

INTERNATIONAL FLAVORS & FRAGRANCES INC

Form 424B5

September 25, 2018

Table of Contents

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-209889

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of	Amount to be	Proposed	Proposed	Amount of
		Maximum	Maximum	
Securities to be Registered	Registered	Offering Price	Aggregate	Registration Fee(1)
3.400% Senior Notes due 2020	\$300,000,000	per Unit 99.968%	Offering Price \$299,904,000	\$37,339
4.450% Senior Notes due 2028	\$400,000,000	99.912%	\$399,648,000	\$49,757
5.000% Senior Notes due 2048	\$800,000,000	99.278%	\$794,224,000	\$98,881

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.

**Table of Contents**

**PROSPECTUS SUPPLEMENT**

**(to Prospectus dated August 6, 2018)**

**\$1,500,000,000**

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**

**\$300,000,000 3.400% Senior Notes due 2020**

**\$400,000,000 4.450% Senior Notes due 2028**

**\$800,000,000 5.000% Senior Notes due 2048**

We are offering \$300,000,000 aggregate principal amount of 3.400% Senior Notes due 2020 (the 2020 notes ), \$400,000,000 aggregate principal amount of 4.450% Senior Notes due 2028 (the 2028 notes ) and \$800,000,000 aggregate principal amount of 5.000% Senior Notes due 2048 (the 2048 notes and, together with the 2020 notes and the 2028 notes, the notes ). The 2020 notes will bear interest at a rate of 3.400% per annum and will mature on September 25, 2020. The 2028 notes will bear interest at a rate of 4.450% per annum and will mature on September 26, 2028. The 2048 notes will bear interest at a rate of 5.000% per annum and will mature on September 26, 2048. Interest on the 2020 notes will accrue from September 26, 2018, and will be payable semi-annually in cash in arrears on March 25 and September 25 of each year, beginning on March 25, 2019. Interest on the 2028 notes and the 2048 notes will accrue from September 26, 2018, and will be payable semi-annually in cash in arrears on March 26 and September 26 of each year, beginning on March 26, 2019.

We may, at our option, redeem the notes in whole or in part at any time or from time to time prior to maturity at the redemption price described in the section Description of the Notes Optional Redemption in this prospectus supplement. Upon an occurrence of a Change of Control Triggering Event (as defined herein), we will be required to make an offer to repurchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to, but not including, the date of repurchase.

On May 7, 2018, International Flavors & Fragrances Inc. ( IFF ) entered into an Agreement and Plan of Merger (the Merger Agreement ) with Frutarom Industries Ltd., a company organized under the laws of the State of Israel ( Frutarom ), and Icon Newco Ltd., a company organized under the laws of the State of Israel and a wholly owned subsidiary of IFF ( Merger Sub ). Pursuant to the Merger Agreement, subject to the satisfaction or waiver of specified conditions, and in accordance with the Companies Law 5759-1999 of the State of Israel (together with the rules and regulations thereunder, the ICL ), Merger Sub will merge with and into Frutarom (the Merger ), with Frutarom continuing as the surviving company in the Merger and a wholly owned subsidiary of IFF.

This notes offering is not contingent on the completion of the Merger or any additional financing. However, if the closing of the Merger has not occurred on or prior to February 7, 2019, or, if prior to such date, the Merger Agreement

is terminated, we will be required to redeem all of the notes on the Special Mandatory Redemption Date (as defined herein) at a redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest to, but not including, the Special Mandatory Redemption Date. See Description of the Notes Special Mandatory Redemption.

The notes are our direct, unsecured and unsubordinated obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding.

The notes will not be listed on any national securities exchange or quoted on any automated dealer quotation system. Currently there is no public market for the notes.

**Investing in the notes involves significant risks. See Risk Factors in this prospectus supplement and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including our Annual Report on Form 10-K for the year ended December 31, 2017.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>Per 2020 Note</b>	<b>Total for 2020 Notes</b>	<b>Per 2028 Note</b>	<b>Total for 2028 Notes</b>	<b>Per 2048 Note</b>	<b>Total for 2048 Notes</b>
Public offering price <sup>(1)</sup>	99.968%	\$ 299,904,000	99.912%	\$ 399,648,000	99.278%	\$ 794,224,000
Underwriting discount	0.350%	\$ 1,050,000	0.650%	\$ 2,600,000	0.875%	\$ 7,000,000
Proceeds, before expenses, to International Flavors & Fragrances Inc.	99.618%	\$ 298,854,000	99.262%	\$ 397,048,000	98.403%	\$ 787,224,000

(1) Plus accrued interest, if any, from September 26, 2018, if settlement occurs after that date.

We expect that delivery of the notes will be made to investors through the book-entry facilities of The Depository Trust Company and its direct participants, including Euroclear Bank, S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, against payment on or about September 26, 2018.

***Joint Book-Running Managers***

**Morgan Stanley**

**BNP PARIBAS**  
***Co-Managers***

**Citigroup**

**J.P. Morgan**

**Citizens Capital Markets**

**ING**

**MUFG**

**US Bancorp**

**Wells Fargo Securities**

**HSBC**

**Standard Chartered Bank**

**The date of this prospectus supplement is September 24, 2018.**

**Table of Contents**

**TABLE OF CONTENTS**

<b>Prospectus Supplement</b>	<b>Page</b>
<u>SUMMARY</u>	S-1
<u>SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA OF IFF</u>	S-8
<u>SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF FRUTAROM</u>	S-10
<u>RISK FACTORS</u>	S-11
<u>FORWARD-LOOKING STATEMENTS</u>	S-22
<u>USE OF PROCEEDS</u>	S-24
<u>CAPITALIZATION</u>	S-25
<u>UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	S-27
<u>DESCRIPTION OF THE NOTES</u>	S-49
<u>UNITED STATES FEDERAL INCOME TAX CONSEQUENCES</u>	S-59
<u>UNDERWRITING</u>	S-61
<u>LEGAL MATTERS</u>	S-66
<u>EXPERTS</u>	S-66
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	S-67
<u>FRUTAROM INDUSTRIES LTD. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

<b>Prospectus</b>	<b>Page</b>
<u>ABOUT THIS PROSPECTUS</u>	1
<u>THE COMPANY</u>	2
<u>RISK FACTORS</u>	3
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	4
<u>USE OF PROCEEDS</u>	6
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	7
<u>DESCRIPTION OF COMMON STOCK</u>	8
<u>DESCRIPTION OF DEBT SECURITIES</u>	10
<u>DESCRIPTION OF PURCHASE CONTRACTS</u>	19
<u>DESCRIPTION OF UNITS</u>	20
<u>PLAN OF DISTRIBUTION</u>	21
<u>LEGAL MATTERS</u>	23
<u>EXPERTS</u>	23
<u>WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION BY REFERENCE</u>	23

Unless we have indicated, or the context otherwise requires, references in this prospectus supplement to IFF, the Company, we, us, our, or similar terms are to International Flavors & Fragrances Inc. and its subsidiaries.

Table of Contents

**ABOUT THIS PROSPECTUS SUPPLEMENT**

We are providing information to you about this offering in two parts. The first part is this prospectus supplement, which provides the specific details regarding this offering. The second part is the accompanying prospectus, which provides general information. Generally, when we refer to this prospectus, we are referring to both documents combined. This prospectus supplement may add, update or change information contained in or incorporated by reference in the accompanying prospectus. Some of the information contained in or incorporated by reference in the accompanying prospectus may not apply to this offering. If the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with information contained in or incorporated by reference in the accompanying prospectus, you should rely on the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement.

**We are responsible for the information contained and incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus with respect to this offering filed by us with the Securities and Exchange Commission (the SEC). We have not, and the underwriters have not, authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. This prospectus supplement, the accompanying prospectus and any such free writing prospectus may be used only for the purposes for which they have been prepared. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus, any free writing prospectus and the documents incorporated by reference herein and therein is accurate as of any date other than their respective dates. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.**

The notes are being offered for sale only in jurisdictions where it is lawful to make such offers. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons outside the United States who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See **Underwriting** in this prospectus supplement.

Unless we specifically state otherwise, the information in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, does not give effect to the Merger.

**Table of Contents****SUMMARY**

*This summary is not complete and does not contain all of the information that may be important to you. You should read the entire prospectus supplement and accompanying prospectus carefully, including the section entitled Risk Factors, as well as the documents incorporated by reference, before making an investment decision.*

**The Company**

We are a leading innovator of sensory experiences that move the world. We co-create unique products that consumers taste, smell, or feel in fine fragrances and beauty, detergents and household goods, and food and beverages. Our approximately 7,300 team members globally take advantage of our capabilities in consumer insights, research and product development ( R&D ), creative expertise and customer intimacy to partner with our customers in developing innovative and differentiated offerings for consumer products. We believe that our collaborative approach will generate market share gains for our customers.

Our international presence positions us to serve both our global customers and the increasing number of regional and high-end and middle-market specialty consumer goods producers. We operate thirty-seven manufacturing facilities and sixty-nine creative centers and application laboratories located in thirty-seven different countries. We partner with our customers to develop over 46,000 products that are provided to customers in approximately 162 countries.

We principally compete in the flavors and fragrances market, which is part of a larger market that supplies a wide variety of ingredients and compounds used in consumer products. The broader market includes large multi-national companies and smaller regional and local participants that supply products such as seasonings, texturizers, spices, enzymes, certain food-related commodities, fortified products and cosmetic ingredients. The global market for flavors and fragrances has expanded consistently, primarily as a result of an increase in demand for, and an increase in the variety of, consumer products containing flavors and fragrances. Management estimates that in 2017 the flavors and fragrances market was approximately \$24.8 billion, and forecasted to grow approximately 2-3% by 2021, primarily driven by expected growth in emerging markets.

In 2017, we achieved sales of approximately \$3.4 billion, making us one of the top four companies in the global flavors and fragrances sub-segment of the broader consumer products ingredients and compounds market. We believe that our global presence, diversified business platform, broad product portfolio and global and regional customer base position us to achieve long-term growth as the flavors and fragrances markets expand.

We operate in two business segments, Flavors and Fragrances. In 2017, our Flavors business represented 48% of our sales, while our Fragrances business represented 52% of sales. Our business is geographically diverse, with sales to customers in the four regions set forth below:

<b>Region</b>	<b>% of 2017 Sales</b>
Europe, Africa, Middle East	31%
Greater Asia	27%
North America	27%
Latin America	15%

We are committed to winning in emerging markets. We believe that more significant future growth potential for the flavors and fragrances industry, and for our business, exists in the emerging markets (all markets except North America, Japan, Australia, and Western, Southern and Northern Europe). Over the past five years our currency neutral

sales growth rate in emerging markets has outpaced that of developed markets. We expect this long-term trend to continue for the foreseeable future.

S-1



## Table of Contents

We have operated in some of the largest emerging markets for multiple decades. As a result of these established operations, sales in emerging markets represented 48% of 2017 sales and 51% of 2016 sales. As our customers seek to grow their businesses in emerging markets, we provide them the ability to leverage our long-standing international presence and extensive market knowledge to help drive their brands in these markets. To stay competitive in our industry, we must adapt to rapidly shifting consumer preferences and customer demands. We believe our consumer insights and customer relationships help to drive innovation that benefits us and our customers. During 2017, our 25 largest customers accounted for 50% of our sales. Sales to our largest customer across all end-use categories accounted for 11% to 12% of our sales for each of the last three fiscal years. These sales were principally in our Fragrances business.

### **Our Strategic Priorities**

We are focused on generating sustainable profitable growth in our business and positioning our portfolio for long-term growth. We have continued to execute against the four pillars of our Vision 2020 strategy originally announced in 2015 and refreshed in 2017, which focuses on building differentiation and accelerating growth to create shareholder value:

- (1) **Innovating Firsts** We seek to strengthen our position by driving differentiation in priority R&D platforms across both businesses. In 2017, we launched three captive fragrance molecules and three new flavor modulators. We achieved continued growth of our sweetness and savory modulation portfolio sales and encapsulated-related sales. We also launched Re-Imagine, a program to accelerate flavor innovation and increase agility to capture unmet opportunities in the changing food and beverage market.
- (2) **Winning Where We Compete** Our goal is to achieve a #1 or #2 market leadership position in key markets and categories and with specific customers. In 2017, we grew our sales in both our Flavors and Fragrances businesses in North America and the Middle East and Africa geographic area we targeted for growth. We also created Tastepoint by IFF, designed to leverage our expertise in and to service the middle-market customer in North America, and opened an expanded facility in Cairo, Egypt to support our regional focus on growth in the Middle East and Africa.
- (3) **Becoming Our Customers Partner of Choice** Our goal is to attain commercial excellence by providing our customers with in-depth, local consumer understanding, industry-leading innovation, outstanding service and the highest quality products. In 2017, we introduced IFF Taste Design, a combination of artisanal, handcrafted techniques and proprietary technologies that drive consumer preference and market differentiation. In addition, we were rated gold by EcoVadis for sustainability, received an A rating and were awarded leadership status for our climate change and an A- for water management strategy by CDP.
- (4) **Strengthening and Expanding the Portfolio** We actively pursue value-creation through partnerships, collaborations, and acquisitions within flavors, fragrances and adjacencies. We prioritize opportunities that provide (i) access to new technologies, (ii) the ability to increase our market share in key markets and with key customers or (iii) access to adjacent products or services that will position us to leverage our expertise in science and technology and our customer base. During 2017, we acquired Fragrance Resources to further improve our market position with regional customers in specialty fine fragrances, and PowderPure to further expand product

offerings of clean label flavors solutions. We also became the first sensorial innovator of flavors, fragrances and cosmetic actives to join the MIT Media Lab, a leader in research and technologies that transform the everyday for consumers around the world.

**General**

Our principal executive offices are located at 521 West 57<sup>th</sup> Street, New York, New York 10019. Our telephone number at that location is (212) 765-5500. Our home page on the internet is *www.iff.com*. Other than

S-2

## Table of Contents

the information expressly set forth or incorporated by reference, the information contained, or referred to, on our website is not part of this prospectus supplement or the accompanying prospectus.

## **Recent Developments**

### **Acquisition of Frutarom**

On May 7, 2018, IFF entered into an Agreement and Plan of Merger (the *Merger Agreement*) with Frutarom Industries Ltd., a company organized under the laws of the State of Israel (*Frutarom*), and Icon Newco Ltd., a company organized under the laws of the State of Israel and a wholly owned subsidiary of IFF (*Merger Sub*). Frutarom, through its subsidiaries, develops, produces and markets flavors and fine ingredients used in manufacturing food, beverages, flavors and fragrances, pharma/nutraceuticals, cosmetics and personal care products.

