |                                                            |
| Foreign currency contracts                        | \$10,075                                                 | \$538   | Other expense (income), net                                |

Most of these net gains (losses) offset any recognized gains (losses) arising from the revaluation of the related intercompany loans during the same respective periods.

The following table shows the effect of the Company's derivative instruments designated as cash flow and net investment hedging instruments in the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (in thousands):

|                                                      | Amount of (Loss) Gain Recognized in OCI on Derivative (Effective Portion) |         | Location of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) | Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion) |          |
|------------------------------------------------------|---------------------------------------------------------------------------|---------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------|
|                                                      | Three Months Ended June 30, 2015                                          | 2014    |                                                                                | Three Months Ended June 30, 2015                                                        | 2014     |
| Derivatives in Cash Flow Hedging Relationships:      |                                                                           |         |                                                                                |                                                                                         |          |
| Foreign currency contracts                           | (6,035 )                                                                  | 1,530   | Cost of goods sold                                                             | 3,561                                                                                   | (725 )   |
| Interest rate swaps <sup>(1)</sup>                   | 69                                                                        | 68      | Interest expense                                                               | (69 )                                                                                   | (68 )    |
| Derivatives in Net Investment Hedging Relationships: |                                                                           |         |                                                                                |                                                                                         |          |
| Foreign currency contracts                           | (1,030 )                                                                  | 673     | N/A                                                                            | —                                                                                       | —        |
| Total                                                | \$(6,996 )                                                                | \$2,271 |                                                                                | \$3,492                                                                                 | \$(793 ) |
|                                                      | Amount of (Loss) Gain Recognized in OCI on Derivative (Effective Portion) |         | Location of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) | Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion) |          |
|                                                      | Six Months Ended June 30, 2015                                            | 2014    |                                                                                | Six Months Ended June 30, 2015                                                          | 2014     |
| Derivatives in Cash Flow Hedging Relationships:      |                                                                           |         |                                                                                |                                                                                         |          |
| Foreign currency contracts                           | 5,979                                                                     | 1,921   | Cost of goods sold                                                             | 4,584                                                                                   | (1,478 ) |

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|                                                            |         |         |                  |         |            |
|------------------------------------------------------------|---------|---------|------------------|---------|------------|
| Interest rate swaps <sup>(1)</sup>                         | 138     | 137     | Interest expense | (138 )  | \$(137 )   |
| Derivatives in Net<br>Investment Hedging<br>Relationships: |         |         |                  |         |            |
| Foreign currency contracts                                 | 3,531   | 298     | N/A              | —       | —          |
| Total                                                      | \$9,648 | \$2,356 |                  | \$4,446 | \$(1,615 ) |

(1) Interest rate swaps were entered into as pre-issuance hedges for the \$300 million bond offering.

No ineffectiveness was experienced in the above noted cash flow hedges during the three and six months ended June 30, 2015 and 2014. The ineffective portion of the net investment hedges was not material during the three and six months ended June 30, 2015 and 2014.

The Company expects that approximately \$15.2 million (net of tax) of derivative gains included in AOCI at June 30, 2015, based on current market rates, will be reclassified into earnings within the next 12 months. The majority of this amount will vary due to fluctuations in foreign currency exchange rates.

**Note 12. Accumulated Other Comprehensive Income (Loss):**

The following tables present changes in the accumulated balances for each component of other comprehensive income, including current period other comprehensive income and reclassifications out of accumulated other comprehensive income:

|                                                                                    | Foreign<br>Currency<br>Translation<br>Adjustments | (Losses) Gains on<br>Derivatives<br>Qualifying as<br>Hedges | Pension and<br>Postretirement<br>Liability<br>Adjustment | Total         |
|------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|---------------|
| (DOLLARS IN THOUSANDS)                                                             |                                                   |                                                             |                                                          |               |
| Accumulated other comprehensive (loss) income, net of tax, as of December 31, 2014 | \$(173,342)                                       | ) \$ 12,371                                                 | \$(379,459)                                              | ) \$(540,430) |
| OCI before reclassifications                                                       | (32,958)                                          | ) 10,563                                                    | —                                                        | (22,395)      |
| Amounts reclassified from AOCI                                                     | —                                                 | (4,446)                                                     | ) 11,023                                                 | 6,577         |
| Net current period other comprehensive income (loss)                               | (32,958)                                          | ) 6,117                                                     | 11,023                                                   | (15,818)      |
| Accumulated other comprehensive (loss) income, net of tax, as of June 30, 2015     | \$(206,300)                                       | ) \$ 18,488                                                 | \$(368,436)                                              | ) \$(556,248) |

|                                                                                    | Foreign<br>Currency<br>Translation<br>Adjustments | (Losses) Gains on<br>Derivatives<br>Qualifying as<br>Hedges | Pension and<br>Postretirement<br>Liability<br>Adjustment | Total         |
|------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|---------------|
| (DOLLARS IN THOUSANDS)                                                             |                                                   |                                                             |                                                          |               |
| Accumulated other comprehensive (loss) income, net of tax, as of December 31, 2013 | \$(104,278)                                       | ) \$ (4,012)                                                | ) \$(284,421)                                            | ) \$(392,711) |
| OCI before reclassifications                                                       | (1,826)                                           | ) 443                                                       | —                                                        | (1,383)       |
| Amounts reclassified from AOCI                                                     | —                                                 | 1,615                                                       | 8,765                                                    | 10,380        |
| Net current period other comprehensive income (loss)                               | (1,826)                                           | ) 2,058                                                     | 8,765                                                    | 8,997         |
| Accumulated other comprehensive (loss) income, net of tax, as of June 30, 2014     | \$(106,104)                                       | ) \$ (1,954)                                                | ) \$(275,656)                                            | ) \$(383,714) |

The following table provides details about reclassifications out of accumulated other comprehensive income to the Consolidated Statement of Comprehensive Income:

|                                                                    | Six Months<br>Ended June 30,<br>2015 | Six Months<br>Ended June 30,<br>2014 | Affected Line Item in the<br>Consolidated Statement<br>of Comprehensive Income |
|--------------------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------------------------------------------------|
| (DOLLARS IN THOUSANDS)                                             |                                      |                                      |                                                                                |
| (Losses) gains on derivatives qualifying as hedges                 |                                      |                                      |                                                                                |
| Foreign currency contracts                                         | 5,239                                | (2,038                               | ) Cost of goods sold                                                           |
| Interest rate swaps                                                | (138                                 | ) (137                               | ) Interest expense                                                             |
|                                                                    | (655                                 | ) 560                                | Provision for income taxes                                                     |
|                                                                    | \$4,446                              | \$(1,615                             | ) Total, net of income taxes                                                   |
| (Losses) gains on pension and postretirement liability adjustments |                                      |                                      |                                                                                |
| Prior service cost                                                 | 2,318                                | (14,729                              | ) (a)                                                                          |
| Actuarial losses                                                   | (18,102                              | ) 2,224                              | (a)                                                                            |
|                                                                    | 4,761                                | 3,740                                | Provision for income taxes                                                     |
|                                                                    | \$(11,023                            | ) \$(8,765                           | ) Total, net of income taxes                                                   |

- (a) The amortization of prior service cost and actuarial loss is included in the computation of net periodic benefit cost. Refer to Note 13 of our 2014 Form 10-K for additional information regarding net periodic benefit cost.

#### Note 13. Commitments and Contingencies:

##### Guarantees and Letters of Credit

The Company has various bank guarantees and letters of credit which are available for use to support its ongoing business operations and to satisfy governmental requirements associated with pending litigation in various jurisdictions.

At June 30, 2015, we had total bank guarantees and standby letters of credit of approximately \$29.9 million with various financial institutions. Included in the above aggregate amount is a total of \$16.5 million in bank guarantees which the Company has posted for certain assessments in Brazil for other diverse income tax and indirect tax disputes related to fiscal years 1998-2011. There were no material amounts utilized under the standby letters of credit as of June 30, 2015.

In order to challenge the assessments in these cases in Brazil, the Company has been required to, and has separately pledged assets, principally property, plant and equipment, to cover assessments in the amount of approximately \$15.1 million as of June 30, 2015.

##### Lines of Credit

The Company has various lines of credit which are available to support its ongoing business operations. At June 30, 2015, we had available lines of credit (in addition to the Credit Facility discussed in Note 8 of our 2014 Form 10-K) of approximately \$72.9 million with various financial institutions. There were no significant amounts drawn down pursuant to these lines of credit as of June 30, 2015.