We believe that the acquisition of Frutarom will provide us with several strategic and financial benefits, including:

*Differentiated Portfolio with Enhanced Capabilities:* In addition to IFF's and Frutarom's complementary flavor capabilities, we expect that Frutarom's portfolio will provide opportunities to expand into attractive and fast-growing categories, such as natural colors, enzymes, antioxidants and health ingredients. We believe that the combined company's increased breadth of products will provide complementary offerings and expanded choices to its customers.

*Complementary and Growing Customer Base:* We expect that Frutarom's customer base will provide IFF with increased exposure to fast-growing small- and mid-sized customers, including private label manufacturers.

*Synergy Potential:* IFF and Frutarom expect to realize approximately \$145 million of run-rate cost synergies by the third full year after the completion of the merger, with approximately 25% of such synergies expected to be achieved in the first full year. We believe that cross-selling opportunities and integrated solutions will provide revenue synergies, creating further value to shareholders over time.

Pursuant to the Merger Agreement, subject to the satisfaction or waiver of specified conditions, and in accordance with the ICL, Merger Sub will merge with and into Frutarom, with Frutarom continuing as the surviving company in the Merger and a wholly owned subsidiary of IFF. We refer in this prospectus supplement to our acquisition of Frutarom pursuant to the Merger Agreement as the *Merger*. Under the terms of the Merger Agreement, for each share of outstanding stock of Frutarom, Frutarom shareholders will receive \$71.19 in cash and 0.2490 of a share of IFF's common stock, or an aggregate of approximately \$4,238.8 million and 14.8 million shares based on the number of Frutarom's outstanding ordinary shares and share-based awards as of May 7, 2018, the date of the Merger Agreement.

Consummation of the Merger is subject to customary closing conditions. The shareholders of Frutarom approved the Merger on August 6, 2018, and we have obtained regulatory clearance under antitrust laws for the Merger. The completion of the Merger is not subject to the approval of IFF shareholders or the receipt of financing by IFF. As of the date of this prospectus supplement, the completion of the Merger remains subject to the following closing conditions: (i) receipt of all governmental and stock exchange approvals necessary for the issuance and listing of shares of IFF common stock as contemplated by the Merger Agreement, (ii) the absence of any order, or the enactment of any law, prohibiting the Merger; (iii) subject to certain exceptions, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the Merger

Agreement; and (iv) the absence of any material adverse effect on Frutarom or the Company since the date of the Merger Agreement. The Merger Agreement also contains certain termination rights for IFF and Frutarom.

S-3

## **Table of Contents**

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by the full text of such agreement. The Merger Agreement is an exhibit to the registration statement to which this prospectus supplement relates.

## **Merger Financing**

IFF anticipates that approximately \$4.3 billion will be required to pay the aggregate cash portion of the Merger consideration to the Frutarom shareholders and to pay fees and expenses relating to the Merger.

In addition to the proceeds from this notes offering, IFF intends to obtain or otherwise incur, or has obtained or incurred, additional financing for the Merger as follows:

*Euro Notes Offering.* We offered, pursuant to a separate prospectus supplement, additional senior notes denominated in euros (the euro notes ) at varying maturities. This prospectus supplement is not an offer with respect to the euro notes offering.

*Common Stock and Tangible Equity Units Offerings.* On September 17, 2018, we completed a public offering of a total of 12,667,947 shares of our common stock, including 1,151,632 shares for which the underwriters for the common stock offering exercised in full their option to purchase additional shares. On September 17, 2018, we also completed a public offering of a total of 16,500,000 of our 6.00% tangible equity units ( Units ), including 1,500,000 Units for which the underwriters for the Units offering exercised in full their option to purchase additional Units to cover over-allotments. We raised approximately \$2,401 million in aggregate net proceeds from these offerings, including full exercise of the options for the respective offerings, after deducting the underwriting discounts and commissions and estimated offering expenses.

*Term Loan.* On June 6, 2018, IFF entered into a senior unsecured term loan credit agreement (the New Term Loan ) with the lenders party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent, that provides for a three-year \$350 million senior unsecured term loan facility. The commitments under the New Term Loan terminate on February 7, 2019 or, under certain circumstances, on May 7, 2019.

In connection with entering into the Merger Agreement, IFF entered into a debt commitment letter, dated as of May 7, 2018, with Morgan Stanley Senior Funding, Inc., that provided for a commitment for an up to \$5.45 billion 364-day bridge loan facility (the Bridge Facility ) to the extent IFF has not received \$5.45 billion of net cash proceeds (and/or qualified bank commitments) from a combination of (a) the issuance by IFF of a combination of equity securities, equity-linked securities and/or unsecured debt securities and/or (b) unsecured term loans, in each case, at or prior to completion of the Merger. The commitments under the debt commitment letter terminate on February 7, 2019 or, under certain circumstances, on May 7, 2019. Although we do not currently expect to incur any borrowings under the Bridge Facility, there can be no assurance that such borrowings will not be made. In that regard, we may be required to borrow under the Bridge Facility if we do not generate sufficient net proceeds from this notes offering, the offering of euro notes, the common stock and tangible equity units offerings or unsecured term loans to finance the Merger and related fees and expenses.

Completion of this notes offering is not contingent on completion of the Merger and the Merger is not contingent on the completion of this notes offering. However, if for any reason the closing of the Merger has not occurred on or prior to February 7, 2019, or, if prior to such date, the Merger Agreement is terminated, then in either case we will be

required to redeem the notes as described under Description of the Notes Special Mandatory Redemption.

S-4

**Table of Contents**

In addition, if the Merger is not consummated, we do not expect any debt under the New Term Loan to be incurred.

We cannot assure you that we will complete the Merger or any of the other financing transactions on the terms contemplated in this prospectus supplement or at all.

**About Frutarom**

Frutarom is a global company established in Israel in 1933 and operating in the global flavors and specialty fine ingredients markets. Frutarom, through its subsidiaries, develops, produces and markets flavors and fine ingredients used in manufacturing food, beverages, flavors and fragrances, pharma/nutraceuticals, cosmetics and personal care products. As of December 31, 2017, Frutarom operated 72 production sites, 90 research and development laboratories, and 109 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and employed 5,223 people throughout the world. In 2017, Frutarom marketed and sold over 70,000 products to more than 30,000 customers in more than 150 countries.

Frutarom operates in two main activities which constitute its core businesses and are reported as business segments in its financial statements: flavors activity and specialty fine ingredients activity. In addition, as part of a comprehensive solution offered to customers, Frutarom imports and markets raw materials manufactured by third parties. This activity is presented as part of trade and marketing operations, which is not a core business.

Frutarom generated sales of \$1,362.4 million, \$1,147.0 million, and \$872.8 million for the twelve months ended December 31, 2017, December 31, 2016, and December 31, 2015, respectively. Sales for the six months ended June 30, 2018 and June 30, 2017 were \$786.1 million and \$646.1 million, respectively. During the twelve months ended December 31, 2017, December 31, 2016, and December 31, 2015, Frutarom's net income was \$151.6 million, \$111.1 million, and \$96.1 million, respectively. Net income for the six months ended June 30, 2018 and June 30, 2017 was \$98.6 million and \$70.9 million, respectively.

**Table of Contents**

**The Offering**

Issuer	International Flavors & Fragrances Inc., a New York corporation.
Securities Offered	<p>\$300,000,000 aggregate principal amount of 3.400% Senior Notes due 2020 (the 2020 notes ).</p> <p>\$400,000,000 aggregate principal amount of 4.450% Senior Notes due 2028 (the 2028 notes ).</p> <p>\$800,000,000 aggregate principal amount of 5.000% Senior Notes due 2048 (the 2048 notes ).</p>
Maturity Date	The 2020 notes will mature on September 25, 2020, the 2028 notes will mature on September 26, 2028 and the 2048 notes will mature on September 26, 2048, in each case unless previously redeemed.
Interest	<p>Interest will accrue at an annual rate of 3.400% on the 2020 notes.</p> <p>Interest will accrue at an annual rate of 4.450% on the 2028 notes.</p> <p>Interest will accrue at an annual rate of 5.000% on the 2048 notes.</p> <p>Interest on the 2020 notes will be paid semi-annually in cash in arrears on March 25 and September 25 of each year, beginning on March 25, 2019. Interest on the 2028 notes and the 2048 notes will be payable semi-annually in cash in arrears on March 26 and September 26 of each year, beginning on March 26, 2019.</p>
Ranking	The notes are our direct, unsecured and unsubordinated obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. See Description of the Notes Ranking in this prospectus supplement.
Special Mandatory Redemption	If the closing of the Merger has not occurred on or prior to February 7, 2019, or, if prior to such date, the Merger Agreement is terminated, then in either case we must redeem all of the notes at a redemption price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of the Notes Special Mandatory Redemption.
Optional Redemption	We may redeem the notes, at our option, in whole or in part at any time or from time to time before maturity, at the redemption price described in



this prospectus supplement. See **Description of the Notes** **Optional Redemption** in this prospectus supplement.

**Repurchase Upon Change of Control  
Triggering Event**

Upon the occurrence of a **Change of Control Triggering Event**, as described in **Description of the Notes** **Offer to Repurchase Upon a Change of Control Triggering Event** in this prospectus supplement, we will be required to make an offer to repurchase the notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to, but not including, the date of repurchase.

**Table of Contents**

Covenants	The notes and the indenture relating to the notes limit, among other things, our ability to engage in mergers or consolidations, to create liens, to enter into sale and lease-back transactions and to transfer or lease all or substantially all of our assets. See <b>Description of the Notes Certain Covenants</b> in this prospectus supplement.
Additional Notes	We may, from time to time and without the consent of the holders, create and issue additional notes with the same terms (including maturity and interest payment terms) as, and ranking equally and ratably with, the notes initially offered in this offering, provided, however, that unless such additional notes are issued pursuant to a qualified reopening of the original notes, are otherwise treated as part of the same issue of debt instruments as the original notes or are issued with no more than a de minimis amount of original discount, in each case for United States federal income tax purposes, the additional notes will have a different CUSIP number. There is no limit on the amount of notes that can be issued under the indenture governing the notes.
Use of Proceeds	We estimate that the net proceeds to us from this notes offering, after deducting underwriting discounts and estimated offering expenses payable by us, will be approximately \$1,482 million. We intend to use the net proceeds from this offering to pay a portion of the consideration for the Merger and to pay related fees and expenses.
Sinking Fund	None.
Denomination and Form	We will issue the notes in the form of one or more fully registered global notes registered in the name of the nominee of The Depository Trust Company ( <b>DTC</b> ). Beneficial interests in the notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. The notes will be issued only in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.
Risk Factors	Investing in the notes involves significant risks. See <b>Risk Factors</b> in this prospectus supplement, as well as other information included in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of the factors you should carefully consider before deciding to invest in the notes.

Listing

Table of Contents

The notes will not be listed on any securities exchange or included in any automated quotation system. The notes are new securities for which no market currently exists. We cannot assure you that any active or liquid market will develop in the notes.

Trustee

U.S. Bank National Association.

Governing Law

State of New York.

S-7

---

**Table of Contents****SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA OF IFF**

The following table presents selected historical consolidated financial data for IFF and unaudited pro forma combined financial data for IFF and Frutarom as of the dates and for the periods indicated. The historical statement of income data and cash flow data for IFF for the fiscal years ended December 31, 2017, 2016 and 2015 and the historical balance sheet data as of December 31, 2017 and 2016 have been obtained from IFF's audited consolidated financial statements included in IFF's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated by reference into this prospectus supplement and accompanying prospectus. The historical statement of income data and cash flow data for IFF for the six-month periods ended June 30, 2018 and 2017 and the historical balance sheet data as of June 30, 2018 have been obtained from IFF's unaudited interim consolidated financial statements included in IFF's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, which is incorporated by reference into this prospectus supplement and accompanying prospectus. The historical balance sheet data as of June 30, 2017 has been derived from IFF's unaudited consolidated financial statements included in IFF's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, which is not incorporated by reference into this prospectus supplement or accompanying prospectus. The historical statement of income data for IFF included below for the fiscal years ended December 31, 2017, 2016 and 2015 and IFF's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated by reference into this prospectus supplement and accompanying prospectus, have not been revised to reflect the required retrospective adoption of the Financial Accounting Standards Board amendment to Compensation Retirement Benefits guidance (ASU 2017-07), which we refer to as the FASB amendment, as the guidance had no impact on net income and the effect of the revision was not material for those periods. For more information on the adoption of the FASB amendment, please refer to IFF's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, which is incorporated by reference into this prospectus supplement and accompanying prospectus. The unaudited pro forma combined financial data are based upon the historical consolidated financial data of IFF and Frutarom, after giving effect to the merger as of the dates and for the periods indicated. The unaudited pro forma combined financial data should be read in conjunction with the financial statements presented in Unaudited Pro Forma Condensed Combined Financial Information in this prospectus supplement and the related notes thereto.

The results of operations for the six-month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2018, and you should not assume the results of operations for any past periods indicate results for any future period. The information set forth below should be read together with the other information contained in IFF's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and IFF's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, including the sections entitled Management's Discussion and Analysis of Financial Condition and Results of

**Table of Contents**

Operations and the consolidated financial statements and related notes therein. See the section entitled "Incorporation of Certain Information by Reference."

	<b>Historical International</b>						
	<b>Pro Forma Combined Six-Month Period Ended June 30, 2018</b>	<b>Flavors &amp; Fragrances Inc. Six-Month Period Ended June 30, 2018 2017</b>		<b>Pro Forma Combined Year Ended December 31, 2017</b>	<b>Historical International Flavors &amp; Fragrances Inc. Year Ended December 31, 2017 2016 2015</b>		
<i>Dollars in thousands except per share amounts</i>							
<b>Statement of Income Data:</b>							
Net sales	\$ 2,637,054	\$ 1,850,944	\$ 1,671,154	\$ 4,761,115	\$ 3,398,719	\$ 3,116,350	\$ 3,023,189
Cost of goods sold	1,513,347	1,046,419	935,088	2,763,527	1,919,718	1,717,280	1,671,590
Gross profit	1,123,707	804,525	736,066	1,997,588	1,479,001	1,399,070	1,351,599
Research and development expenses	184,014	153,244	144,887	339,113	286,026	254,263	246,101
Selling and administrative expenses	429,236	300,051	283,023	816,476	557,311	566,224	494,517
Restructuring and other charges, net	1,903	1,903	10,934	19,371	19,711	(1,700)	7,594
Amortization of acquisition-related intangibles	92,147	18,769	15,561	176,711	34,694	23,763	15,040
Gain on sales of fixed assets	504	1,195	(89)	1,750	(184)	(10,836)	
Operating profit	415,903	329,363	281,750	644,167	581,443	567,356	588,347
Interest expense	126,269	69,841	30,363	160,033	65,363	52,989	46,062
Other (income) expense, net	(33,161)	(21,232)	(29,140)	(36,454)	(20,965)	(9,350)	3,184
Income before taxes	322,795	280,754	280,527	520,588	537,045	523,717	539,101
Taxes on income	59,844	52,190	54,968	232,820	241,380	118,686	119,854
Net income (Including noncontrolling interest)	262,951			287,768			
Less: noncontrolling interest	3,205			4,895			
Net Income	259,746	228,564	225,559	282,873	295,665	405,031	419,247
Net income per share:							
Basic	2.34	2.89	2.85	2.54	3.73	5.07	5.19
Diluted	2.31	2.87	2.84	2.52	3.72	5.05	5.16
Cash dividends declared per share		1.38	1.28		2.66	2.40	2.06
<b>Balance Sheet Data at Period End:</b>							
Total Assets	\$ 12,795,113	\$ 4,673,442	\$ 4,618,875		\$ 4,598,926	\$ 4,016,984	
Long-term debt	4,086,344	1,717,189	1,636,338		1,632,186	1,066,855	
Total Shareholders Equity including noncontrolling interest	5,976,925	1,756,203	1,680,086		1,689,294	1,631,134	

S-9

**Table of Contents****SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF FRUTAROM**

The following table presents selected historical consolidated financial data for Frutarom as of the dates and for the periods indicated. Frutarom's financial data has been prepared under International Financial Reporting Standards (IFRS), as issued by the International Auditing Standards Board (IASB). The balance sheet data as of December 31, 2017 and 2016 and the statement of income data and cash flow data for the fiscal years ended December 31, 2017, 2016 and 2015 have been obtained from Frutarom's audited annual consolidated financial statements, which are included in this prospectus supplement. The financial data as of and for the six-month periods ended June 30, 2018 and 2017 have been obtained from Frutarom's unaudited, interim consolidated financial statements, which are included in this prospectus supplement.

The results of operations for the six-month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2018, and you should not assume the results of operations for any past periods indicate results for any future period. The information set forth below should be read together with the other information contained in Frutarom's audited annual consolidated financial statements and unaudited interim consolidated financial statements, which are included in this prospectus supplement.

<i>Dollars in thousands except per share amounts</i>	<b>Six-Month Period Ended</b>		<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Statement of Income Data:</b>					
Sales	\$ 786,110	\$ 646,120	\$ 1,362,396	\$ 1,147,041	\$ 872,796
Cost of sales	466,928	398,243	837,271	709,488	534,737
Gross profit	319,182	247,877	525,125	437,553	338,059
Selling, marketing, research and development expenses net	134,697	101,792	220,014	196,001	141,237
General and administrative expenses	51,179	45,601	92,155	81,637	63,742
Other expenses net	(315)	385	3,392	11,772	2,826
Group's share of earnings of companies accounted for at equity	1,326	444	1,402	1,113	
Income from operations	134,947	100,543	210,966	149,256	130,254
Financial Expenses net	12,758	10,204	24,606	12,841	12,197
Income before taxes on income	122,189	90,339	186,360	136,415	118,057
Income tax	23,600	19,413	34,797	25,346	21,972
Net Income	98,589	70,296	151,563	111,069	96,085
Earnings per share:					
Basic	1.64	1.17	2.52	1.85	1.62
Fully diluted	1.63	1.17	2.51	1.84	1.60

Cash dividends declared per share			0.12	0.11	0.09
-----------------------------------	--	--	------	------	------

**Balance Sheet Data at Period****End:**

Total Assets	\$ 2,255,414	\$ 1,790,072	\$ 1,947,188	\$ 1,585,461
Long term loans, net of current maturities	399,833	260,339	262,151	299,576
Total equity	921,420	768,856	878,913	664,604

S-10



**Table of Contents**

**RISK FACTORS**

*An investment in the notes involves significant risks. You should consult with your own financial and legal advisers and carefully consider, among other matters, the following risks and those described in our Annual Report on Form 10-K for the year ended December 31, 2017, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018, respectively, and the other documents incorporated herein by reference. You should carefully consider the risks described in those reports and the other information in this prospectus supplement and accompanying prospectus before you decide to invest in the notes. Such risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect us. If any of those risks were to occur, our financial condition, operating results and prospects, as well as the value of the notes, could be materially adversely affected.*

**Risks Related to Our Business**

For a discussion of risks related to our business and operations, please see Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for our fiscal year ended December 31, 2017, as well as similar disclosures contained in our other filings with the SEC that are incorporated by reference in this prospectus supplement and the accompanying prospectus. See Incorporation of Certain Information by Reference.

**Risks Related to the Merger**

*If we are unable to complete the Merger, in a timely manner or at all, our business may be adversely affected.*

Our and Frutarom's obligations to consummate the Merger are subject to the satisfaction or waiver of the following customary conditions, including: (i) the approval of the Merger Agreement and the Merger by the shareholders of Frutarom, which was obtained on August 6, 2018; (ii) regulatory clearance under antitrust laws, which has been received; (iii) receipt of all governmental and stock exchange approvals necessary for the issuance and listing of shares of IFF common stock as contemplated by the Merger Agreement, (iv) the absence of any order, or the enactment of any law, prohibiting the Merger; (v) subject to certain exceptions, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the Merger Agreement; and (vi) the absence of any material adverse effect on Frutarom or our company since the date of the Merger Agreement. Furthermore, our ability to access the bridge financing facility is subject to customary conditions. As many of these conditions are outside of our control, we cannot assure you if the conditions to the completion of the Merger and the associated financings will be satisfied in a timely manner or at all which may affect when and whether the Merger will occur. Furthermore, if the Merger is not completed and the Merger Agreement is terminated, we may suffer other consequences that could adversely affect our business and results of operations, including the following:

we have incurred and will continue to incur costs relating to the Merger (including significant legal and financial advisory fees) and many of these costs are payable by us whether or not the Merger is completed;

matters relating to the Merger (including integration planning) may require substantial commitments of time and resources by our management team, which could otherwise have been devoted to our historical core businesses or other opportunities that may have been beneficial to us;

we may be subject to legal proceedings related to the Merger or the failure to complete the Merger;

the failure to consummate the Merger may result in negative publicity and a negative impression of us in the investment community; and

S-11

**Table of Contents**

any disruptions to our business resulting from the announcement and pendency of the Merger, including any adverse changes in our relationships with our customers, suppliers and employees, may continue or intensify in the event the Merger is not consummated.

***We may not realize the benefits anticipated from the Merger, which could adversely affect our business.***

The Merger, if completed, will be our largest acquisition to date. The anticipated benefits from the Merger are, necessarily, based on projections and assumptions about the combined businesses of our company and Frutarom, which may not materialize as expected or which may prove to be inaccurate. Our ability to achieve the anticipated benefits will depend on our ability to successfully and efficiently integrate the business and operations of Frutarom with our business and achieve the expected synergies. We may encounter significant challenges with successfully integrating and recognizing the anticipated benefits of the potential Merger, including the following:

potential disruption of, or reduced growth in, our historical core businesses, due to diversion of management attention and uncertainty with our current customer and supplier relationships;

challenges arising from the expansion of our product offerings into adjacencies with which we have limited experience, including flavor ingredients, food additives and nutraceuticals;

challenges arising from the expansion into those Frutarom jurisdictions where we do not currently operate or have significant operations;

coordinating and integrating research and development teams across technologies and products to enhance product development while reducing costs;

consolidating and integrating corporate, information technology, finance and administrative infrastructures, and integrating and harmonizing business systems, which may be more difficult than anticipated due to the significant number of acquisitions completed by Frutarom over the past few years;

coordinating sales and marketing efforts to effectively position our capabilities and the direction of product development;

difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from combining Frutarom's business with our business;

limitations prior to the completion of the Merger on the ability of management of our company and of Frutarom to conduct planning regarding the integration of the two companies;

the increased scale and complexity of our operations resulting from the Merger;

retaining key employees, suppliers and other partners of our company and Frutarom;

retaining and efficiently managing Frutarom's expanded and decentralized customer base;

obligations that we will have to counterparties of Frutarom that arise as a result of the change in control of Frutarom;

difficulties in anticipating and responding to actions that may be taken by competitors in response to the transaction; and

the assumption of and exposure to unknown or contingent liabilities of Frutarom.

S-12

## **Table of Contents**

In addition, our anticipated benefits of the transaction with Frutarom contemplate significant cost-saving synergies. Consequently, even if we are able to successfully integrate the operations of Frutarom with ours, we may not realize the full benefits of the transactions if we are unable to identify and implement the anticipated cost savings or if the actions taken to implement such cost-savings have unintended consequences on our other business operations.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business of the scale of Frutarom, then we may not achieve the anticipated benefits of the Merger, we could incur unanticipated expenses and charges and our operating results could be materially and adversely affected.

***Uncertainty about the Merger may adversely affect our relationships with customers and employees, which could negatively affect our business, whether or not the Merger is completed.***

The announcement of the Merger on May 7, 2018, whether or not completed, may cause uncertainties in our relationships with our customers which could impair our ability to or expand our historical customer sales growth. Furthermore, uncertainties about the Merger may cause our current and prospective employees to experience uncertainty about their future with us. These uncertainties may impair our ability to retain, recruit or motivate key employees which could affect our business.

***The Merger may result in significant charges or other liabilities that could adversely affect the financial results of the combined company.***

The financial results of the combined company, following IFF's acquisition of Frutarom, may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with our integration of the business and operations of Frutarom. Furthermore, as a result of the transaction we will record a significant amount of goodwill and other intangible assets on our consolidated financial statements, which could be subject to impairment based upon future adverse changes in our business or prospects including our inability to recognize the benefits anticipated by the transaction.

In addition, upon the acquisition of Frutarom we will assume all their liabilities, including unknown and contingent liabilities that Frutarom assumed in connection with their acquisitions, that we failed or were unable to identify in the course of performing due diligence. Frutarom has completed 47 acquisitions since 2011, including 22 since the beginning of 2016. Our ability to accurately identify and assess the magnitude of the liabilities assumed by Frutarom in these acquisitions may be limited by, among other things, the information available to us and Frutarom and the limited operating experience that Frutarom has with these acquired entities. Furthermore, Frutarom has additional future obligations regarding certain of these acquisitions including outstanding earn-out obligations and put options requiring Frutarom to purchase additional shares in the target company, which we will assume upon consummation of the transaction. If we are not able to completely assess the scope of these liabilities or if these liabilities are neither probable nor estimable at this time, our future financial results could be adversely affected by unanticipated reserves or charges, unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition.

***The regulatory approvals required in connection with the Merger may not be obtained or may contain materially burdensome conditions.***

Completion of the Merger is conditioned upon the receipt of certain regulatory approvals, and we cannot provide assurance that these approvals will be obtained. If any conditions or changes to the proposed structure of the Merger are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of

the Merger or reducing the anticipated benefits of the Merger. If we agree to any material conditions in order to obtain any approvals required to complete the Merger, the business and results of operations of the combined company may be adversely affected.

S-13

## **Table of Contents**

***The use of cash and incurrence of significant indebtedness in connection with the financing of the Merger may have an adverse impact on our liquidity, limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions.***

The Merger will be financed in part by the use of our cash on hand, the incurrence of a significant amount of indebtedness and issuances of equity. As of June 30, 2018, we had approximately \$322.4 million of cash and cash equivalents and approximately \$1,723.7 million of total debt outstanding. In connection with the Merger, we expect to incur significant new debt. The proceeds from the new debt are expected to be used to pay part of the purchase price, refinance existing debt of both our company and Frutarom and pay transaction related fees and expenses. If we are unable to raise financing on acceptable terms, we may need to rely on our bridge loan facility, which may result in higher borrowing costs and a shorter maturity than those from other anticipated financing alternatives. The use of cash on hand and indebtedness to finance the Merger will reduce our liquidity and could cause us to place more reliance on cash generated from operations to pay principal and interest on our debt, thereby reducing the availability of our cash flow for working capital, dividend and capital expenditure needs or to pursue other potential strategic plans. The increased indebtedness may also have the effect, among other things, of limiting our ability to obtain additional financing, if needed, limiting our flexibility in the conduct of our business and making us more vulnerable to economic downturns and adverse competitive and industry conditions.

## **Risks Related to the Notes**

***The notes will be subject to the prior claims of any secured creditors, and if a default occurs, we may not have sufficient funds to fulfill our obligations under the notes.***

The notes are unsecured obligations, ranking equally with our other senior unsecured indebtedness and effectively junior to any secured indebtedness we may incur. If we incur secured debt, our assets securing any such indebtedness will be subject to prior claims by our secured creditors. In the event of the bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up of the Company, our assets that secure debt will be available to pay obligations on the notes only after all debt secured by those assets has been repaid in full. Holders of the notes will participate in any remaining assets ratably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the notes then outstanding would remain unpaid.

***The notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The notes are our obligations exclusively and not of any of our subsidiaries. In the year ended December 31, 2017, International Flavors & Fragrances Inc. generated approximately 21% of our consolidated net sales and 14% of our consolidated gross profit (excluding intercompany sales) at the parent level, while our subsidiaries generated approximately 79% of our consolidated net sales and 86% of our consolidated gross profit. Our subsidiaries are separate legal entities that have no obligation to pay any amounts due under the notes or to make any funds available therefor, whether by dividends, loans or other payments. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors, including trade creditors of our subsidiaries, will have priority with respect to the assets of such subsidiaries over our claims (and therefore the claims of our creditors, including holders of the notes). Consequently, the notes will be structurally subordinated to all liabilities, including trade payables, of our subsidiaries and any subsidiaries that we may in the future acquire or establish. As of June 30, 2018, our subsidiaries had approximately \$759.4 million of outstanding liabilities on an actual basis and \$759.4 million of outstanding liabilities on an as adjusted basis, in each case including trade payables, but excluding intercompany liabilities and deferred gains.

In addition, the indenture governing the notes permits our subsidiaries to incur additional indebtedness, and does not contain any limitation on the amount of other liabilities, such as trade payables, that may be incurred by our subsidiaries.

S-14



**Table of Contents**

***We may incur additional indebtedness.***

As of June 30, 2018, we had \$1,723.7 million of debt outstanding and we intend to issue a total of \$3.2 billion of debt to finance the Merger, including the euro notes and the notes offered hereby. The indenture governing the notes does not prohibit us from incurring additional unsecured indebtedness in the future. We are also permitted to incur additional secured indebtedness that would be effectively senior to the notes subject to limitations described in the section Description of the Notes Certain Covenants in this prospectus supplement. The indenture governing the notes also permits unlimited additional borrowings by our subsidiaries that are effectively senior to the notes. In addition, the indenture does not contain any restrictive covenants limiting our ability to pay dividends or make payments on junior or other indebtedness.