##### Litigation

The Company assesses contingencies related to litigation and/or other matters to determine the degree of probability and range of possible loss. A loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly sensitive and requires judgments about future events. On at least a quarterly basis, the Company reviews contingencies related to litigation to determine the adequacy of accruals. The amount of ultimate loss may differ from these estimates and further events may require the Company to increase or decrease the amounts it has accrued on any matter.

Periodically, we assess our insurance coverage for all known claims, where applicable, taking into account aggregate coverage by occurrence, limits of coverage, self-insured retentions and deductibles, historical claims experience and

claims experience with our insurance carriers. The liabilities are recorded at management's best estimate of the probable outcome of the lawsuits and claims, taking into consideration the facts and circumstances of the individual matters as well as past experience on similar matters. At each balance sheet date, the key issues that management assesses are whether it is probable

that a loss as to asserted or unasserted claims has been incurred and if so, whether the amount of loss can be reasonably estimated. We record the expected liability with respect to claims in Other liabilities and expected recoveries from our insurance carriers in Other assets. We recognize a receivable when we believe that realization of the insurance receivable is probable under the terms of the insurance policies and our payment experience to date.

#### Environmental

Over the past 20 years, various federal and state authorities and private parties have claimed that we are a Potentially Responsible Party ("PRP") as a generator of waste materials for alleged pollution at a number of waste sites operated by third parties located principally in New Jersey and have sought to recover costs incurred and to be incurred to clean up the sites.

We have been identified as a PRP at eight facilities operated by third parties at which investigation and/or remediation activities may be ongoing. We analyze our potential liability on at least a quarterly basis. We accrue for environmental liabilities when they are probable and estimable. We estimate our share of the total future cost for these sites to be less than \$5 million.

While joint and several liability is authorized under federal and state environmental laws, we believe the amounts we have paid and anticipate paying in the future for clean-up costs and damages at all sites are not material and will not have a material adverse effect on our financial condition, results of operations or liquidity. This assessment is based upon, among other things, the involvement of other PRPs at most of the sites, the status of the proceedings, including various settlement agreements and consent decrees, and the extended time period over which payments will likely be made. There can be no assurance, however, that future events will not require us to materially increase the amounts we anticipate paying for clean-up costs and damages at these sites, and that such increased amounts will not have a material adverse effect on our financial condition, results of operations or cash flows.

#### China Odor Matter

The Company has been notified by Chinese authorities of compliance issues pertaining to the emission of odors from several of its plants in China. The Company has been addressing these issues by making investments in additional odor-abatement equipment.

The Company's Flavors facility in China was temporarily idled and another facility is currently operating at a reduced workload. The Company is also making additional odor-abatement investments across all of its China facilities while it continues to work with the various authorities in China. To meet production requirements, the Company has moved a portion of its Chinese Flavors production to other IFF and third party facilities. If the Company is required to close a plant, or operate one at significantly reduced production levels on a permanent basis, the Company may be required to record charges that could have a material impact on its consolidated financial results of operations, financial position and cash flows in future periods.

#### Other Contingencies

The Company has contingencies involving third parties (such as labor, contract, technology or product-related claims or litigation) as well as government-related items in various jurisdictions in which we operate pertaining to such items as value-added taxes, other indirect taxes, customs and duties and sales and use taxes. It is possible that cash flows or results of operations, in any period, could be materially affected by the unfavorable resolution of one or more of these contingencies.

The most significant government-related contingencies exist in Brazil. With regard to the Brazilian matters, we believe we have valid defenses for the underlying positions under dispute; however, in order to pursue these defenses, we are required to, and have provided, bank guarantees and pledged assets in the aggregate amount of \$31.6 million. The Brazilian matters take an extended period of time to proceed through the judicial process and there are a limited number of rulings to date.

In March 2012, ZoomEssence, Inc. filed a complaint against the Company in the U.S. District Court of New Jersey alleging trade secret misappropriation, breach of contract and unjust enrichment in connection with certain spray dry technology disclosed to the Company. In connection with the claims, ZoomEssence is seeking an injunction and monetary damages. ZoomEssence initially sought a temporary restraining order and preliminary injunction, but the Court denied these applications in an order entered on September 27, 2013, finding that ZoomEssence had not

demonstrated a likelihood of success on the merits of its claims. The Court subsequently referred the matter to mediation, however the private mediation session did not result in a resolution of the dispute. On November 3, 2014, ZoomEssence amended its complaint against the Company to include allegations of breach of the duty of good faith and fair dealing, fraud in the inducement, and misappropriation of confidential and proprietary information. On November 13, 2014, the Company filed a counterclaim against ZoomEssence alleging trade secret misappropriation, breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, misappropriation of confidential and proprietary information, common law unfair competition, tortious interference with contractual relations, and conversion. The case is currently proceeding through

discovery with a trial on the merits anticipated in mid-2016. The Company denies the allegations and will vigorously defend and pursue its position in Court. At this stage of the litigation, based on the information currently available to the Company, management does not believe that this matter represents a material loss contingency.

Based on the information available as of June 30, 2015, we estimate a range of reasonably possible loss related to the matters above, collectively, is \$0-\$31 million.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

#### Company background

We create, manufacture and supply flavors and fragrances for the food, beverage, personal care and household-products industries either in the form of compounds or individual ingredients. Our flavors and fragrance compounds combine a large number of ingredients that are blended, mixed or reacted together to produce proprietary formulas created by our perfumers and flavorists.

Flavors are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining consumer preference of the end products in which they are used. While we are a global leader, our flavors business is more regional in nature, with different formulas that reflect local tastes and ingredients. As a leading creator of flavors, we help our customers deliver on the promise of delicious and healthy foods and drinks that appeal to consumers. Our flavors compounds are ultimately used by our customers in four end-use categories: (1) Savory, (2) Beverages, (3) Sweet, pharmaceutical and oral care ("Sweet"), and (4) Dairy.

Our fragrances are a key component in the world's finest perfumes and best-known consumer brands, including beauty care, fabric care, personal wash and home care products. Our Fragrance Compounds are defined into broad market categories, (1) Fine Fragrances and (2) Consumer Fragrances. Consumer Fragrances consists of five end-use categories: (1) Fabric Care, (2) Home Care, (3) Personal Wash, (4) Hair Care and (5) Toiletries. In addition, Fragrance Ingredients, which are used internally and sold to third parties, including customers and competitors, for use in preparation of compounds, are included in the Fragrances business unit.

The flavors and fragrances market is part of a larger market which supplies a variety of ingredients and components that consumer products companies utilize in their products. The broader market includes large multinational companies or smaller regional and local participants which supply products such as seasonings, texturizers, spices, enzymes, certain food-related commodities, fortified products and cosmetic ingredients. The flavors and fragrances market is estimated to be at least \$18 billion; however the exact size of the global market is not available due to fragmentation of data. We, together with the other top three companies, are estimated to comprise approximately two-thirds of the total estimated sales in the global flavors and fragrances sub-segment of the broader market.

#### Vision 2020

During the second quarter of 2015, the Company announced its Vision 2020 strategy, which focuses on building differentiation and accelerating profitable growth. The strategy has four pillars:

- (1) Win Where We Compete - achieve a #1 or #2 market leadership position in key markets and categories, and with specific customers.
- (2) Innovating Firsts - strengthen our position and drive differentiation in priority R&D platforms such as delivery systems, modulation, new molecules and naturals.
- (3) Become Our Customers' Partner of Choice - attain commercial excellence by providing our customers with in-depth local consumer understanding, industry-leading innovation, outstanding service and the highest quality products.
- (4) Strengthen and Expand the Portfolio - actively pursue value-creation through partnerships, collaborations, and acquisitions within flavors, fragrances and adjacencies.

Talent and Organization, Continuous Improvement, and Sustainability enable the successful execution of Vision 2020. The Company also announced its long-term financial targets for 2016 to 2020. These include 4-6% currency neutral sales growth, 7-9% currency neutral operating profit growth, and 10% currency neutral EPS growth. In addition to these organic goals, the Company is also targeting \$500 million to \$1 billion of sales growth through acquisitions by 2020. Leveraging its strong cash flow generation and commitment to Vision 2020, the Company increased its targeted cash return to shareholders to 50-60% of adjusted net income.

#### 2015 Progress

During the second quarter of 2015, the Company completed the acquisition of 100% of the outstanding shares of Henry H. Ottens Manufacturing Co., Inc. ("Ottens Flavors") for approximately \$199.2 million. The acquisition did not have a material impact on the consolidated financial statements. The acquisition strengthened our position in the targeted North American market for Flavors.



On July 30, 2015, we completed the acquisition of 100% of the outstanding shares of Lucas Meyer Cosmetics, a business of Unipex Group, ("Lucas Meyer") for approximately Euro 283 million (\$311 million). (The total shares acquired include shares effectively acquired pursuant to put and call option agreements). This acquisition is not expected to have a material impact on the consolidated financial statements.