***Our credit ratings may not reflect all risks of an investment in the notes.***

The notes are expected to be rated by at least one nationally recognized statistical rating organization. The ratings of the notes may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, the notes. In addition, real or anticipated changes in our credit ratings will generally affect any trading market for, or trading value of, the notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There is no assurance that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances so warrant. In the event that a credit rating assigned to the notes or to us is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the notes, and the market value of the notes is likely to be adversely affected.

***There may be no trading market for the notes.***

We do not intend to list the notes to be offered under this prospectus supplement on any securities exchange or to seek approval for quotations of the notes through any automated quotation system. There is no established market for the notes and there is a risk that:

an active trading market for the notes will not develop;

you will not be able to sell your notes at fair market value or at all; or

you will not receive any specific price upon any sale of the notes.

If a public market for the notes does develop, the notes could trade at prices that may be lower than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes and our financial performance and prospects.

***An increase in market interest rates could result in a decrease in the value of the notes.***

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value because the premium, if any, over market interest rates will decline. Consequently, if you purchase fixed rate notes and market interest rates increase, the market value of your fixed rate notes may decline. We cannot predict the future level of market interest rates.

***The notes may not be a suitable investment for all investors.***

You must determine the suitability of your investment in light of your own circumstances. In particular, you should (1) have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus; (2) have access to, and knowledge of, appropriate analytical tools

S-15

---

**Table of Contents**

to evaluate, in the context of your particular financial situation, an investment in the notes and the impact the notes will have on your overall investment portfolio; (3) have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes; (4) understand thoroughly the terms of the notes and be familiar with the behavior of any relevant indices and financial markets; and (5) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

***To the extent we would be required to repurchase the notes upon a Change of Control Triggering Event or a special mandatory redemption, we may not have sufficient cash at such time to repurchase all the notes plus all other notes subject to a Change of Control Triggering Event or special mandatory redemption repurchase obligation.***

The notes will require us to offer to repurchase all or any part of the notes upon the occurrence of a Change of Control Triggering Event, as defined in the Description of the Notes Repurchase Upon Change of Control Triggering Event section of this prospectus supplement. We may in the future issue additional notes and enter into additional debt instruments that require us to repurchase or repay the principal amount of debt outstanding (plus, in certain circumstances a premium) upon the occurrence of a Change of Control Triggering Event or similar event.

In addition, the notes will be subject to a special mandatory redemption in the event that the closing of the Merger has not occurred on or prior to February 7, 2019, or, if prior to such date, the Merger Agreement is terminated. The Special Mandatory Redemption Price (as defined herein) will be equal to 101% of the aggregate principal amount of the applicable series of notes, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of the Notes Special Mandatory Redemption.

We are not obligated to place the proceeds from this notes offering in escrow prior to the closing of the Merger or to provide a security interest in those proceeds, and there are no other restrictions on our use of these proceeds during such time. Accordingly, we will need to fund any change of control or special mandatory redemption using proceeds that we have voluntarily retained or from other sources of liquidity. If such event were to occur, we may not have sufficient financial resources available to satisfy all those obligations, and consequently we may not be able satisfy our obligations to repurchase your notes.

***Holders of the notes may not be able to determine when a change of control giving rise to their right to have the notes repurchased has occurred following a sale of substantially all of our assets.***

The definition of change of control in the notes includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of our and our subsidiaries assets. There is no precise, established and binding interpretation of the phrase substantially all under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a sale, lease, transfer, conveyance or other disposition of substantially all our and our subsidiaries assets. As a result, in certain circumstances, it may be unclear whether a Change of Control Triggering Event has occurred and therefore whether a holder of notes has the right to require us to repurchase those notes.

***We may redeem the notes at our option, which may adversely affect your return on the notes.***

The notes are redeemable at our option, and we may, therefore, choose to redeem all or part of the notes at any time prior to the maturity date, including at times when prevailing interest rates are relatively low. In the event that we redeem the notes prior to maturity, you may not be able to reinvest the proceeds you receive from the redemption in a comparable security at an effective interest rate as high as the interest rate on your notes being redeemed.

S-16

## **Table of Contents**

***The special mandatory redemption provision of the notes may adversely affect the trading prices and your expected return on such notes.***

As a result of the special mandatory redemption provision of the notes, the trading prices of such notes may not reflect the financial results of our business or macroeconomic factors. In addition, if the notes are redeemed prior to maturity, you may not be able to reinvest the amount received upon a redemption in a comparable security at an effective interest rate as high as that of the notes. You will have no rights under the special mandatory redemption provision if the Merger closes within the prescribed time frame, nor will you have any right to require us to repurchase your notes if, between the closing of this notes offering and the closing of the Merger, we experience any changes (including any material changes) in our business or financial condition, or if the terms of the Merger Agreement change, including in material respects.

## **Risks Related to Frutarom**

In addition to the risks we face, Frutarom also faces the following risks.

***Frutarom's operations are subject to effects of the global economy.***

Due to the nature and type of its global activity, Frutarom is exposed to fluctuations in the global economy. Economic crisis and recession in various countries in which Frutarom operates could curb demand for Frutarom's products and significantly slow down the development and launch of new products by Frutarom customers.

***Frutarom's operations in emerging markets are subject to political, economic and legal developments that are less predictable than those in developed markets.***

Frutarom operates in a number of countries besides the United States and Western Europe, such as Russia, Ukraine, Turkey, Slovenia, Kazakhstan, China, countries in South and Central America (including Brazil, Guatemala, Peru, Chile and Mexico) and countries in northern, southern and western Africa, and is therefore exposed to political, economic and legal developments in these countries which are generally less predictable than in developed countries. Frutarom's facilities in these countries could be subject to disruption as a result of economic and/or political instability as well as from nationalization and/or expropriation of assets situated there. There is also substantial risk relating to restrictions on Frutarom in collecting payment from its customers, distributors, or agents, as well as foreign exchange restrictions which could impede Frutarom's ability to realize its profits or to sell its assets in these countries. While none of the emerging market countries in which Frutarom operates impose foreign exchange restrictions that affect Frutarom, such restrictions existed not long ago and there is no assurance that they will not be reinstated in the future.

***Fluctuations or devaluations in currencies may negatively affect Frutarom's results of operations.***

Over 70% of Frutarom's sales in 2017 were conducted in currencies other than the U.S. dollar, mainly the Euro, Russian Ruble, Pound Sterling, Swiss Franc, New Israeli Shekel, Chinese Yuan, Canadian Dollar, Brazilian Real, South African Rand, Peruvian Nuevo Sol and Mexican Peso, and changes in exchange rates affect Frutarom's reported results in US dollar terms. In addition, in cases of extreme fluctuations in exchange rates, and since a large part of the raw materials used in the manufacture of Frutarom's products is paid for in U.S. dollars, in Euros, or other currencies, there is no assurance that Frutarom can completely update its selling prices denominated in local currency (which is different from the currency used in buying the raw material) and maintain its margin. Frutarom does not generally undertake external hedging action nor does it use other financial instruments for protection against currency fluctuations. For further information see Frutarom's audited financial statements included in this prospectus supplement.

S-17

**Table of Contents**

***Frutarom operates in a highly competitive industry.***

Frutarom faces competition from large multinationals as well as medium-sized, small and local companies across the sectors in which it operates. Some of Frutarom's competitors have greater financial and technological resources, larger sales and marketing platforms and more established reputation, and may therefore be better equipped to adapt to changes and industry trends.

The global market for flavors is characterized by close relations between flavor manufacturers and their customers, particularly with regard to large multinationals. Furthermore, many large multinational customers, along with increasing numbers of medium-sized customers in recent years, sometimes limit the number of their suppliers and work predominantly with a list of approved suppliers. To compete more effectively under these conditions, Frutarom must invest more resources in customer relations, in R&D and in matching products to customers' needs in order to provide high quality and efficient service. Any failure to maintain good relations with its customers, forge strong relations with new customers, or secure the status of approved supplier with some of its customers could lead to substantial adverse effects on Frutarom's business, operating results and financial condition.

The specialty fine ingredients market is more price sensitive than the flavors market and is characterized by relatively lower profit margins. Some fine ingredients products manufactured by Frutarom are less unique and more replaceable by competitors' products. Production overcapacity for fine ingredients globally could also negatively impact Frutarom's sales and profitability. Although as part of its strategy Frutarom focuses on specialty fine ingredients with higher profit margins, there is no assurance that operating margins will not erode in the future, which could substantially impact Frutarom's business, operating results and financial condition.

***Increased environmental, health and safety regulations or the loss of necessary environmental permits could adversely affect Frutarom's operating results and financial condition.***

Frutarom is subject to a variety of international and domestic health, safety and environmental statutes in the various countries in which it operates. In general, there is a trend towards increased regulation in the fields of Frutarom's activities. This trend stems from, among other things, growing consumer sensitivity concerning the inclusion of flavor additives in food products and the fact that regulators perceive nutraceuticals, medical food and functional food products as having medicinal attributes. In some countries such products may be subjected to the same standards and regulations as applied to drugs or targeted regulation for these categories. In addition, regulators in different countries can change regulations applying to infant nutrition or clinical nutrition for the elderly in a way that might affect Frutarom's sales in these categories. Frutarom has identified the markets for nutraceuticals, functional food, specialty fine ingredients for infant nutrition, especially infant formulas, and clinical nutrition for the elderly as important to its future growth. The subjecting of these markets to increased regulation could give rise to additional expenses which might have an adverse effect on Frutarom's business, operating results and financial condition.

Companies such as Frutarom that operate in the flavor and fine ingredients industry make use of, manufacture, sell, and distribute substances that are sometimes considered hazardous and are therefore subject to extensive regulation concerning the storage, handling, manufacture, transport, use and disposal of such substances and their components and byproducts. Frutarom's production and R&D activities in the various countries where it operates are subject to various regulations and standards relating to air emissions, sewage treatment and the use, handling and discharge of hazardous material as well as clean-up of existing environmental contamination. Any further tightening of such laws and regulations could have a substantial adverse effect on Frutarom's business, operating results and financial condition.

In addition to covering its ongoing environmental compliance costs, Frutarom might also incur nonrecurring charges associated with remedial action needed to be taken at its production sites. As environment-related incidents cannot be foreseen with any certainty, the sums that Frutarom allocates or will allocate for such matters

S-18



## **Table of Contents**

may turn out to be inadequate. Ongoing and nonrecurring environment-related expenses could each have a substantial adverse effect on Frutarom's business, operating results and financial condition.

Frutarom is required to obtain various environmental permits concerning operations at its various production facilities and to meet the conditions set by these permits. The expansion of existing plants is also subject to securing necessary permits. Such permits might be unilaterally revoked or modified by the issuer, or might be for a limited amount of time. Any cancellation, modification and/or failure to renew or obtain a permit could have a significant adverse effect on Frutarom's business, operating results and financial condition.

### ***Failure to comply with environmental, health and safety laws and regulations may expose Frutarom to civil and criminal liability.***

The laws and regulations concerning the environment, health and safety may subject Frutarom to civil and/or criminal liability for non-compliance or environmental pollution. Environmental, health and safety laws may include criminal sanctions (including substantial penalties) for violating them. Some environmental laws also include provisions imposing complete responsibility for the release of hazardous substances into the environment which could result in Frutarom becoming liable for clean-up efforts without any negligence or fault on its part. Other environmental laws impose liability jointly and severally, which could expose Frutarom to responsibility for cleaning up environmental pollution caused by others.

In addition, some environmental, health and safety laws are applied retroactively and could impose responsibility for acts done in the past even if such acts were carried out in accordance with the relevant legal provisions in force at the time. Criminal or civil liability under such laws may have significant adverse effects on Frutarom's business, operating results and financial condition.

Frutarom may also become subjected to claims for personal injury or property damage arising from exposure to hazardous substances. Laws in the major countries where Frutarom operates permit legal proceedings to be instituted against it if personal injury or environmental contamination was ostensibly caused by activity at its production sites in these countries. Such legal proceedings could also be instituted by private individuals or non-governmental organizations.

### ***Fluctuations in prices of raw materials needed for producing Frutarom's products may negatively impact its results of operations.***

The price, quality and availability of the main raw materials that Frutarom uses, especially in the field of natural products, are subject to fluctuations arising from global supply and demand. Many raw materials used by Frutarom are agricultural products whose prices, quality and availability could be affected by, among other things, poor weather conditions. Frutarom does not normally conduct futures transactions in raw materials and is exposed to price fluctuations in the raw materials it uses according to changes in global trends for prices of these raw materials. In recent periods, there has been a rise in the prices of a number of principal raw materials used by Frutarom, and such trends may have a significant adverse effect on Frutarom's business, operating results and financial condition.

### ***The inability to obtain raw materials due to the loss of third party suppliers or unavailability of raw materials could impair Frutarom's sales and adversely affect its operating results.***

Frutarom is dependent on third parties for the supply of raw materials needed for manufacturing its products. Although Frutarom purchases raw materials from a very wide range of suppliers and no individual supplier accounted for more than 3% of its total raw material usage in 2017, and even though there is more than one supplier for most of

the raw materials bought by Frutarom and they are usually readily available, there is no assurance that this will also continue to be the case in the future. Severe weather conditions may cause a significant shortage of natural raw materials used by Frutarom. A shortage of these raw materials could impair Frutarom's sales for a certain period of time and adversely affect its operating results.

S-19

**Table of Contents**

***Product liability claims against Frutarom and potential damages under those claims could have significant adverse effects on Frutarom's business, operating results and financial condition.***

Frutarom is exposed to product liability risk, particularly due to the fact that it supplies flavors to the food and beverage, flavor and fragrance, functional food, pharma/nutraceutical and personal care industries. Should Frutarom be found responsible in a large claim of this type, its insurance coverage might be inadequate to cover damages and/or legal expenses. A lack of adequate insurance coverage could result in a significant adverse effect on Frutarom's business, operating results and financial condition. Product liability claims brought against Frutarom could damage its reputation as well as put heavy demand on management's time and efforts, and this could have significant adverse effects on Frutarom's business regardless of the outcome of the claim.

***The inability to integrate the businesses acquired by Frutarom during its recent growth period may lead to disruptions in its business and failure to capitalize on anticipated synergies.***

A key element of Frutarom's growth strategy has been growth through the acquisition of flavor and specialty fine ingredients manufacturers. In line with this strategy, Frutarom has made many strategic acquisitions of companies and business activities in recent years. The integration of acquired activities involves a number of risks, including possible adverse effects on Frutarom's operating results, the loss of customers, the consuming of senior management's time and attention, and the failure to retain key personnel including managers of the acquired activities, along with risks associated with unanticipated events in the integration of the operations, technologies, systems and services of the acquired business. In addition, Frutarom may be unable to capitalize on the anticipated synergies (including those aimed at cost savings) inherent in such acquisitions. Failure in successfully integrating its acquisitions could have adverse effects on Frutarom's business, operating results and financial condition.

The rapid growth, as in recent years, in both Frutarom's activities and its geographical spread requires effective management to ensure that the financial benefits, tapping of synergies and the economies of scale are achieved. An inability to adapt to the rapid growth could result in losses or acquisition costs that will not be recovered as quickly as anticipated, if at all. Such circumstances could have significant adverse effects on Frutarom's business, its operating results and financial condition.

***The loss of skilled personnel, members of senior management or other key employees could negatively impact Frutarom's ability to compete and implement its strategy.***

Frutarom's continued future success depends on its ability to attract and retain proficient flavorists (flavor developers), lab technicians and other skilled personnel. Frutarom operates in a highly specialized market where product quality is of critical importance and having skilled personnel is necessary for ensuring the supply of high quality products. If a number of such employees were to leave at the same time, Frutarom could encounter difficulties in finding replacements with equivalent experience and abilities, a situation which could impair Frutarom's R&D capabilities. Furthermore, Frutarom's continued success depends to a large extent on its senior management team. The loss of services from members of senior management or other key employees could have a negative impact on Frutarom's results and its ability to implement its strategy. A failure to recruit and retain skilled personnel or members of senior management could have a significant adverse effect on Frutarom's business, operating results and financial condition.

***The inability to protect its intellectual property or the loss of exclusive use of its proprietary formulas to create flavors may have a significant adverse impact on Frutarom's business, operating results and financial condition.***

Frutarom's business relies on intellectual property, mainly consisting of formulas used to create its flavors. Frutarom does not register these formulas but they are kept highly confidential and considered trade secrets and, as such, are

accessible to just a very limited circle of people within Frutarom. Although Frutarom believes it is

S-20

**Table of Contents**

not significantly reliant on any individual intellectual property right, proprietary formula, patent or license, a breach of confidentiality with respect to the formulas or loss of access to them and/or the future expiration of intellectual property rights could have a significant adverse impact on Frutarom's business, operating results and financial condition.

Frutarom relies, in part, on confidentiality agreements, ownership of intellectual property, and non-competition agreements with employees, vendors and third parties in order to protect its intellectual property. It is possible that these agreements will be breached and that Frutarom may lack an adequate remedy for any such breach. Disputes may arise concerning the ownership of intellectual property or the extent to which the confidentiality agreements remain in force. Furthermore, Frutarom's trade secrets may become revealed to its competitors or developed independently by them, in which case Frutarom will not be able to enjoy exclusive use of some of its formulas or maintain confidentiality concerning its products.

S-21

Table of Contents

**FORWARD-LOOKING STATEMENTS**

Statements in this prospectus supplement and the documents incorporated by reference, which are not historical facts or information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management's current assumptions, estimates and expectations and include statements concerning (i) our ability to achieve long-term sustainable growth and increase shareholder value, (ii) growth potential in the emerging markets, (iii) the anticipated impact of our acquisitions on our market position within key markets, (iv) our competitive position in the market and expected financial results in 2018, (v) expected savings from profit improvement initiatives, (vi) expected capital expenditures and cost pressures in 2018, (vii) the impact of legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act) on the Company's effective tax rate in 2018, (viii) the expected level of share repurchases under the Company's share repurchase program, (ix) our ability to innovate and execute on specific consumer trends and demands, (x) timing of completion or relocation of our plants in China, (xi) expected increases in raw material costs in 2018, (xii) the impact of operational performance, cost reduction efforts and mix enhancement on margin improvement, and (xiii) the amount of expected pension contributions in 2018. 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 expect, anticipate, believe, intend, outlook, may, estimate, should, and similar terms or variations 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, those discussed in the Risk Factors section of this prospectus supplement and the following:

the impact of the Merger;

our ability to effectively compete in our market, and to successfully develop new products that appeal to our customers and consumers;

our ability to provide our customers with innovative, cost-effective products;

the impact of a disruption in our manufacturing operations;

the impact of the BASF Group supply chain disruption on the supply and price of a key ingredient in 2018;

our ability to implement our Vision 2020 strategy;

the impact of the recently-enacted Tax Act on our effective tax rate in 2018 and beyond;

our ability to successfully market to our expanding and decentralized Flavors customer base;

our ability to react in a timely manner to changes in the consumer products industry related to health and wellness;

our ability to establish and maintain collaborations, joint ventures or partnerships, which lead to the development or commercialization of products;

our ability to benefit from our investments and expansion in emerging markets;

the impact of international operations that are subject to regulatory, political, economic, currency exchange and other risks, including in countries such as Turkey and Argentina;

S-22

**Table of Contents**

the impact of economic uncertainty which may adversely affect demand for consumer products using flavors and fragrances;

our ability to attract and retain talented employees;

our ability to comply with, and the costs associated with compliance with, U.S. and foreign environmental protection laws;

our ability to realize the expected cost savings and efficiencies from our profitability improvement initiatives and the optimization of our manufacturing facilities;

volatility and increases in the price of raw materials, energy and transportation;

our ability to maintain the integrity of our raw materials, supply chain and finished goods, and comply with applicable regulations;

our ability to successfully manage our inventory and/or working capital balances;

the impact of violations of the U.S. Foreign Corrupt Practices Act or similar U.S. or foreign anti-bribery and anti-corruption laws and regulations in the markets in which we operate;

our ability to protect our intellectual property rights;

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 any future impairment of our tangible or intangible long-lived assets;

the impact of changes in our tax rates, tax liabilities, the adoption of new United States or international tax legislation, or changes in existing tax laws;

our ability to successfully estimate the impact of certain accounting and tax matters; and

the potential adverse impact of Brexit on currency exchange rates, global economic conditions and cross-border agreements that affect our business.



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. For additional information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see "Risk Factors" in this prospectus supplement and the accompanying prospectus, as well as the risks described in the "Risk Factors" section of the Company's most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q and as may be included from time to time in our reports filed with the SEC.

The Company intends its forward-looking statements to speak only as of the time of such statements and does not undertake or plan to update or revise them as more information becomes available or to reflect changes in expectations, assumptions or results. The Company can give no assurance that such expectations or forward-looking statements will prove to be correct. An occurrence of, or any material adverse change in, one or more of the risk factors or risks and uncertainties referred to in this prospectus supplement and the accompanying prospectus, or included in any of our periodic reports filed with the SEC and incorporated by reference into this prospectus supplement could materially and adversely impact our results of operations, financial condition and liquidity and our future financial results.

**Table of Contents****USE OF PROCEEDS**

We estimate that the net proceeds to us from this notes offering, after deducting underwriting discounts and estimated offering expenses payable by us, will be approximately \$1,482 million. We intend to use the net proceeds from this offering to pay a portion of the consideration for the Merger and to pay related fees and expenses. See Summary Recent Developments.

Completion of this notes offering is not contingent on completion of the Merger and completion of the Merger is not contingent on the completion of this notes offering. However, if for any reason the closing of the Merger has not occurred on or prior to February 7, 2019, or, if prior to such date, the Merger Agreement is terminated, then in either case we will be required to redeem the notes as described under Description of the Notes Special Mandatory Redemption. See Summary Recent Developments.

The following table outlines the sources and uses of funds for the Merger, reflecting the exercise by the underwriters of their respective options to purchase additional shares of common stock in the common stock offering and additional tangible equity units in the tangible equity units offering. The table assumes that the Merger, this notes offering, the euro notes offering and the common stock and tangible equity units offerings are completed simultaneously, but the common stock and tangible equity units offerings have already been completed and this notes offering and the euro notes offering are expected to occur before completion of the Merger. Amounts in the table are in millions of dollars and are estimated, and actual amounts may vary from the estimated amounts.

<b>Sources of Funds</b>		<b>Uses of Funds</b>	
<b>(in millions)</b>			
New Term Loan	\$ 350	Merger consideration <sup>(3)</sup>	\$ 6,331
Common stock offering <sup>(1)</sup>	1,650	Merger and offering fees and expenses <sup>(4)</sup>	191
Tangible equity units offering <sup>(1)</sup>	825	Repayment of outstanding indebtedness <sup>(5)(6)</sup>	1,047
Notes offered hereby and in the euro notes offering <sup>(1)(2)</sup>	2,782	Breakage costs related to debt repayment	39
Equity consideration to Frutarom shareholders and option holders <sup>(3)</sup>	2,035	General corporate purposes	34
<b>Total Sources</b>	<b>\$ 7,642</b>	<b>Total Uses</b>	<b>\$ 7,642</b>

(1) Before underwriting discounts and expenses.

(2) Includes 1,100 million converted at an exchange rate of U.S. \$1.1656 per euro, the exchange rate as of September 14, 2018, as announced by the U.S. Federal Reserve Board on September 17, 2018.

(3) Based on the number of Frutarom's outstanding ordinary shares and share-based awards as of June 30, 2018 and a price per share of our common stock of \$136.49, which was the closing price of our common stock on the NYSE on September 17, 2018.

(4) Includes estimated underwriting discounts and expenses of this offering, the euro notes offering, the common stock and tangible equity units offerings and the Merger.

(5) On September 17, 2018, we prepaid in full our (i) \$100 million in aggregate principal amount of 6.35% Series B Senior Notes due 2019, (ii) \$50 million in aggregate principal amount of 6.50% Series C Senior Notes due 2022

- and (iii) \$100 million in aggregate principal amount of 6.79% Series D Senior Notes due 2027.
- (6) We intend to repay approximately \$797 million of outstanding Frutarom debt. The calculation of the amount of Frutarom's debt to be repaid is as of June 30, 2018, and reflects the conversion into U.S. dollars of indebtedness denominated in foreign currencies (primarily euros) based on exchange rates as of June 30, 2018.

S-24

**Table of Contents****CAPITALIZATION**

The following sets forth our capitalization on a consolidated basis as of June 30, 2018:

on an actual basis;

on a pro forma as adjusted basis to reflect our common stock offering (reflecting the exercise of the underwriters' option to purchase additional shares of our common stock), our tangible equity units offering (reflecting the exercise of the underwriters' over-allotment option to purchase additional tangible equity units), the issuance and sale of notes offered hereby, after deducting underwriting discounts and estimated offering expenses payable by us, our offering of euro notes, the New Term Loan and the Merger.

This table should be read in conjunction with the other sections of this prospectus supplement and our consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus. See "Incorporation of Certain Information by Reference" in this prospectus supplement. In addition, investors should not place undue reliance on the pro forma as adjusted information included below because this offering is not contingent upon completion of any of the transactions reflected in the adjustments below.

<b>(in thousands)</b>	<b>As of June 30, 2018</b>	
	<b>Actual</b>	<b>Pro Forma As Adjusted</b>
Cash and cash equivalents	\$ 322,423	\$ 523,897
Commercial paper		
Long-term debt:		
Credit facilities	103,988	103,988
Series B, C, D Senior Notes <sup>(1)</sup>	249,776	
3.20% Senior Notes due 2023	298,823	298,823
1.75% Senior Notes due 2024	573,514	573,514
4.375% Senior Notes due 2047	492,941	492,941
Senior amortizing notes that are components of the tangible equity units <sup>(2)</sup>		135,075
Notes offered hereby		1,481,626
Euro notes <sup>(3)</sup>		1,272,065
New Term Loan		347,429
Other	4,647	4,647
Total debt <sup>(4)</sup>	1,723,689	4,710,108
Shareholders' equity:		
Common stock	14,470	16,053
Capital in excess of par value <sup>(5)</sup>	167,432	3,765,054
Retained earnings	3,992,452	3,908,033
Accumulated other comprehensive loss	(692,498)	(692,498)
Treasury stock, at cost	(1,732,001)	(1,030,611)

Total shareholders equity <sup>(6)</sup>	1,749,855	5,966,031
Total capitalization	\$ 3,473,544	\$ 10,676,139

- (1) Includes (i) \$100,000,000 aggregate principal amount 6.35% Series B Senior Notes due 2019, (ii) \$50,000,000 aggregate principal amount 6.50% Series C Senior Notes due 2022 and (iii) \$100,000,000 aggregate principal amount 6.79% Series D Senior Notes due 2027, which we prepaid in full on September 17, 2018.
- (2) Each tangible equity unit includes an amortizing note. Approximately 17% of the stated amount of the tangible equity units is represented by the amortizing notes.

S-25

**Table of Contents**

- (3) 1,100 million converted at an exchange rate of U.S. \$1.1656 per euro, the exchange rate as of September 14, as announced by the Federal Reserve Board on September 17, 2018.
  
- (4) As of June 30, 2018, we had approximately \$104.0 million outstanding under our revolving credit facility (including 90 million converted at an exchange rate of U.S. \$1.1554 per euro as of June 30, 2018) and no borrowings outstanding under our commercial paper program.
  
- (5) Each tangible equity unit includes a purchase contract. We account for the purchase contracts that are components of the tangible equity units as equity and record the initial fair value of these purchase contracts, net of the underwriting discounts and estimated offering expenses allocated to the purchase contracts, as additional paid-in capital. The exact amount we record as additional paid-in capital will not be determined until our determination of the final offering expenses of, and our finalization of accounting treatment with respect to, the tangible equity units offering. Approximately 83% of the stated amount of the tangible equity units is represented by the purchase contracts and the underwriting discounts and estimated offering expenses allocated to the purchase contracts.
  
- (6) Does not include noncontrolling interest.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

On May 7, 2018, IFF, Frutarom and Merger Sub entered into a merger agreement that provides for the acquisition of Frutarom by IFF. Subject to the satisfaction or waiver of certain other closing conditions, IFF will acquire Frutarom through the merger of Merger Sub with and into Frutarom, with Frutarom surviving the merger and becoming a wholly owned subsidiary of IFF.

The following unaudited pro forma condensed combined financial information is presented to illustrate the estimated effects of the merger and certain other adjustments listed below.

The unaudited pro forma condensed combined balance sheet as of June 30, 2018, and the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and the year ended December 31, 2017, respectively, are presented herein. The unaudited pro forma condensed combined balance sheet combines the unaudited consolidated balance sheets of IFF and Frutarom as of June 30, 2018, and gives effect to the merger as if it occurred on June 30, 2018. The unaudited pro forma condensed combined statements of operations combine the historical results of IFF and Frutarom for the six months ended June 30, 2018, and the year ended December 31, 2017, and give effect to the merger as if it occurred on January 1, 2017. The historical financial information has been adjusted to give effect to pro forma adjustments that are (i) directly attributable to the merger, (ii) factually supportable, and (iii) with respect to the unaudited condensed combined statements of operations, expected to have a continuing impact on the combined entity's condensed results.