Net sales during the second quarter of 2015 declined 3% on a reported basis but increased 5% on a currency neutral basis (which excludes the effects of changes in currency), with the acquisition of Ottens Flavors contributing approximately 1% to both reported and currency neutral basis amounts. The currency neutral growth of 5% reflects new win performance (net of losses) in both Flavors and Fragrance Compounds and lower volume erosion on existing business.

Exchange rate fluctuations had an 800 basis point (bps) unfavorable impact on net sales for the second quarter, driven mainly by the weakening of the Euro against the U.S. dollar. The effect of exchange rates can vary by business and region, depending upon the mix of sales by destination country as well as the relative percentage of local sales priced in U.S. dollars versus local currencies.

Gross margins increased year-over-year to 45.0% in the second quarter of 2015 from 44.7% in the 2014 period. Included in the second quarter of 2015 was \$1.1 million of costs associated with operational improvement initiatives and acquisition related inventory "step-up" costs, compared to \$3.1 million of costs related to restructuring and operational improvement initiatives included in the 2014 period. Excluding these items, gross margin remained consistent with the prior year period. The overall raw material cost base remains elevated, including certain categories where prices remain well above average levels. We believe input costs will increase less than 1% in 2015 as higher prices on certain categories, such as naturals, will largely offset benefits associated with oil-based derivatives that are expected to occur later in 2015. We continue to seek improvements in our margins through operational performance and mix enhancement.

#### FINANCIAL PERFORMANCE OVERVIEW

##### Sales

Reported sales in the second quarter of 2015 decreased approximately 3%. In currency neutral terms, sales increased 5%, reflecting new win performance in both Flavors and Fragrance Compounds and lower volume erosion on existing business and the acquisition of Ottens Flavors (which added approximately 1% to both reported and currency neutral basis amounts). We continue to benefit from our diverse portfolio of end-use product categories and geographies and had growth in three of four regions and Consumer Fragrances and Flavor Compounds both had positive currency neutral growth. Flavors realized currency neutral growth of 7% for the second quarter of 2015, including 3% from Ottens Flavors. Our Fragrance business achieved currency neutral growth of 4%. Fragrances performance reflects new win performance in our Consumer Fragrances end-use categories, led by sales in Fabric Care. Overall, our second quarter 2015 results continued to be driven by our strong emerging market presence that represented 52% of currency neutral sales and experienced 7% currency neutral growth. From a geographic perspective, for the second quarter, Europe, Africa and the Middle East (EAME), Latin America (LA) and Greater Asia (GA) all delivered currency neutral growth in 2015, led by EAME and LA, with 9%.

##### Operating profit

Operating profit decreased \$4.3 million to \$148.8 million (19.4% of sales) in the 2015 second quarter compared to \$153.1 million (19.4% of sales) in the comparable 2014 period. The three months ended June 30, 2015 included a benefit related to restructuring reversals of \$0.4 million, operational improvement initiative costs of \$0.3 million and \$6.6 million of acquisition and related costs compared to \$3.3 million of restructuring and operational improvement initiative costs in the prior year period. Excluding these charges, adjusted operating profit was \$155.3 million (20.2% of sales) for the second quarter of 2015 compared to \$156.4 million (19.8% of sales) for the second quarter of 2014. Foreign currency changes had an unfavorable impact on operating profit of approximately 8% in the second quarter of 2015.

##### Other expense (income), net

Other expense (income), net decreased \$5 million to \$0.4 million of expense in the second quarter of 2015 compared to \$4.6 million of income in the second quarter of 2014. The year-over-year decrease is primarily driven by lower foreign exchange gains and lower mark-to-market adjustments on deferred compensation plan assets during 2015

compared to the 2014 period.

Net income

Net income decreased by \$4.9 million quarter-over-quarter to \$105.4 million for the second quarter of 2015.

## Cash flows

Cash flows from operations for the six months ended June 30, 2015 were \$166.3 million or 10.8% of sales, compared to cash inflow from operations of \$154.0 million or 9.9% of sales for the six months ended June 30, 2014. The increase in cash flow from operations in 2015 reflects higher net income, lower payments for incentive compensation and higher cash inflows from core working capital (trade receivables, inventories and accounts payable), which were partially offset principally by higher pension contributions in the 2015 period.

## Results of Operations

| (DOLLARS IN<br>THOUSANDS<br>EXCEPT PER SHARE<br>AMOUNTS) | Three Months Ended June 30, |           |         | Six Months Ended June 30, |             |         |
|----------------------------------------------------------|-----------------------------|-----------|---------|---------------------------|-------------|---------|
|                                                          | 2015                        | 2014      | Change  | 2015                      | 2014        | Change  |
| Net sales                                                | \$767,541                   | \$788,414 | (3 )%   | \$1,542,448               | \$1,558,638 | (1 )%   |
| Cost of goods sold                                       | 422,501                     | 435,767   | (3 )%   | 851,131                   | 864,579     | (2 )%   |
| Gross profit                                             | 345,040                     | 352,647   |         | 691,317                   | 694,059     |         |
| Research and development (R&D) expenses                  | 62,514                      | 66,431    | (6 )%   | 125,976                   | 127,934     | (2 )%   |
| Selling and administrative (S&A) expenses                | 134,063                     | 132,919   | 1 %     | 254,898                   | 256,653     | (1 )%   |
| Restructuring and other charges, net                     | (358 )                      | 182       | (297 )% | (170 )                    | 304         | (156 )% |
| Operating profit                                         | 148,821                     | 153,115   |         | 310,613                   | 309,168     |         |
| Interest expense                                         | 11,407                      | 11,403    | — %     | 22,502                    | 23,080      | (3 )%   |
| Other expense (income), net                              | 436                         | (4,641 )  | (109 )% | (5,275 )                  | (3,198 )    | 65 %    |
| Income before taxes                                      | 136,978                     | 146,353   |         | 293,386                   | 289,286     |         |
| Taxes on income                                          | 31,604                      | 36,068    | (12 )%  | 59,754                    | 72,294      | (17 )%  |
| Net income                                               | \$105,374                   | \$110,285 | (4 )%   | \$233,632                 | \$216,992   | 8 %     |
| Diluted EPS                                              | \$1.29                      | \$1.35    | (4 )%   | \$2.86                    | \$2.64      | 8 %     |
| Gross margin                                             | 45.0 %                      | 44.7 %    | 30      | 44.8 %                    | 44.5 %      | 30      |
| R&D as a percentage of sales                             | 8.1 %                       | 8.4 %     | (30 )   | 8.2 %                     | 8.2 %       | —       |
| S&A as a percentage of sales                             | 17.5 %                      | 16.9 %    | 60      | 16.5 %                    | 16.5 %      | —       |
| Operating margin                                         | 19.4 %                      | 19.4 %    | —       | 20.1 %                    | 19.8 %      | 30      |
| Adjusted operating margin <sup>(1)</sup>                 | 20.2 %                      | 19.8 %    | 40      | 20.6 %                    | 20.2 %      | 40      |
| Effective tax rate                                       | 23.1 %                      | 24.6 %    | (150 )  | 20.4 %                    | 25.0 %      | (460 )  |
| Segment net sales                                        |                             |           |         |                           |             |         |
| Flavors                                                  | \$372,478                   | \$375,513 | (1 )%   | \$749,586                 | \$742,018   | 1 %     |
| Fragrances                                               | 395,063                     | 412,901   | (4 )%   | 792,862                   | 816,620     | (3 )%   |
| Consolidated                                             | \$767,541                   | \$788,414 |         | \$1,542,448               | \$1,558,638 |         |

(1) Adjusted operating margin excludes the benefit from Restructuring and other charges, net of \$0.4 million, operational improvement initiative costs of \$0.3 million and acquisition and related costs of \$6.6 million for the three months ended June 30, 2015 and excludes \$3.3 million of restructuring and operational improvement initiative costs for the three months ended June 30, 2014. For the six months ended June 30, 2015, adjusted operating margin excludes the benefit from Restructuring and other charges, net of \$0.2 million, operational

improvement initiative costs of \$0.6 million and acquisition related costs of \$7.1 million compared to the exclusion of \$6.0 million of Restructuring and other charges, net and operational improvement initiative costs during the comparable 2014 period.

Cost of goods sold includes the cost of materials and manufacturing expenses. R&D expenses relate to the development of new and improved products, technical product support and compliance with governmental regulations. S&A expenses include expenses necessary to support our commercial activities and administrative expenses supporting our overall operating activities.

## SECOND QUARTER 2015 IN COMPARISON TO SECOND QUARTER 2014

## Sales

Sales for the second quarter of 2015 totaled \$767.5 million, a decrease of 3% from the prior year quarter. Excluding the impact of foreign currency, currency neutral sales increased 5%, as a result of new win performance (net of losses) in both Flavors and Fragrance Compounds and lower volume erosion on existing business. On both a reported and currency neutral basis, the acquisition of Ottens Flavors added approximately 1% to net sales amounts. Overall currency neutral growth was driven by 7% growth in emerging markets.

## Flavors Business Unit

Flavors reported sales declined 1%, and currency neutral sales growth was up 7% during the second quarter of 2015 compared to the 2014 period. The acquisition of Ottens Flavors added approximately 3% to both reported and currency neutral basis amounts. In addition, the overall performance reflects new wins. The currency neutral overall increase was due to high single-digit growth in Dairy, mid single-digit growth in Savory and low single-digit growth in Beverage. The Flavors business delivered currency neutral growth in all regions, led by LA. Sales in LA were driven by double-digit gains in Beverage, Savory and Dairy. Sales in EAME were driven by double-digit gains in Savory and mid single-digit gains in Beverage. GA sales were driven by mid single-digit gains in Savory, Beverage and Dairy and sales in North America (NOAM) were led by high double-digit gains in Dairy.

## Fragrances Business Unit

The Fragrances business experienced a decline of 4% in reported sales and a 4% increase in currency neutral sales for the second quarter of 2015 compared to the second quarter of 2014. The overall currency neutral increase was primarily driven by double-digit gains in our Fabric Care category and high single-digit gains in our Home Care and Hair Care categories, offset by low to high single-digit declines in Toiletries, Personal Wash and Fragrance Ingredients. Our Fragrance Compounds saw currency neutral sales growth of 5%, while Fragrance Ingredients declined 3% over the prior year period.

## Sales Performance by Region and Category

|       |                                 | % Change in Sales-Second Quarter 2015 vs. Second Quarter 2014 |                        |             |             |         |       |
|-------|---------------------------------|---------------------------------------------------------------|------------------------|-------------|-------------|---------|-------|
|       |                                 | Fine<br>Fragrances                                            | Consumer<br>Fragrances | Ingredients | Total Frag. | Flavors | Total |
| NOAM  | Reported                        | -7                                                            | % -1                   | % -16       | % -6        | % 5     | % 0   |
| EAME  | Reported                        | -6                                                            | % -7                   | % -11       | % -8        | % -12   | % -10 |
|       | Currency Neutral <sup>(1)</sup> | 17                                                            | % 14                   | % 1         | % 12        | % 6     | % 9   |
| LA    | Reported                        | -19                                                           | % 13                   | % 2         | % 4         | % 6     | % 5   |
|       | Currency Neutral <sup>(1)</sup> | -15                                                           | % 15                   | % 1         | % 6         | % 14    | % 9   |
| GA    | Reported                        | -2                                                            | % -4                   | % -8        | % -4        | % 2     | % -1  |
|       | Currency Neutral <sup>(1)</sup> | -2                                                            | % -2                   | % -1        | % -2        | % 6     | % 3   |
| Total | Reported                        | -9                                                            | % -1                   | % -11       | % -4        | % -1    | % -3  |
|       | Currency Neutral <sup>(1)</sup> | 2                                                             | % 6                    | % -3        | % 4         | % 7     | % 5   |

<sup>(1)</sup> Currency neutral sales growth is calculated by translating prior year sales at the exchange rates for the corresponding 2015 period.

NOAM Flavors sales increased 5%, which included sales from Ottens Flavors and high double-digit growth in Dairy. NOAM Fragrance sales decreased 6% in the second quarter of 2015, principally due to double-digit declines in Fragrance Ingredients and Toiletries and mid to high single-digit decreases in Fine Fragrance, Hair Care and Personal Wash, which were only partially offset by double-digit growth in Fabric Care.

EAME Flavors currency neutral sales growth of 6% was led by double-digit growth in Savory and mid single-digit growth in Beverage, which more than offset mid single-digit declines in Dairy. EAME Fragrance currency neutral sales increased 12% overall, driven mainly by double-digit growth in Fabric Care, Fine Fragrance, Home Care and Hair Care categories, as well as low single-digit increases in Fragrance Ingredients.

LA Flavors currency neutral sales were up 14% driven by double-digit gains in the Savory, Beverage and Dairy categories as well as high single-digit growth in Sweet. LA Fragrances currency neutral sales increased 6% overall,

principally led by double-digit gains in Fabric Care and Home Care, which more than offset double-digit declines in Fine Fragrance and Toiletries.

GA Flavors had currency neutral sales growth of 6% principally from mid single-digit gains in Savory, Beverage and Dairy. GA Fragrances currency neutral sales decline of 2% was principally driven by low to mid single-digit declines in Personal Wash, Home Care and Fabric Care, which was only partially offset by mid to high single-digit gains in Hair Care and Toiletries.

#### Cost of Goods Sold

Cost of goods sold, as a percentage of sales, decreased 30 bps to 55.0% in the second quarter of 2015 compared to 55.3% in the second quarter of 2014. Included in cost of goods sold was \$1.1 million of charges related to operational improvement initiative costs and acquisition related inventory "step-up" costs in 2015 compared to \$3.1 million of restructuring and operational improvement initiative related costs in 2014.

#### Research and Development (R&D) Expenses

Overall R&D expenses, as a percentage of sales, decreased slightly compared to the prior year period at 8.1% in the second quarter of 2015 versus 8.4% in the second quarter of 2014.

#### Selling and Administrative (S&A) Expenses

S&A expenses increased \$1.2 million to \$134.1 million or 17.5%, as a percentage of sales, in the second quarter of 2015 compared to 16.9% in the second quarter of 2014. The \$1.2 million increase is principally due to the acquisition of Ottens Flavors and spending to support the future growth of the Company, partially offset by the impact of currency and lower incentive compensation expense.

#### Operating Results by Business Unit

We evaluate the performance of business units based on segment profit which is defined as operating profit before Restructuring and other charges, net, Global expenses (as discussed in Note 9 to the Consolidated Financial Statements) and certain non-recurring items, net, Interest expense, Other (expense) income, net and Taxes on income. See Note 9 to the Consolidated Financial Statements for the reconciliation to Income before taxes.

| (DOLLARS IN THOUSANDS)                   | Three Months Ended June 30, |   |           |   |
|------------------------------------------|-----------------------------|---|-----------|---|
|                                          | 2015                        |   | 2014      |   |
| Segment profit:                          |                             |   |           |   |
| Flavors                                  | \$84,015                    |   | \$90,805  |   |
| Fragrances                               | 79,924                      |   | 85,474    |   |
| Global expenses                          | (8,629)                     | ) | (19,869)  | ) |
| Restructuring and other charges, net     | 358                         |   | (182)     | ) |
| Acquisition and related costs            | (6,566)                     | ) | —         |   |
| Operational improvement initiative costs | (281)                       | ) | (3,113)   | ) |
| Operating profit                         | \$148,821                   |   | \$153,115 |   |
| Profit margin                            |                             |   |           |   |
| Flavors                                  | 22.6                        | % | 24.2      | % |
| Fragrances                               | 20.2                        | % | 20.7      | % |
| Consolidated                             | 19.4                        | % | 19.4      | % |

#### Flavors Segment Profit

Flavors segment profit decreased approximately 7% to \$84.0 million in the second quarter of 2015, or 22.6% as a percentage of sales, compared to \$90.8 million, or 24.2% as a percentage of sales, in the comparable 2014 period. The decrease in segment profit and profit margin was driven primarily by unfavorable currency impacts, lower incentive compensation in the prior year, scale up costs of new sites in Turkey and Indonesia and other one-off costs, including incremental operating costs associated with the China Flavors facility. These costs were only partially offset by net wins, productivity initiatives and sales mix. The impact of Ottens Flavors was not significant to the 2015 second quarter Flavors segment profit results.

#### Fragrances Segment Profit



Fragrances segment profit declined approximately 6% to \$79.9 million in the second quarter of 2015, or 20.2% as a percentage of sales, compared to \$85.5 million, or 20.7% as a percentage of sales, in the comparable 2014 period. The decline in segment profit and profit margin was primarily due to unfavorable foreign currency impacts, which were partially offset by favorable volume growth and productivity initiatives.

#### Global Expenses

Global expenses represent corporate and headquarters-related expenses which include legal, finance, human resources and R&D and other administrative expenses that are not allocated to an individual business unit. In the second quarter of 2015, Global expenses were \$8.6 million compared to \$19.9 million during the second quarter of 2014. The decrease was principally driven by the favorable impact of our cash flow hedging program and lower incentive compensation expense.