The merger of IFF and Frutarom will be accounted for using the acquisition method of accounting as per the provisions of Accounting Standards Codification 805, "Business Combinations", which we refer to as ASC 805, with IFF representing the accounting acquirer under this guidance. The unaudited pro forma condensed combined financial statements were prepared in accordance with Article 11 of Regulation S-X and primarily give effect to the merger adjustments, which include:

Adjustments to reconcile Frutarom's historical audited and unaudited financial statements prepared in accordance with IFRS as issued by the IASB to U.S. GAAP;

Conforming accounting policies and presentation;

Application of the acquisition method of accounting in connection with the merger;

Adjustments to reflect repayment of certain existing debt facilities of Frutarom and IFF as well as financing arrangements entered into in connection with the merger; and

Effect of acquisition-related costs in connection with the merger.

The pro forma adjustments included in this document are subject to modification based on changes in interest rates, changes in share prices, the final determination of the fair value of the assets acquired and liabilities assumed, additional analysis, and additional information that may become available, which may cause the final adjustments to be materially different from the pro forma condensed combined financial statements presented below. Following the

consummation of the merger, IFF management will perform a detailed review of Frutarom's accounting policies in an effort to determine if differences in accounting policies require further reclassification of Frutarom's results of operations or reclassification of assets or liabilities to conform to IFF's accounting policies and classification. As a result, IFF may subsequently identify additional material differences in the accounting policies which could have a material impact on the unaudited pro forma combined financial information.

The unaudited pro forma condensed combined financial information presented is for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the merger had been completed on the dates set forth above, nor is it indicative of future results or financial position of the combined company. Additionally, the final determination of the purchase price and the purchase price allocation, upon the completion of the merger, will be based on Frutarom's net assets acquired as

S-27



---

**Table of Contents**

of that date and will depend on a number of factors that cannot be predicted with certainty at this time. The unaudited pro forma condensed combined financial information does not reflect any anticipated synergies or dis-synergies, operating efficiencies or cost savings that may result from the merger or potential divestitures that may occur prior to, or subsequent to, the completion of the merger or any acquisition and integration costs that may be incurred. The pro forma adjustments, which IFF believes are reasonable under the circumstances, are preliminary and are based upon available information and certain assumptions described in the accompanying notes to the unaudited pro forma condensed combined financial information. Actual results and valuations may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information. Any changes to IFF's stock price, from September 17, 2018 through the date the merger is completed, will also change the purchase price, which may include the recording of a lower or higher amount of goodwill. The final adjustments may be materially different from the pro forma condensed combined financial statements presented in this document.

The unaudited pro forma condensed combined financial information should be read in conjunction with the notes to the unaudited pro forma condensed combined financial information, Frutarom's audited financial statements for the year ended December 31, 2017 and Frutarom's unaudited quarterly financial statements for the quarterly period ended June 30, 2018, as well as IFF's consolidated financial statements and related notes thereto contained in its Annual Report on Form 10-K for the year ended December 31, 2017 and IFF's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018.

**Pro Forma Assumptions since September 17, 2018**

The unaudited pro forma condensed combined financial information presented in this section, which was prepared as of September 17, 2018, does not reflect results, events or changes subsequent to September 17, 2018. In particular, this section does not give effect to the following results, events and changes, which individually and in the aggregate would not have had a material effect on the pro forma condensed combined financial information presented in this section:

1. the closing price of IFF's common stock on the NYSE was \$137.51 on September 19, 2018, compared to the September 17, 2018 closing price of \$136.49 which was applied in this section;
2. the aggregate principal amount of notes offered on September 20, 2018 in currencies other than the U.S. dollar to finance the Merger amounted to \$1,282 million (1,100 million converted to U.S. dollars at an exchange rate of 1.00 to \$1.1656, the exchange rate as of September 14, 2018, as announced by the Federal Reserve Board on September 17, 2018), compared to the assumed aggregate offering amount of \$1,150 million which was applied in this section. The actual weighted average effective interest rate at which the aforementioned notes were offered on September 20, 2018 was 1.75%, compared to the September 17, 2018 assumed weighted average effective interest rate of 1.66% which was applied in this section;
3. the aggregate principal amount of notes denominated in U.S. dollars expected to be offered on September 24, 2018 is \$1,500 million, compared to the assumed aggregate offering amount of \$1,600 million which was applied in this section; and

4. the fair market value of certain derivatives as of September 19, 2018 resulted in a net gain of \$20.4 million, compared to the September 17, 2018 fair market value that resulted in an assumed net gain of \$8.5 million which was applied in this section.

S-28

**Table of Contents****Unaudited Pro Forma Condensed Combined Balance Sheet**

As of June 30, 2018

(In thousands, except per-share data)

	Historical		Purchase	Other Pro			Total
	IFF	FRUTAROM	Accounting	Forma	Notes		
	(US	(US GAAP)	Adjustments	Adjustments	Notes		
	GAAP)						
<b>Assets</b>							
<b>Current Assets:</b>							
Cash and Cash Equivalents	\$ 322,423	\$ 119,807	\$ (4,258,273)	3	\$ 4,339,940	6k	\$ 523,897
Trade receivables, net	723,855	321,797					1,045,652
Inventory	695,192	338,881	33,119	6c			1,067,192
Prepaid expenses and other current assets	285,110	27,949			(26,141)	6h	286,918
<b>Total Current Assets</b>	<b>2,026,580</b>	<b>808,434</b>	<b>(4,225,154)</b>		<b>4,313,799</b>		<b>2,923,659</b>
Property, plant and equipment, net	867,629	336,591					1,204,220
Goodwill	1,148,586	589,250	3,723,185	6b			5,461,021
Other intangible assets, net	391,426	442,647	2,087,353	4			2,921,426
Deferred income taxes assets	82,204	4,512					86,716
Other assets	157,017	41,054					198,071
<b>Total Assets</b>	<b>\$ 4,673,442</b>	<b>\$ 2,222,488</b>	<b>\$ 1,585,384</b>		<b>\$ 4,313,799</b>		<b>\$ 12,795,113</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>							
<b>Current Liabilities:</b>							
Short term borrowings	6,500	397,601			198,088	6f	602,189
Accounts payable	315,656	225,998					541,654
Dividends payable	54,488		21,093	3			75,581
Other current liabilities	322,726	26,359	47,007	4	(35,080)	6l	361,012
<b>Total Current Liabilities</b>	<b>699,370</b>	<b>649,958</b>	<b>68,100</b>		<b>163,008</b>		<b>1,580,436</b>
Long-term debt	1,717,189	399,833			1,969,322	6f	4,086,344
Retirement liabilities	226,221	33,690					259,911
Deferred income tax liabilities		66,234	401,790	6d			468,024
Other liabilities	274,459	19,802	(2,186)	4			292,075
<b>Total Other Liabilities</b>	<b>2,217,869</b>	<b>519,559</b>	<b>399,604</b>		<b>1,969,322</b>		<b>5,106,354</b>

<b>Redeemable Noncontrolling Interest</b>		131,398					131,398
<b>Shareholders Equity:</b>							
Common Stock	14,470	17,094	(17,094)	6e	1,583	6f	16,053
Capital in excess of par value	167,432	116,132	1,217,185	6e	2,264,305	6f	3,765,054
Treasury stock, at cost	(1,732,001)	(3,693)	705,083	6e			(1,030,611)
Other equity	3,299,954	787,494	(787,494)	6e	(84,419)	6e	3,215,535
Total Shareholders Equity	1,749,855	917,027	1,117,680		2,181,469		5,966,031
Noncontrolling interest	6,348	4,546					10,894
Total Shareholders Equity including NCI	1,756,203	921,573	1,117,680		2,181,469		5,976,925
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 4,673,442</b>	<b>\$ 2,222,488</b>	<b>\$ 1,585,384</b>		<b>\$ 4,313,799</b>		<b>\$ 12,795,113</b>

See the accompanying *Notes to the Unaudited Pro Forma Condensed Combined Financial Information*, which are an integral part hereof. The pro forma adjustments are explained in the notes below.

**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Six Months Ended June 30, 2018****(In thousands, except per-share data)**

	Historical		Purchase	Other Pro		
	IFF	FRUTAROM	Accounting	Forma	Notes	Total
	(US	(US	Adjustments	Adjustments		
	GAAP)	GAAP)				
<b>Revenue:</b>						
Net sales	\$ 1,850,944	\$ 786,110	\$	\$		\$ 2,637,054
Cost of goods sold	1,046,419	466,928				1,513,347
<i>Gross profit</i>	804,525	319,182				1,123,707
<b>Expenses:</b>						
Research and development expenses	153,244	30,770				184,014
Selling and administrative expenses	300,051	141,640		(12,455)	6h	429,236
Restructuring and other charges, net	1,903					1,903
Amortization of acquisition-related intangibles	18,769	13,466	59,912		6a	92,147
Gain on sales of fixed assets	1,195	(691)				504
<i>Total expenses</i>	475,162	185,185	59,912	(12,455)		707,804
<i>Operating profit</i>	329,363	133,997	(59,912)	12,455		415,903
<b>Other income (expense):</b>						
Interest expense	69,841	12,758		43,670	6f	126,269
Other (income) expense, net	(21,232)	(950)		(10,979)	6g	(33,161)
<i>Total other income (expense)</i>	48,609	11,808		32,691		93,108
Income before taxes	280,754	122,189	(59,912)	(20,236)		322,795
Taxes on income	52,190	23,600	(11,503)	(4,443)	6j	59,844
Net income (Including Noncontrolling Interests)	228,564	98,589	(48,409)	(15,793)		262,951
Less: noncontrolling interests		3,205				3,205
Net Income	\$ 228,564	\$ 95,384	\$ (48,409)	\$ (15,793)		\$ 259,746

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

Net income per share basic	\$	2.89	\$	1.60	\$	2.34
Net income per share diluted	\$	2.87	\$	1.59	\$	2.31
Basic shares outstanding		79,041		59,678		111,208
Diluted shares outstanding		79,347		60,057		112,677

See the accompanying *Notes to the Unaudited Pro Forma Condensed Combined Financial Information*, which are an integral part hereof. The pro forma adjustments are explained in the notes below.

S-30

**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations****For the Year Ended December 31, 2017****(In thousands, except per-share data)**

	<b>IFF (US GAAP)</b>	<b>FRUTAROM (US GAAP)</b>	<b>Purchase Accounting Adjustments</b>	<b>Notes</b>	<b>Other Pro Forma Adjustments</b>	<b>Notes</b>	<b>Total</b>
<b>Revenue:</b>							
Net sales	\$ 3,398,719	\$ 1,362,396	\$		\$		\$ 4,761,115
Cost of goods sold	1,919,718	\$ 837,271			6,538	6i	\$ 2,763,527
<i>Gross profit</i>	1,479,001	525,125			(6,538)		1,997,588
<b>Expenses:</b>							
Research and development expenses	286,026	43,644			9,443	6i	339,113
Selling and administrative expenses	557,311	246,332			12,833	6i	816,476
Restructuring and other charges, net	19,711	(340)					19,371
Amortization of acquisition-related intangibles	34,694	22,193	119,824	6a			176,711
Gain on sales of fixed assets	(184)	1,934					1,750
<i>Total expenses</i>	897,558	313,763	119,824		22,276		1,353,421
<i>Operating profit</i>	581,443	211,362	(119,824)		(28,814)		644,167
<b>Other (income) expense:</b>							
Interest expense	65,363	10,075			84,595	6f	160,033
Other (income) expense, net	(20,965)	13,325			(28,814)	6i	(36,454)
<i>Total other (income) expense</i>	44,398	23,400			55,781		123,579
Income before taxes	537,045	187,962	(119,824)		(84,595)		520,588
Taxes on income	241,380	35,105	(23,486)	6a	(20,179)	6j	232,820
Net income (Including Noncontrolling Interests)	295,665	152,857 4,895	(96,338)		(64,416)		287,768 4,895

Less: noncontrolling  
interests

Net Income	295,665	147,962	(96,338)	(64,416)	282,873
Net income per share basic	3.73	2.49			2.54
Net income per share diluted	3.72	2.48			2.52
Basic shares outstanding	79,070	59,342			111,237
Diluted shares outstanding	79,370	59,632			112,700

See the accompanying *Notes to the Unaudited Pro Forma Condensed Combined Financial Information*, which are an integral part hereof. The pro forma adjustments are explained in the notes below.

S-31



---

**Table of Contents****NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION****(In US\$ thousands, except per share data and as otherwise noted)****Note 1 Description of Business Combination**

On May 7, 2018, International Flavors & Fragrances ( IFF ) entered into an Agreement and Plan of Merger (the merger agreement ) with Frutarom Industries Ltd., a company organized under the laws of the State of Israel ( Frutarom ) and Icon Newco Ltd., a company organized under the laws of the State of Israel and a wholly owned subsidiary of IFF ( Merger Sub ). Pursuant to the merger agreement, subject to the satisfaction or waiver of specified conditions, Merger Sub will merge with and into Frutarom (the merger ), with Frutarom continuing as the surviving company in the merger and a wholly owned subsidiary of IFF.

At the completion of the merger, each ordinary share, par value Israeli New Shekel (to be referred as NIS ) 1.00 per share, of Frutarom (the Frutarom ordinary shares ) issued and outstanding immediately prior to the completion of the merger (other than Frutarom ordinary shares held by Frutarom as treasury stock (dormant shares) or held directly or indirectly by IFF, Merger Sub or any wholly owned subsidiary of Frutarom) will be converted into the right to receive (i) \$71.19 in cash (the cash consideration ) and (ii) 0.249 of a validly issued, fully paid and non-assessable share of common stock, par value \$0.125 per share, of IFF ( IFF common stock ), with cash in lieu of fractional shares of IFF common stock otherwise issuable (such shares of IFF common stock and any such cash in lieu of fractional shares, together with the cash consideration, the merger consideration ), in each case without interest and subject to applicable tax withholding.

At the completion of the merger, each Frutarom stock option and Frutarom restricted stock award that is outstanding and vested as of immediately prior to the completion of the merger, will be canceled in exchange for the right to receive the merger consideration in respect of each net share subject to such vested Frutarom stock option or Frutarom restricted stock award, less applicable tax withholding. For this purpose, net share means, with respect to a Frutarom stock option or Frutarom restricted stock award, the quotient of (i) the product of (A) the excess, if any, of the value of the merger consideration (calculated as specified in the merger agreement) over the exercise price or purchase price per Frutarom ordinary share (as applicable) subject to such Frutarom stock option or Frutarom restricted stock award, multiplied by (B) the number of Frutarom ordinary shares subject to such Frutarom stock option or Frutarom restricted stock award, divided by (ii) the value of the merger consideration.

The merger agreement provides for the Frutarom board of directors to declare a special dividend, on a per share basis, equal to the product of (a) 0.249 and (b) the aggregate per share value of IFF dividends with a record date after the date of the merger agreement and prior to the closing of the merger.

**Note 2 Basis of Presentation**

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of Regulation S-X and was based on the historical financial statements of IFF and Frutarom as of and for the year ended December 31, 2017 and as of and for the six months ended June 30, 2018. IFF is deemed to be the accounting acquirer and the pro forma adjustments are preliminary and are based on estimates that are subject to change. The combined group will not be a foreign private issuer as defined in Rule 405 under the Securities Act and Rule 3b-4(c) under the Exchange Act, accordingly the pro forma information of the combined group is prepared in accordance with U.S. GAAP.

The unaudited pro forma condensed combined statements of operations were prepared using:

the historical unaudited consolidated statements of operations and comprehensive income of IFF for the six months ended June 30, 2018;

S-32

**Table of Contents**

the historical audited consolidated statements of operations and comprehensive income of IFF for the year ended December 31, 2017;

the historical unaudited condensed consolidated statements of operations of Frutarom for the six months ended June 30, 2018; and

the historical audited consolidated income statement of Frutarom for the year ended December 31, 2017. IFF's historical audited and unaudited financial statements were prepared in accordance with U.S. GAAP and presented in thousands of U.S. dollars. Frutarom's historical audited and unaudited financial statements were prepared in accordance with IFRS as issued by the IASB and presented in thousands of U.S. dollars. Certain reclassifications were made to align Frutarom's financial statement presentation with that of IFF (see Note 5).

Frutarom's historical audited and unaudited financial statements were reconciled to U.S. GAAP. In addition, a preliminary review of IFRS to U.S. GAAP differences and related accounting policies has been completed based on information made available to date (see Note 5 for further information). However, following the consummation of the merger, IFF management will conduct a detailed review. As a result of that review, IFF management may identify differences that, when finalized, could have a material impact on the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined statements of operations also include certain purchase accounting adjustments, including items expected to have a continuing impact on the condensed combined results.

**Note 3 Estimated Purchase Price**

Pursuant to the merger, shareholders of Frutarom will receive \$71.19 in cash and 0.249 shares of IFF's common stock for each Frutarom ordinary share held prior to the merger. If the aggregate number of shares of IFF common stock to be issued pursuant to the merger agreement would exceed 19.9% of the issued and outstanding shares of IFF common stock immediately prior to the entry into the merger agreement, rounded down to the nearest whole share, the exchange ratio will be reduced by the minimum extent necessary such that the foregoing clause is no longer true, and the cash component of the merger consideration will also be increased accordingly.

**Table of Contents**

The following table summarizes the components of the preliminary estimated purchase price:

*(In USD thousands, except share data and exchange ratio)*

Estimated Frutarom s shares outstanding(i)		59,654,657
Cash consideration per share(ii)		\$ 71.19
<b>Total cash paid to shareholders of Frutarom</b>		<b>\$ 4,246,815</b>
Estimated cash paid to vested stock option holders(iii)		11,458
Estimated accrual for unvested stock option holders(iv)		17,007
Estimated closing dividend payable(v)		21,093
<b>Estimated cash portion of purchase price</b>	<b>A</b>	<b>\$ 4,296,373</b>
Estimated Frutarom s shares outstanding		59,654,657
Exchange ratio(vi)		0.249
Total common shares of IFF to be issued(viii)		14,854,010
IFF s share price(vii)		136.49
<b>Total equity consideration paid to shareholders of Frutarom</b>		<b>\$ 2,027,424</b>
Estimated equity consideration paid to vested stock Frutarom option holders(iii)		7,283
<b>Estimated equity portion of purchase price</b>	<b>B</b>	<b>\$ 2,034,707</b>
<b>Total estimated consideration to be paid</b>	<b>A+B</b>	<b>\$ 6,331,080</b>

- (i) Number of shares outstanding as of June 30, 2018.
- (ii) Cash consideration per share as per the merger agreement.
- (iii) Estimated cash and equity consideration payable to the vested Frutarom stock option holders on a diluted basis.
- (iv) Estimated pro rata portion of the unvested Frutarom stock options attributable to pre-combination services. The pro forma adjustment has been recorded in other current liabilities.
- (v) Estimated aggregate dividend payable to Frutarom shareholders prior to closing considering the exchange ratio, as set forth in the merger agreement, and cash dividends declared by IFF prior to closing. The aggregate amount of cash dividends declared per share of IFF with a record date occurring on or after the date of the merger agreement and prior to closing is equal to \$1.42 per share. The amount is subject to change if IFF s dividend rate changes prior to closing. The pro forma adjustment has been recorded in dividends payable.
- (vi) Exchange ratio as set forth in the merger agreement.
- (vii) Closing price of IFF s common stock on the New York Stock Exchange on September 17, 2018.
- (viii) Common shares of IFF to be issued to Frutarom as merger consideration will be issued out of treasury shares of IFF (See Note 6(e)).

The final estimated merger consideration could significantly differ from the amounts presented in the unaudited pro forma condensed combined financial information due to movements in IFF s common stock price up to the closing date of the merger. A sensitivity analysis related to the fluctuation in the IFF s common stock price was performed to

assess the impact a hypothetical change of 10% on the closing price of IFF's common stock on September 17, 2018, would have on the estimated merger consideration and goodwill as of the closing date. The following table shows the change in stock price, estimated merger consideration and goodwill:

	<b>Purchase Price</b>	<b>Estimated Goodwill</b>
As presented in the pro forma combined financial statements	6,331,080	4,312,435
10% increase in common stock price	6,535,509	4,516,864
10% decrease in common stock price	6,126,651	4,108,006

S-34

**Table of Contents****Note 4 Preliminary Purchase Price Allocation**

Under the acquisition method of accounting, Frutarom's assets and liabilities will be recorded at fair value at the date of the completion of the merger and combined with the historical carrying amounts of the assets and liabilities of IFF. In the unaudited pro forma condensed combined balance sheet, IFF's cost to acquire Frutarom has been allocated to the assets acquired, liabilities assumed and goodwill based upon management's preliminary estimate of what their respective fair values would be as if the merger closed on June 30, 2018. Accordingly, the unaudited pro forma condensed combined financial information includes a preliminary allocation of the purchase price based on assumptions and estimates that, while considered reasonable under the circumstances, are subject to changes, which may be material.

IFF has not completed a full, detailed valuation analysis necessary to determine the fair values of Frutarom's identifiable assets to be acquired, liabilities to be assumed and redeemable and non-redeemable noncontrolling interest. The preliminary calculation of assets acquired and liabilities assumed performed for the purposes of these unaudited pro forma condensed combined financial statements was primarily limited to the identification and calculation of preliminary values for the intangible assets, property and equipment, inventory, deferred taxes and contingent consideration. The calculations necessary to estimate the fair values of the assets acquired and liabilities assumed have been performed based on publicly available benchmarking information as well as a variety of other assumptions, including market participant assumptions, as there are limitations on the type of information that can be exchanged between IFF and Frutarom at this time. Where applicable, the benchmark information was corroborated with an income approach methodology such as the relief from royalty or multi-period excess earnings method. IFF will continue to refine its identification and valuation of assets to be acquired and the liabilities to be assumed as further information becomes available.

The estimated values of the assets acquired, liabilities assumed and redeemable and non-redeemable noncontrolling interest will remain preliminary until after closing of the merger, at which time IFF will determine the fair values of assets acquired and liabilities assumed. The final determination of the purchase price allocation is anticipated to be completed as soon as practicable after completion of the merger and will be based on the fair values of the assets acquired and liabilities assumed as of the merger closing date. The final amounts allocated to assets acquired and liabilities assumed could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial statements.

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by IFF in the merger, reconciled to the estimate of total consideration expected to be transferred (in USD thousands):

	<b>Frutarom's U.S. GAAP (Note 5)</b>	<b>Fair Value Adjustments</b>	<b>Fair value</b>
Purchase Consideration			6,331,080
<b>Identifiable net assets:</b>			
Inventories	338,881	33,119	372,000
Property, plant and equipment	336,591		336,591
Identifiable intangible assets	442,647	2,087,353	2,530,000
Deferred tax assets	4,512		4,512
All other assets (excluding goodwill)	510,607		510,607
Existing contingent consideration	(42,186)	2,186	(40,000)

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

Transaction bonus		(30,000)	(30,000)
Deferred tax liabilities	(66,234)	(401,790)	(468,024)
All other liabilities	(1,061,097)		(1,061,097)
Total identifiable net assets	463,721	1,690,868	2,154,589
Redeemable Noncontrolling interest	(131,398)		(131,398)
Noncontrolling interest	(4,546)		(4,546)
Goodwill	589,250	3,723,185	4,312,435
<b>Total</b>	\$ 917,027	\$ 5,414,053	\$ 6,331,080

S-35

**Table of Contents**

The amount allocated to identifiable intangible assets has been attributed to the following assets (in thousands):

	<b>Estimated Useful Life</b>	<b>Amount</b>
Product Formulas	10 years	\$ 340,000
Trade name	20 years	140,000
Customer relationships	20 years	2,050,000
<b>Total identifiable intangible assets</b>		<b>\$ 2,530,000</b>

These intangible assets will be amortized over the estimated useful lives on a straight line basis. IFF believes that it represents the pattern in which economic benefits will be consumed.

In addition, pursuant to the merger agreement, the Frutarom board has the right to grant a transaction bonus to its CEO and selected employees before the merger is consummated to the extent of up to \$20 million each. The transaction bonus to the CEO will be payable immediately prior to the closing of the merger. As of the date of this filing, management believes that the Frutarom board will approve the transaction bonus. The transaction bonus to employees is payable in two installments (i) 50% at closing and (ii) 50% after the completion of one year of service (subject to the terms of the merger agreement). IFF has determined that \$30 million is a pre-merger expense to be accrued by Frutarom due to the fact that the transaction bonus was entered into by or on behalf of Frutarom. See table below (*in USD thousands*):

	<b>Pre-combination expense</b>	<b>Post-combination expense</b>
CEO	\$ 20,000	
Selected employees	10,000	10,000
<b>Total bonus</b>	<b>\$ 30,000</b>	<b>\$ 10,000</b>

Accordingly, pro forma condensed combined balance sheet has been adjusted to reflect an adjustment of \$30,000 for transaction bonus payable by Frutarom, declared before the merger is consummated. This amount together with \$17,007 for the accrual for unvested Frutarom stock options attributable to pre-combination services (see Note 3) has been shown as an adjustment to other current liabilities.

**Note 5 Adjustments to Frutarom's Historical Financial Statements to Conform to U.S. GAAP**

Frutarom's consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, which differs in certain material respects from U.S. GAAP.

The unaudited U.S. GAAP information includes a statement of financial position and statements of income of Frutarom derived from the historical consolidated financial statements as of and for the six months ended June 30, 2018 and the year ended December 31, 2017, prepared in accordance with IFRS as issued by the IASB. This balance sheet as of June 30, 2018 and statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 have been adjusted to reflect Frutarom's consolidated statement of financial position and



statements of profit or loss on a U.S. GAAP basis.

S-36

**Table of Contents**

Certain balances presented in the historical Frutarom's financial statements included within the unaudited pro forma condensed combined financial information have been reclassified to conform the presentation to that of IFF as indicated in the tables as below:

**UNAUDITED FRUTAROM US GAAP BALANCE SHEET**

As of June 30, 2018

	Frutarom (IFRS)	Reclassification Adjustments	Notes	IFRS to U.S. GAAP Adjustments	Notes	FRUTAROM (U.S. GAAP)
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents	\$ 119,807					\$ 119,807
Accounts receivable:						
Trade	296,906	(296,906)	5a			
Other	24,891	(24,891)	5a			
Trade receivables, net		321,797	5a			321,797
Prepaid expenses and advances to suppliers	27,949	(27,949)	5b			
Prepaid expenses and other current assets		27,949	5b			27,949
Inventory	338,881					338,881
	808,434					808,434
<b>Non-Current Assets:</b>						
Property, plant and equipment	369,517			(32,926)	5o	336,591
Intangible assets	1,031,897	(589,250)	5c			442,647
Goodwill		589,250	5c			589,250
Investment in associates and available for sale assets	27,481	(27,481)	5d			
Deferred income tax assets	4,512					4,512
Others	13,573	(13,573)	5d			
Other assets		41,054	5d			41,054
	1,446,980			(32,926)		1,414,054
<b>Total Assets</b>	<b>\$ 2,255,414</b>			<b>\$ (32,926)</b>		<b>\$ 2,222,488</b>
<b>Liabilities and equity</b>						
<b>Current liabilities</b>						
Short term bank credit and loans and current maturities of long-term loans	397,601	(397,601)	5e			
Short-term borrowings		397,601	5e			397,601

Accounts payable:						
Trade	104,565	(104,565)	5f			
Other	156,365	(156,365)	5g			
Accounts Payable		225,998	5f, 5g			225,998
Leases	7,757			(7,757)	5o	
Dividends payable						
Other current liabilities		34,932	5g	(8,573)	5n	26,359
	666,288			(16,330)		649,958
<b>NON-CURRENT LIABILITIES:</b>						
Long-term loans, net of current maturities						
	399,833					399,833
Retirement benefit obligations, net	33,690					33,690
Deferred income tax liabilities	66,234					66,234
Leases	25,322			(25,322)	5o	
Liability for shareholders of subsidiaries and other						
	142,627	(19,802)	5h	(122,825)	5n	
Other liabilities		19,802	5h			19,802
	667,706			(148,147)		519,559
<b>TOTAL LIABILITIES</b>	1,333,994			(164,477)		1,169,517
<b>Redeemable Noncontrolling Interest</b>						
				131,398	5n	131,398
<b>Equity attributable to owners of the parent:</b>						
Ordinary shares	17,094					17,094
Other capital surplus	116,132	(116,132)	5i			
Capital in excess of par value		116,132	5i			116,132
Translation differences	(85,299)	85,299	5j			
Retained earnings	872,640	(872,640)	5j			
Less-cost of company shares held by the company						
	(3,693)	3,693	5j			
Treasury stock, at cost		(3,693)	5j			(3,693)
Other equity		787,341	5j	153	5n	787,494
Total Shareholders Equity	916,874			153		917,027
Noncontrolling interest	4,546					4,546
<b>TOTAL EQUITY</b>	\$ 921,420			\$ 153		\$ 921,573
<b>TOTAL EQUITY AND LIABILITIES</b>	\$ 2,255,414			\$ (32,926)		\$ 2,222,488