#### Restructuring and Other Charges, Net

In 2014, the Company closed its fragrance ingredients manufacturing facility in Augusta, Georgia and consolidated production into other Company facilities. During the second quarter of 2015, the Company recorded a reversal of severance accruals of \$0.4 million.

#### Interest Expense

Interest expense remained consistent at \$11.4 million in both the second quarter of 2015 and 2014. Average cost of debt was 4.7% for the 2015 three month period compared to 4.9% for the 2014 three month period.

#### Other Expense (Income), Net

Other expense (income), net decreased by approximately \$5 million to \$0.4 million of expense in the second quarter of 2015 versus \$4.6 million of income in the comparable 2014 period. The year-over-year decrease was primarily driven by lower foreign exchange gains and lower amounts of income related to lower mark-to-market adjustments on deferred compensation plan assets during 2015 compared to the 2014 period.

#### Income Taxes

The effective tax rate for the three months ended June 30, 2015 was 23.1% compared with 24.6% for the three months ended June 30, 2014. Excluding the impact of items affecting comparability in the current quarter, the second quarter 2015 adjusted effective tax rate was 22.6%, or 230 bps lower than the second quarter 2014 adjusted effective tax rate of 24.9%, due to higher earnings from lower tax jurisdictions, lower loss provisions and lower repatriation costs in 2015.

### FIRST SIX MONTHS OF 2015 IN COMPARISON TO FIRST SIX MONTHS OF 2014

#### Sales

Sales for the first six months of 2015 totaled \$1.5 billion, a decrease of 1% from the prior year period. Excluding the impact of foreign currency, currency neutral sales increased 6%. On both a reported and currency neutral basis, the acquisition of Ottens Flavors added less than 1% to net sales amounts. The overall increase on a currency neutral basis of 6% was primarily due to new win performance in both Flavors and Fragrance Compounds and lower volume erosion on existing business. Overall currency neutral growth was driven by 8% growth in emerging markets.

#### Flavors Business Unit

Flavors reported sales growth was 1%, and currency neutral sales growth was 8% during the first six months of 2015 compared to the 2014 period. The acquisition of Ottens Flavors added approximately 1% to net sales on a currency neutral basis. The overall performance primarily reflects new wins and volume growth. The overall increase was due to high single-digit growth in Beverage and Dairy as well as mid single-digit growth in Savory. The Flavors business delivered currency neutral growth in all regions, led by LA. Sales in LA were driven by double-digit gains in Beverage, Savory and Dairy categories. Sales in EAME and GA were led by high single-digit gains in Savory and Beverage and sales in NOAM were led by high double-digit gains in Dairy and high single-digit gains in Sweet.

#### Fragrances Business Unit

The Fragrances business experienced a decline of 3% in reported sales but a 4% increase in currency neutral sales for the first six months of 2015 compared to the 2014 period. The overall increase on a currency neutral basis was primarily driven by double-digit gains in our Fabric Care and Home Care categories, which was only partially offset by mid to low single-digit



declines in Toiletries and Fragrance Ingredients. Our Fragrance Compounds saw currency neutral sales growth of 6%, while Fragrance Ingredients declined 3% over the prior year period.

#### Sales Performance by Region and Category

|       |                                 | % Change in Sales-First Six Months 2015 vs. First Six Months 2014 |                        |             |             |         |       |
|-------|---------------------------------|-------------------------------------------------------------------|------------------------|-------------|-------------|---------|-------|
|       |                                 | Fine<br>Fragrances                                                | Consumer<br>Fragrances | Ingredients | Total Frag. | Flavors | Total |
| NOAM  | Reported                        | -10                                                               | % 2                    | % -18       | % -6        | % 8     | % 1   |
| EAME  | Reported                        | -9                                                                | % -4                   | % -9        | % -7        | % -8    | % -8  |
|       | Currency Neutral <sup>(1)</sup> | 8                                                                 | % 14                   | % 0         | % 9         | % 7     | % 8   |
| LA    | Reported                        | -11                                                               | % 13                   | % 2         | % 6         | % 10    | % 8   |
|       | Currency Neutral <sup>(1)</sup> | -7                                                                | % 16                   | % -2        | % 9         | % 18    | % 12  |
| GA    | Reported                        | 16                                                                | % -1                   | % -1        | % -1        | % 1     | % 0   |
|       | Currency Neutral <sup>(1)</sup> | 17                                                                | % 1                    | % 7         | % 2         | % 5     | % 4   |
| Total | Reported                        | -9                                                                | % 2                    | % -10       | % -3        | % 1     | % -1  |
|       | Currency Neutral <sup>(1)</sup> | 0                                                                 | % 8                    | % -3        | % 4         | % 8     | % 6   |

(1) Currency neutral sales growth is calculated by translating prior year sales at the exchange rates for the corresponding 2015 period.

NOAM Flavors sales increased 8% which included sales from Ottens Flavors and high double-digit gains in Dairy and high single-digit gains in Sweet. NOAM Fragrance sales decreased 6% in the first six months of 2015, principally due to double-digit declines in Fragrance Ingredients, Fine Fragrance and Toiletries, that were only partially offset by double-digit growth in Fabric Care and mid single-digit growth in Home Care categories.

EAME Flavors currency neutral sales growth of 7% was led by high single-digit growth in Savory and Beverage and mid single-digit growth in Sweet. EAME Fragrance currency neutral sales increased 9% overall, driven mainly by high double-digit growth in Fabric Care and Home Care categories as well as high single-digit gains in Fine Fragrance.

LA Flavors currency neutral sales were up 18% driven by double-digit gains in the Beverage, Savory and Dairy and high single-digit growth in Sweet. LA Fragrances currency neutral sales increased 9% overall, principally led by high double-digit gains in Fabric Care and Home Care as well as double-digit gains in Hair Care, which more than offset double-digit declines in Personal Wash and Toiletries and low single-digit declines in Fragrance Ingredients.

GA Flavors had currency neutral sales growth of 5% principally from high single-digit gains in Beverage and Savory. GA Fragrances currency neutral sales growth of 2% was principally driven by high double-digit growth in Fine Fragrance as well as high single-digit growth in Toiletries and mid single-digit growth in Fragrance Ingredients and Hair Care.

#### Cost of Goods Sold

Cost of goods sold, as a percentage of sales, decreased 30 bps to 55.2% in the first six months of 2015 compared to 55.5% in the 2014 period. Included in cost of goods sold was \$1.4 million of charges related to operational improvement initiative costs and acquisition related costs in 2015 compared to \$5.7 million of restructuring and operational improvement initiative costs in 2014.

#### Research and Development (R&D) Expenses

Overall R&D expenses, as a percentage of sales, remained consistent with the prior year period at 8.2% for both the first six months of 2015 and 2014.

#### Selling and Administrative (S&A) Expenses

S&A expenses remained consistent at \$254.9 million or 16.5%, as a percentage of sales, in the first six months of 2015 compared to 16.5% in the 2014 period.

#### Operating Results by Business Unit

We evaluate the performance of business units based on segment profit which is defined as operating profit before Restructuring and other charges, net, Global expenses (as discussed in Note 9 to the Consolidated Financial Statements) and

certain non-recurring items, net, Interest expense, Other (expense) income, net and Taxes on income. See Note 9 to the Consolidated Financial Statements for the reconciliation to Income before taxes.

| (DOLLARS IN THOUSANDS)                   | Six Months Ended June 30, 2015 |   |            |   |
|------------------------------------------|--------------------------------|---|------------|---|
|                                          | 2015                           |   | 2014       |   |
| Segment profit:                          |                                |   |            |   |
| Flavors                                  | \$ 176,743                     |   | \$ 178,869 |   |
| Fragrances                               | 161,522                        |   | 172,638    |   |
| Global expenses                          | (20,194                        | ) | (36,303    | ) |
| Restructuring and other charges, net     | 170                            |   | (304       | ) |
| Acquisition and related costs            | (7,066                         | ) | —          |   |
| Operational improvement initiative costs | (562                           | ) | (5,732     | ) |
| Operating profit                         | \$ 310,613                     |   | \$ 309,168 |   |
| Profit margin                            |                                |   |            |   |
| Flavors                                  | 23.6                           | % | 24.1       | % |
| Fragrances                               | 20.4                           | % | 21.1       | % |
| Consolidated                             | 20.1                           | % | 19.8       | % |

#### Flavors Segment Profit

Flavors segment profit decreased approximately 1% to \$176.7 million in the first six months of 2015, or 23.6% as a percentage of sales, compared to \$178.9 million, or 24.1% as a percentage of sales, in the comparable 2014 period. The decrease in segment profit and profit margin was driven primarily by unfavorable foreign currency impacts, lower incentive compensation in the prior year, scale up costs of new sites in Turkey and Indonesia and other one-off costs, including incremental operating costs associated with the China Flavors facility. These costs were only partially offset by net wins, productivity initiatives and sales mix. The impact of Ottens Flavors did not significantly impact Flavors segment profit for the 2015 period.

#### Fragrances Segment Profit

Fragrances segment profit declined approximately 6% to \$161.5 million in the first six months of 2015, or 20.4% as a percentage of sales, compared to \$172.6 million, or 21.1% as a percentage of sales, in the comparable 2014 period. The decline in segment profit and profit margin was primarily due to unfavorable foreign currency impacts, which were partially offset by favorable volume growth.

#### Global Expenses

Global expenses represent corporate and headquarters-related expenses which include legal, finance, human resources and R&D and other administrative expenses that are not allocated to an individual business unit. In the first six months of 2015, Global expenses were \$20.2 million compared to \$36.3 million during the 2014 period. The decrease was principally driven by the favorable impact of our cash flow hedging program and lower incentive compensation expense.

#### Restructuring and Other Charges, Net

In 2014, the Company closed its fragrance ingredients manufacturing facility in Augusta, Georgia and consolidated production into other Company facilities. During the six months ended June 30, 2015, the Company recorded a net credit of \$0.2 million consisting of additional plant shutdown and other related costs of \$0.2 million, net of a reversal of severance accruals of \$0.4 million.

#### Interest Expense

Interest expense decreased \$0.6 million to \$22.5 million in the first six months of 2015 compared to the 2014 period. Average cost of debt was 4.7% for the 2015 six month period compared to 4.9% for the 2014 six month period.

#### Other Expense (Income), Net

Other expense (income), net increased by approximately \$2.1 million to \$5.3 million of income in the first six months of 2015 versus \$3.2 million of income in the comparable 2014 period. The year-over-year increase is primarily driven by higher



levels of foreign exchange gains in 2015 compared to the 2014 period, offset by lower amounts of income related to lower mark-to-market adjustments on deferred compensation plan assets.

#### Income Taxes

The effective tax rate for the six months ended June 30, 2015 was 20.4% compared with 25.0% for the six months ended June 30, 2014, primarily due to a benefit of \$10.5 million recorded in the first quarter of 2015, as a result of favorable tax rulings in Spain and another jurisdiction for which reserves were previously recorded. Excluding the impact of items affecting comparability in the current period, the 2015 period adjusted effective tax rate was 23.7%, or 150 basis points lower than the 2014 period adjusted effective tax rate of 25.2%, primarily due to higher earnings from lower tax jurisdictions, lower loss provisions and lower repatriation costs in 2015.

#### Liquidity and Capital Resources

##### CASH AND CASH EQUIVALENTS

We had cash and cash equivalents of \$377.3 million at June 30, 2015 compared to \$478.6 million at December 31, 2014, of which \$275.4 million of the balance at June 30, 2015 was held outside the United States. Cash balances held in foreign jurisdictions are, in most circumstances, available to be repatriated to the United States; however, they would be subject to United States federal income taxes, less applicable foreign tax credits. We have not provided U.S. income tax expense on accumulated earnings of our foreign subsidiaries because we have the ability and plan to reinvest the undistributed earnings indefinitely.

Effective utilization of the cash generated by our international operations is a critical component of our tax strategy. Strategic dividend repatriation from foreign subsidiaries creates U.S. taxable income, which enables us to realize deferred tax assets. The Company regularly repatriates, in the form of dividends from its non-U.S. subsidiaries, a portion of its current year earnings to fund financial obligations in the U.S.

##### CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities in the first six months of 2015 were \$166.3 million compared to \$154.0 million in the first six months of 2014. The increase in operating cash flows for the first six months of 2015 compared to 2014 is principally driven by higher net income, lower payments for incentive compensation and higher cash inflows from core working capital (trade receivables, inventories and accounts payable), which were partially offset by higher pension contributions in the 2015 period.

Working capital (current assets less current liabilities) totaled \$1,198.7 million at June 30, 2015, compared to \$1,191.2 million at December 31, 2014. The Company sold certain accounts receivable on a non-recourse basis to unrelated financial institutions under “factoring” agreements that are sponsored, solely and individually, by certain customers. We believe that participating in the factoring programs strengthens our relationships with these customers and provides operational efficiencies. The beneficial impact on cash from operations from participating in these programs increased approximately \$1.3 million for the six months ended June 30, 2015 compared to an increase of approximately \$22.3 million for the six months ended June 30, 2014. The cost of participating in these programs was immaterial to our results in all periods.

##### CASH FLOWS USED IN INVESTING ACTIVITIES

Net investing activities during the first six months of 2015 used \$215.0 million compared to \$143.4 million in the prior year period. The increase in cash paid for investing activities is primarily driven by the acquisition of Ottens Flavors during the second quarter of 2015. The Company acquired 100% of the outstanding shares of Ottens Flavors for approximately \$188.8 million (net of cash acquired).

Additions to property, plant and equipment were \$37.9 million during the first six months of 2015 compared to \$60.2 million in the first six months of 2014. We expect additions to property, plant and equipment to approach 4-5% of our sales in 2015.

##### CASH FLOWS USED IN FINANCING ACTIVITIES

Net financing activities in the first six months of 2015 used \$47.0 million compared to \$89.6 million in the first six months of 2014. The decrease in cash used for financing activities principally reflects the net drawdown on the credit facility of \$56 million during 2015 as compared to the 2014 period.

At June 30, 2015, we had \$998.0 million of debt outstanding compared to \$942.3 million outstanding at December 31, 2014.

We paid dividends totaling \$75.9 million in the 2015 period. We declared a cash dividend per share of \$0.47 in the second quarter of 2015 that was paid on July 7, 2015 to all shareholders of record as of June 26, 2015.

In December 2012, the Board of Directors authorized a \$250 million share repurchase program, which commenced in the first quarter of 2013. Based on the total remaining amount of \$70.1 million available under the repurchase program, approximately 0.6 million shares, or 0.8% of shares outstanding (based on the market price and shares outstanding as of June 30, 2015) could be repurchased under the program as of June 30, 2015. The purchases will be made from time to time on the open market or through private transactions as market and business conditions warrant. Repurchased shares will be placed into treasury stock. During the three months ended June 30, 2015, we repurchased 247,174 shares on the open market at an aggregate cost of \$28.2 million or an average of \$113.90 per share. During the six months ended June 30, 2015, we repurchased 345,287 shares on the open market at an aggregate cost of \$38.8 million or an average of \$112.41 per share. We expect total purchases during 2015 to be in line with or moderately higher than total purchases made during 2014. The ultimate level of purchases will be a function of the daily purchase limits established in the pre-approved program according to the share price at that time. In August 2015, the Board of Directors approved an additional \$250 million share repurchase authorization and extension through December 31, 2017, and increased our quarterly dividend for the third quarter of 2015 by 20%, to \$0.56 per share.

#### CAPITAL RESOURCES

Operating cash flow provides the primary source of funds for capital investment needs, dividends paid to shareholders and debt repayments. We anticipate that cash flows from operations and availability under our existing credit facilities are sufficient to meet our investing and financing needs for at least the next eighteen months. We regularly assess our capital structure, including both current and long-term debt instruments, as compared to our cash generation and investment needs in order to provide ample flexibility and to optimize our leverage ratios. We believe our existing cash balances are sufficient to meet our debt service requirements.

We supplement short-term liquidity with access to capital markets, mainly through bank credit facilities and issuance of commercial paper. We did not issue commercial paper during the first six months of 2015 or 2014.

We expect to contribute a total of approximately \$30 million to our non-U.S. pension plans during 2015. During the six months ended June 30, 2015, \$35.0 million of contributions were made to our qualified U.S. pension plans. For the six months ended June 30, 2015, we have contributed \$22.5 million related to our non-U.S. pension plans and \$2.1 million related to our non-qualified U.S. pension plans.

During the second quarter of 2015, the Company acquired Ottens Flavors for approximately \$188.8 million (net of cash acquired), which was funded from existing resources.

On July 30, 2015, we completed the acquisition of 100% of the outstanding shares of Lucas Meyer Cosmetics, a business of Unipex Group, ("Lucas Meyer") for approximately Euro 283 million (\$311 million). (The total shares acquired include shares effectively acquired pursuant to put and call option agreements). This acquisition is not expected to have a material impact on the consolidated financial statements.

Under our revolving credit facility, we are required to maintain, at the end of each fiscal quarter, a ratio of net debt for borrowed money to adjusted EBITDA in respect of the previous 12-month period of not more than 3.25 to 1. Based on this ratio, at June 30, 2015 our covenant compliance provided overall borrowing capacity of \$1,659 million.

As of June 30, 2015 we had \$55 million of borrowings under our revolving credit facility. The amount which we are able to draw down on under the facility is limited by financial covenants as described in more detail below. Our drawdown capacity on the facility was \$923.1 million at June 30, 2015.

At June 30, 2015, we were in compliance with all financial and other covenants, including the net debt to adjusted EBITDA ratio. At June 30, 2015 our Net Debt/adjusted EBITDA <sup>(1)</sup> ratio, as defined by the debt agreements, was 0.88 to 1, well below the financial covenants of existing outstanding debt. Failure to comply with the financial and other covenants under our debt agreements would constitute default and would allow the lenders to accelerate the maturity of all indebtedness under the related agreement. If such acceleration were to occur, we would not have sufficient liquidity available to repay the indebtedness. We would likely have to seek amendments under the agreements for relief from the financial covenants or repay the debt with proceeds from the issuance of new debt or equity, and/or asset sales, if necessary. We may be unable to amend the agreements or raise sufficient capital to repay such obligations in the event the maturities are accelerated.



Adjusted EBITDA and Net Debt, which are non-GAAP measures used for these covenants, are calculated in accordance with the definition in the debt agreements. In this context, these measures are used solely to provide (1) information on the extent to which we are in compliance with debt covenants and may not be comparable to adjusted EBITDA and Net Debt used by other companies. Reconciliations of adjusted EBITDA to net income and net debt to total debt are as follows:

| (DOLLARS IN MILLIONS)          | Twelve Months Ended June 30, |         |
|--------------------------------|------------------------------|---------|
|                                | 2015                         | 2014    |
| Net income                     | \$431.2                      | \$377.5 |
| Interest expense               | 45.5                         | 45.8    |
| Income taxes                   | 121.9                        | 128.8   |
| Depreciation and amortization  | 81.4                         | 95.9    |
| Specified items <sup>(1)</sup> | 0.8                          | 0.4     |
| Non-cash items <sup>(2)</sup>  | 19.3                         | 23.1    |
| Adjusted EBITDA                | \$700.1                      | \$671.5 |

(1) Specified items for the 12 months ended June 30, 2015 of \$0.8 million consist of restructuring charges.

Non-cash items, defined as part of Adjusted EBITDA in the terms of the Company's credit facility agreement dated November 9, 2011 and amended and restated on April 4, 2014, represent all other adjustments to reconcile net (2) income to net cash provided by operations as presented on the Statement of Cash Flows, including gain on disposal of assets, stock-based compensation and pension settlement/curtailment.

| (DOLLARS IN MILLIONS)                | June 30, |         |
|--------------------------------------|----------|---------|
|                                      | 2015     | 2014    |
| Total debt                           | \$998.0  | \$935.7 |
| Adjustments:                         |          |         |
| Deferred gain on interest rate swaps | (4.2)    | (6.1)   |
| Cash and cash equivalents            | (377.3)  | (326.9) |
| Net debt                             | \$616.5  | \$602.7 |

As discussed in Note 13 to the Consolidated Financial Statements, at June 30, 2015, we had entered into various guarantees and had undrawn outstanding letters of credit from financial institutions. These arrangements reflect ongoing business operations, including commercial commitments, and governmental requirements associated with audits or litigation that are in process with various jurisdictions. Based on the current facts and circumstances they are not reasonably likely to have a material impact on our consolidated financial condition, results of operations, or cash flows.

## CONTINGENCIES

### China Odor Matter

The Company has been notified by Chinese authorities of compliance issues pertaining to the emission of odors from several of its plants in China. The Company has been addressing these issues by making investments in additional odor-abatement equipment.

The Company's Flavors facility in China was temporarily idled and another facility is currently operating at a reduced workload. The Company is also making additional odor-abatement investments across all of its China facilities while it continues to work with the various authorities in China. To meet production requirements, the Company has moved a portion of its Chinese Flavors production to other IFF and third party facilities. If the Company is required to close a plant, or operate one at significantly reduced production levels on a permanent basis, the Company may be required to record charges that could have a material impact on its consolidated financial results of operations, financial position and cash flows in future periods.

Cautionary Statement Under the Private Securities Litigation Reform Act of 1995

This Quarterly Report includes “forward-looking statements” under the Federal Private Securities Litigation Reform Act of 1995, including statements regarding our expectations concerning (i) our Vision 2020 strategy and its impact on our ability to meet long-term financial growth targets in 2015 and in 2016 to 2020, (ii) our competitive position in the market and financial performance in 2015, (iii) expected cost pressures in 2015, (iv) capital spending in 2015, (v) cash flows to fund future

operations and to meet debt service requirements, (vi) expected share repurchases and expected payout ratio in 2015, (vii) our plans and intentions to indefinitely reinvest undistributed foreign earnings in our foreign subsidiaries to fund local operations and/or capital projects and (viii) the ultimate resolution of pending tax matters with the Spanish and Brazilian tax authorities. These forward-looking statements should be evaluated with consideration given to the many risks and uncertainties inherent in our business that could cause actual results and events to differ materially from those in the forward-looking statements. Certain of such forward-looking information may be identified by such terms as “will,” “expect,” “anticipate,” “believe,” “outlook,” “may,” “estimate,” “should,” “intend,” “plan” and “predict” similar terms thereof. Such forward-looking statements are based on a series of expectations, assumptions, estimates and projections about the Company, are not guarantees of future results or performance, and involve significant risks, uncertainties and other factors, including assumptions and projections, for all forward periods. Our actual results may differ materially from any future results expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- volatility and increases in the price of raw materials, energy and transportation;
- the economic and political risks associated with our international operations;
- our ability to benefit from our investments and expansion in emerging markets;
- our ability to successfully reinvest undistributed foreign earnings in our foreign subsidiaries to fund local operations and/or capital projects;
- fluctuations in the quality and availability of raw materials;
- our ability to successfully execute acquisitions, collaborations and joint ventures;
  - our ability to manage unanticipated costs and other adverse financial impact in connection with our acquisitions, collaborations and joint ventures;
- changes in consumer preferences and demand for our products or decline in consumer confidence and spending;
- our ability to implement our business strategy, including the achievement of anticipated cost savings, profitability, realization of price increases and growth targets;
- our ability to implement our Vision 2020 strategy, including building differentiation and accelerating profitable growth to achieve long-term financial targets in 2015 and in 2016 to 2020;
- our ability to successfully develop new and competitive products that appeal to its customers and consumers;
  - the impact of a disruption in our supply chain or our relationship with our suppliers;
- our ability to successfully manage inventory and working capital;
- the effects of any unanticipated costs and construction or start-up delays in the expansion of any of our facilities;
- the impact of currency fluctuations or devaluations in our principal foreign markets;
- any adverse impact on the availability, effectiveness and cost of our hedging and risk management strategies;
- uncertainties regarding the outcome of, or funding requirements, related to litigation or settlement of pending litigation, uncertain tax positions or other contingencies;
- the impact of possible pension funding obligations and increased pension expense, particularly as a result of changes in asset returns or discount rates, on our cash flow and results of operations;
- our ability to optimize our manufacturing facilities, including the achievement of expected cost savings and increased efficiencies;
- the effect of legal and regulatory proceedings, as well as restrictions imposed on us, our operations or our representatives by U.S. and foreign governments;
- adverse changes in federal, state, local and foreign tax legislation or adverse results of tax audits, assessments, or disputes;
- our ability to attract and retain talented employees;
- the direct and indirect costs and other financial impact that may result from any business disruptions due to political instability, armed hostilities, incidents of terrorism, natural disasters, or the responses to or repercussion from any of these or similar events or conditions;
- our ability to quickly and effectively implement our disaster recovery and crisis management plans; and

adverse changes due to accounting rules or regulations.

New risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risks on our business. Accordingly, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any public statements or disclosures by the Company following this report that modify or impact any of the forward-looking statements contained in or accompanying this report will be deemed to modify or supersede such outlook or other forward-looking statements in or accompanying this report.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the Company (such as in our other filings with the SEC

or in company press releases) for other factors that may cause actual results to differ materially from those projected by the Company. Please refer to Part I. Item 1A., Risk Factors, of the 2014 Form 10-K for additional information regarding factors that could affect our results of operations, financial condition and cash flow.

#### Non-GAAP Financial Measures

The Company uses non-GAAP financial operating measures in this Quarterly Report, including: (i) currency neutral sales (which eliminates the effects that result from translating its international sales in U.S. dollars), (ii) adjusted operating profit and adjusted operating margin (which excludes the acquisition related costs, operational improvement initiative costs, restructuring charges and tax settlements), and (iii) adjusted effective tax rate (which excludes acquisition related costs, operational improvement initiative costs, restructuring charges and tax settlements). The Company also provides the non-GAAP measures adjusted EBITDA (which excludes certain specified items and non-cash items as set forth in the Company's debt agreements) and net debt (which is adjusted for deferred gain on interest rate swaps and cash and cash equivalents) solely for the purpose of providing information on the extent to which the Company is in compliance with debt covenants contained in its debt agreements.

We have included each of these non-GAAP measures in order to provide additional information regarding our underlying operating results and comparable year-over-year performance. Such information is supplemental to information presented in accordance with GAAP and is not intended to represent a presentation in accordance with GAAP. In discussing our historical and expected future results and financial condition, we believe it is meaningful for investors to be made aware of and to be assisted in a better understanding of, on a period-to-period comparable basis, financial amounts both including and excluding these identified items, as well as the impact of exchange rate fluctuations. We believe such additional non-GAAP information provides investors with an overall perspective of the period-to-period performance of our business. In addition, management internally reviews each of these non-GAAP measures to evaluate performance on a comparative period-to-period basis in terms of absolute performance, trends and expected future performance with respect to our business. A material limitation of these non-GAAP measures is that such measures do not reflect actual GAAP amounts; for example, costs associated with operational improvements and restructuring activities involve actual cash outlays. We compensate for such limitations by using these measures as one of several metrics, including GAAP measures. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

#### A. Foreign Currency Reconciliation

|                                              | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 |
|----------------------------------------------|----------------------------------|--------------------------------|
|                                              | Operating Profit                 | Operating Profit               |
| % Change - Reported (GAAP)                   | (3)%                             | —%                             |
| Items impacting comparability <sup>(1)</sup> | 2%                               | 1%                             |
| % Change - Adjusted (Non-GAAP)               | (1)%                             | 1%                             |
| Currency Impact                              | 8%                               | 8%                             |
| % Change Year-over-Year - Currency           | 7%                               | 9%                             |
| Neutral Adjusted (Non-GAAP)**                |                                  |                                |

(1) Includes items impacting comparability of \$6.5 million and \$7.5 for the three and six months ended June 30, 2015, respectively and includes \$3.3 million and \$6.0 million of items impacting comparability for the three and six months ended June 30, 2014, respectively.

\*\* Currency neutral amount is calculated by translating prior year amounts at the exchange rates used for the corresponding 2015 period.

#### B. Acquisition Related Intangible Asset Amortization

The Company tracks the amount of amortization recorded on recent acquisitions in order to monitor its progress with respect to its Vision 2020 goals. The following amounts were recorded with respect to recent acquisitions:

(DOLLARS IN THOUSANDS)                      Three Months Ended June 30, 2015                      Six Months Ended June 30, 2015

Ottens Flavors

\$1.2

\$1.2

30

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

There are no material changes in market risk from the information provided in the Company's 2014 Annual Report on Form 10-K.

Item 4. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer with the assistance of other members of our management, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

We have established controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including the principal executive officer and the principal financial officer, to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in our internal control over financial reporting during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are subject to various claims and legal actions in the ordinary course of our business.

#### Tax Claims

Prior to June 30, 2015, we were a party to dividend withholding tax controversies in Spain. As of June 30, 2015, the three dividend withholding tax controversies in Spain have now been resolved. The Company made total payments of Euro 4.5 million (\$4.9 million) during the second quarter of 2015 related to the resolution of these three controversies. We do not currently believe that any of our pending tax assessments, even if ultimately resolved against us, would have a material impact on our financial condition.

#### Environmental

Over the past 20 years, various federal and state authorities and private parties have claimed that we are a Potentially Responsible Party ("PRP") as a generator of waste materials for alleged pollution at a number of waste sites operated by third parties located principally in New Jersey and have sought to recover costs incurred and to be incurred to clean up the sites.

We have been identified as a PRP at eight facilities operated by third parties at which investigation and/or remediation activities may be ongoing. We analyze our potential liability on at least a quarterly basis. We accrue for environmental liabilities when they are probable and estimable. We estimate our share of the total future cost for these sites to be less than \$5 million.

While joint and several liability is authorized under federal and state environmental laws, we believe the amounts we have paid and anticipate paying in the future for clean-up costs and damages at all sites are not material and will not have a material adverse effect on our financial condition, results of operations or liquidity. This assessment is based upon, among other things, the involvement of other PRPs at most of the sites, the status of the proceedings, including various settlement agreements and consent decrees, and the extended time period over which payments will likely be made. There can be no assurance, however, that future events will not require us to materially increase the amounts we anticipate paying for clean-up costs and damages at these sites, and that such increased amounts will not have a material adverse effect on our financial condition, results of operations or cash flows.

#### Other

In March 2012, ZoomEssence, Inc. filed a complaint against the Company in the U.S. District Court of New Jersey alleging trade secret misappropriation, breach of contract and unjust enrichment in connection with certain spray dry technology disclosed to the Company. In connection with the claims, ZoomEssence is seeking an injunction and monetary damages. ZoomEssence initially sought a temporary restraining order and preliminary injunction, but the Court denied these applications in an order entered on September 27, 2013, finding that ZoomEssence had not demonstrated a likelihood of success on the merits of its claims. The Court subsequently referred the matter to mediation, however the private mediation session did not result in a resolution of the dispute. On November 3, 2014, ZoomEssence amended its complaint against the Company to include allegations of breach of the duty of good faith and fair dealing, fraud in the inducement, and misappropriation of confidential and proprietary information. On November 13, 2014, the Company filed a counterclaim against ZoomEssence alleging trade secret misappropriation, breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, misappropriation of confidential and proprietary information, common law unfair competition, tortious interference with contractual relations, and conversion. The case is currently proceeding through discovery with a trial on the merits anticipated in mid 2016. The Company denies the allegations and will vigorously defend and pursue its position in Court. At this stage of the litigation, based on the information currently available to the Company, management does not believe that this matter represents a material loss contingency.

We are also a party to other litigations arising in the ordinary course of our business. We do not expect the outcome of these cases, singly or in the aggregate, to have a material effect on our consolidated financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

The table below reflects shares of common stock we repurchased during the second quarter of 2015.

| Period             | Total Number of<br>Shares<br>Repurchased <sup>(1)</sup> | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Program | Approximate Dollar Value<br>of Shares That May Yet<br>be Purchased Under the<br>Program |
|--------------------|---------------------------------------------------------|------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| April 1 - 30, 2015 | 22,259                                                  | \$117.53                           | 22,259                                                                          | \$ 95,657,211                                                                           |
| May 1 - 31, 2015   | 44,125                                                  | 116.65                             | 44,125                                                                          | 90,510,231                                                                              |
| June 1 - 30, 2015  | 180,790                                                 | 112.78                             | 180,790                                                                         | 70,120,414                                                                              |
| Total              | 247,174                                                 | \$113.90                           | 247,174                                                                         | \$ 70,120,414                                                                           |

Shares were repurchased pursuant to the repurchase program announced in December 2012, with repurchases beginning in the first quarter of 2013. Repurchases under the program are limited to \$250 million in total repurchase price, and the expiration date is December 31, 2016. Authorization of the repurchase program may be modified, suspended, or discontinued at any time.

Item 6. Exhibits

|         |                                                                                                                                                |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Form of Equity Choice Program Award Agreement under the International Flavors & Fragrances 2015 Stock Award and Incentive Plan                 |
| 31.1    | Certification of Andreas Fibig pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                      |
| 31.2    | Certification of Alison A. Cornell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                  |
| 32      | Certification of Andreas Fibig and Alison A. Cornell pursuant to 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document                                                                                                                         |
| 101.SCH | XBRL Taxonomy Extensions Schema                                                                                                                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                    |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                         |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                  |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL FLAVORS & FRAGRANCES INC.

Dated: August 10, 2015

By: /s/ Andreas Fibig  
Andreas Fibig  
Chairman of the Board and Chief Executive Officer

Dated: August 10, 2015

By: /s/ Alison A. Cornell  
Alison A. Cornell  
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

| Number  | Description                                                                                                                                    |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------|
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| 31.2    | Certification of Alison A. Cornell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                  |
| 32      | Certification of Andreas Fibig and Alison A. Cornell pursuant to 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document                                                                                                                         |
| 101.SCH | XBRL Taxonomy Extensions Schema                                                                                                                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                    |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                         |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                  |