Table of Contents**UNAUDITED FRUTAROM US GAAP STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2018**

	<b>Frutarom IFRS</b>	<b>Reclassification Adjustments</b>	<b>IFRS to U.S. GAAP Notes</b>	<b>Adjustments</b>	<b>Notes</b>	<b>Frutarom U.S. GAAP</b>
<b>Revenue:</b>						
Net sales	786,110					786,110
Cost of Sales	466,928	(466,928)	5k			
Cost of goods sold		466,928	5k			466,928
<b>Gross profit</b>	<b>319,182</b>					<b>319,182</b>
Selling, marketing, research and development expenses net	134,697	(134,697)	5l			
Research and development expenses		30,770	5l			30,770
Selling and administrative expenses		141,640	5l			141,640
General and administrative expenses	51,179	(51,179)	5l			
Amortization of acquisition-related intangibles		13,466	5l			13,466
Other expenses net	(315)	315	5l			
Gain on sales of fixed assets		(691)	5l			(691)
Group's share of earnings of companies accounted for at equity	(1,326)	1,326	5l			
<b>Income From Operations</b>	<b>134,947</b>	<b>(950)</b>				<b>133,997</b>
<b>Financial Expenses net</b>	<b>12,758</b>	<b>(12,758)</b>	<b>5m</b>			
<b>Interest Expense</b>		<b>12,758</b>	<b>5m</b>			<b>12,758</b>
<b>Other (income) expense, net</b>		<b>(950)</b>	<b>5l</b>			<b>(950)</b>
<b>Income Before Taxes on Net</b>						
<b>Income</b>	<b>122,189</b>					<b>122,189</b>
Income Tax	23,600					23,600
<b>Net income (Including Noncontrolling Interests)</b>						
Less: noncontrolling interests	756			2,449	5n	3,205
<b>Net Income</b>	<b>97,833</b>			<b>(2,449)</b>		<b>95,384</b>
Net income per share basic	1.64					1.60
Net income per share diluted	1.63					1.59

**Table of Contents****UNAUDITED FRUTAROM US GAAP STATEMENT OF OPERATIONS****FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>Frutarom IFRS</b>	<b>Reclassification Adjustments</b>	<b>IFRS to U.S. GAAP Notes</b>	<b>Adjustments</b>	<b>Notes</b>	<b>Frutarom U.S. GAAP</b>
<b>Revenue:</b>						
Net sales	\$ 1,362,396	\$		\$		\$ 1,362,396
Cost of Sales	837,271	(837,271)	5k			
Cost of goods sold		837,271	5k			837,271
<b>Gross profit</b>	<b>525,125</b>					<b>525,125</b>
Selling, marketing, research and development expenses net	220,014	(220,014)	5l			
Research and development expenses		43,644	5l			43,644
Selling and administrative expenses		246,332	5l			246,332
General and administrative expenses	92,155	(92,155)	5l			
Amortization of acquisition-related intangibles		22,193	5l			22,193
Restructuring and other charges, net		(340)	5l			(340)
Other expenses net	3,392	(3,392)	5l			
Gain on sales of fixed assets		1,934	5l			1,934
Group's share of earnings of companies accounted for at equity	(1,402)	1,402	5l			
<b>Income From Operations</b>	<b>210,966</b>	<b>396</b>				<b>211,362</b>
<b>Financial Expenses net</b>	<b>24,606</b>	<b>(24,606)</b>	<b>5m</b>			
<b>Interest Expense</b>		<b>10,075</b>	<b>5m</b>			<b>10,075</b>
<b>Other (income) expense, net</b>		<b>14,927</b>	<b>5l, 5m</b>	<b>(1,602)</b>	<b>5p</b>	<b>13,325</b>
<b>Income Before Taxes on Net Income</b>	<b>186,360</b>			<b>1,602</b>		<b>187,962</b>
Income Tax	34,797			308	5p	35,105
<b>Net income (Including Noncontrolling Interests)</b>	<b>151,563</b>			<b>1,294</b>		<b>152,857</b>
Less: noncontrolling interests	1,884			3,011	5n	4,895

<b>Net Income</b>	\$ 149,679	\$	\$ (1,717)	\$ 147,962
Net income per share basic	\$ 2.52			\$ 2.49
Net income per share diluted	\$ 2.51			\$ 2.48

S-39

**Table of Contents**

**Adjustments included in the column Reclassification Adjustments are as follows:**

Represents certain reclassifications of historical Frutarom's financial statement line items to conform to the expected financial statement line items of the combined group including:

***Balance sheet items:***

- a) Accounts receivable: Trade and Other have been reclassified to Trade receivables, net;
- b) Prepaid expenses and advances to suppliers have been reclassified to Prepaid expenses and other current assets;
- c) The portion of intangible assets that relates to goodwill was classified separately as goodwill;
- d) Investment in associates and available for sale assets and Others have been reclassified to Other assets;
- e) Short term bank credit and loans and current maturities of long-term loans have been reclassified to Short-term borrowings;
- f) Accounts payable: Trade has been reclassified to Accounts Payable;
- g) Accounts payable: Other has been reclassified as follows: (i) an amount of \$34,932 that represents \$8,572 of Put-Option liability and \$26,360 of the current portion of Contingent consideration, has been reclassified to Other current liabilities, and (ii) the remaining balance of \$121,433 has been reclassified to Accounts Payable. See Note 5(h) for the reclassification for the long-term portion of the contingent consideration.
- h) The portion of liability for shareholders of subsidiaries and other that relates to long term portion of contingent consideration has been reclassified to Other liabilities;
- i) Other capital surplus has been reclassified to Capital in excess of par value; and
- j) Translation differences and Retained earnings have been condensed into other equity. Cost of company shares held by Frutarom have been reclassified to Treasury stock, at cost.

***Statement of income items:***

- k) Cost of Sales have been reclassified to Cost of goods sold;

- l) Selling, marketing, research and development expenses net, General and administrative expenses, Other expenses net and Group's share of earnings of companies accounted for at equity have been reclassified in accordance with IFF's presentation as below:

	Year ended Dec 31, 2017	Period ended June 30, 2018	IFF's Presentation	Year ended Dec 31, 2017	Period ended June 30, 2018
<b>Frutarom's Presentation</b>					
Selling, marketing, research and development expenses net	\$ 220,014	\$ 134,697	Research and development expenses	\$ 43,644	\$ 30,770
General and administrative expenses	92,155	51,179	Selling and administrative expenses	246,332	141,640
Other expenses net	3,392	(315)	Restructuring and other charges, net	(340)	
Group's share of earnings of companies accounted	(1,402)	(1,326)	Amortization of acquisition-related intangibles	22,193	13,466
			Losses (Gain) on sales of fixed assets	1,934	(691)
			Other (income) expense, net	396	(950)
	<b>\$ 314,159</b>	<b>\$ 184,235</b>		<b>\$ 314,159</b>	<b>\$ 184,235</b>



**Table of Contents**

- m) The Portion of Financial Expenses net that relates to expenses on debt have been reclassified to Interest Expense and the remaining portion that relates to foreign exchange gain or loss has been reclassified to Other (income) expenses, net.

**Adjustments included in the column IFRS to U.S. GAAP Adjustments are as follows:**

The following adjustments have been made to convert Frutarom's historical balance sheet as of June 30, 2018 and statement of operations for the six months ended June 30, 2018 and the year ended December 31, 2017 to U.S. GAAP for purposes of the pro forma presentation:

- n) Reflects an adjustment to reclassify put option liability as redeemable noncontrolling interest to mezzanine equity. As part of several acquisitions effected by Frutarom, the noncontrolling interest holders of the acquired entities were granted an option to sell ( Put option ) their respective interests to Frutarom. In accordance with IFRS, Frutarom recognized a liability for such put options. Under U.S. GAAP, IFF determined the put options cannot be separated from the noncontrolling interest and the combination of a noncontrolling interest and the redemption feature require classification of such noncontrolling interest as a redeemable noncontrolling interest in the combined balance sheet. Further, those noncontrolling interests which are not currently redeemable but are probable to become redeemable are measured using the present value of the redemption value as of the earliest redemption date and the noncontrolling interests which are currently redeemable are measured at the maximum redemption amount. IFF has reviewed the computation of liabilities for put option under IFRS and determined that the amounts to be recorded for redeemable non-controlling interest under U.S. GAAP would be materially the same as the amount of such liabilities for put option recorded under IFRS. Accordingly, the unaudited pro forma condensed combined balance sheet as at June 30, 2018 was adjusted to reclassify the current and non-current portion of liability for put option that represented redeemable portion of noncontrolling interest as mezzanine equity which is presented between total liabilities and shareholders' equity. In addition, as a result of the reclassification to mezzanine equity, a portion of the profit has been allocated to the relevant NCI in accordance with U.S. GAAP.
- o) For the year ended December 31, 2017, Frutarom accounted for the lease arrangements entered into under IAS 17 Leases ( IAS 17 ). Frutarom has elected to early adopt IFRS 16 Leases ( IFRS 16 ) issued by the IASB, as of January 1, 2018, which requires entities to recognize a lease liability that reflects future lease payments and a right-of-use asset in all lease arrangements, with no distinction between capital/finance and operating leases subject to an exemption of certain short term leases or leases of low value assets. As a result of the early adoption of IFRS 16, Frutarom has recorded its operating leases as a right to use asset along with a corresponding lease liability in its historical balance sheet for the six months ended June 30, 2018. Regarding all leases, Frutarom applied the transitional provisions under IFRS 16 such that it initially recognized a liability at the commencement date at an amount equal to the present value of the lease payments during the lease, discounted using the effective interest rate as of that date, and concurrently recognized a right-of-use asset at an amount identical to the liability. As a result, adoption of the standard had no impact on equity and retained earnings of Frutarom as of initial application. IFF will adopt ASC 842 beginning January 1, 2019. Accordingly, IFF will reverse changes made by Frutarom under IFRS 16 and leases are accounted for under ASC 840 for the six months ending June 30, 2018.
- p) Expected return on plan assets Under IFRS, companies calculate a net interest cost (income) by applying the discount rate to the net pension benefit obligation or asset, while U.S. GAAP requires companies to calculate a separate return on plan assets using an estimated long-term rate of return on plan assets. The interest cost on the

pension benefit obligation is generally the same under both IFRS and U.S. GAAP.

S-41

**Table of Contents**

The following is a summary of the calculation of the pro forma statement of operations adjustment of \$1.6 million for the year ended December 31, 2017 relating to the expected return on plan assets. This adjustment is due to the different asset return rates used for IFRS versus U.S. GAAP and has been calculated using the following methodology:

Plan Asset	\$ 28,699
Rate Differential:	
Expected rate on plan assets	6.63%
Weighted average discount rate	1.04%
Difference in rates	5.58%
Pro forma adjustment	\$ 1,602

The expected long-term rate of return on pension plan assets was estimated based on the plan's investment strategy and asset allocation, historical capital market performance, and historical performance.

The tax impact of the pro forma statement of operations adjustment was estimated using Frutarom's statutory tax rate in the jurisdictions expected to be impacted.

An adjustment for the six months ended June 30, 2018 has not been calculated since management believes that the adjustment is not material.

No pro forma balance sheet adjustment is required because the amounts recorded for pension assets and obligations will not change materially as a result of purchase accounting.

**Note 6 Pro Forma Adjustments**

Adjustments included in the unaudited pro forma condensed combined balance sheet are represented by the following:

- a) Represents the adjustments to recognize additional amortization expense related to the increased basis of intangible assets (see Note 4), which have been recorded at estimated fair value on a pro forma basis and will be amortized over the estimated useful lives on a straight line basis. As part of the preliminary valuation analysis, IFF identified intangible assets related to product formulas, trade name and customer relationships.

The following table summarizes the estimated fair values of Frutarom's identifiable intangible assets and their estimated useful lives and uses a straight line method of amortization (in USD thousands):

	Estimated Fair Value	Estimated Useful Life (in Years)	For the Six Months Ended June 30, 2018	For the Year Ended December 31 2017
<b>Intangible assets</b>				
Product formulas	340,000	10	17,000	34,000
Trade name	140,000	20	3,500	7,000
Customer relationships	2,050,000	20	51,250	102,500

	2,530,000	71,750	143,500
Less: Historical amortization expense		11,838	23,676
<b>Pro forma adjustment</b>		<b>\$ 59,912</b>	<b>\$ 119,824</b>

The estimated tax impact of the fair market value adjustments on the amortization expense is reflected in the statements of operations using the weighted average statutory tax rate of the jurisdictions expected to be impacted.

S-42

**Table of Contents**

A 10% change in the valuation of definite lived intangible assets would cause a corresponding increase or decrease in the balance of goodwill and would also cause a corresponding increase or decrease in the annual amortization expense of approximately \$14,350.

- b) The pro forma condensed combined balance sheet has been adjusted to reflect the elimination of Frutarom's historical goodwill of \$589,250 and to record goodwill resulting from the merger of \$4,312,435. Recorded goodwill is calculated as the difference between the fair value of the purchase price paid and the preliminary values assigned to the identifiable tangible and intangible assets acquired and liabilities assumed. See Note 4 for the calculation of the amount of preliminary goodwill recognized in connection with the merger.
- c) The pro forma condensed combined balance sheet has been adjusted to step up Frutarom's inventory to a fair value of approximately \$372,000, an increase of \$33,119 from the carrying value. This fair value estimate of inventory is preliminary and is determined based on the assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). This preliminary fair value estimate could include assets that are not intended to be used, may be sold or are intended to be used in a manner other than their best use. The final fair value determination for inventories may differ from this preliminary determination. No adjustment to the unaudited pro forma condensed combined statement of operations has been recorded since the step up of inventory does not have a continuing impact on the combined company.
- d) The pro forma condensed balance sheet has been adjusted to include the adjustment to deferred tax liabilities, on a preliminary basis, of \$401,790 resulting from the pro forma fair value adjustments for inventory, intangible assets (excluding goodwill which is not tax deductible), and liabilities utilizing a weighted average statutory rate for the jurisdictions expected to be impacted. Because the tax rate used for these pro forma financial statements is an estimate, it will likely vary from the actual rate in periods subsequent to the completion of the merger and those differences may be material.
- e) The pro forma condensed combined balance sheet has been adjusted to reflect an adjustment of \$917,027 to eliminate Frutarom's historical shareholders' equity, which represents the historical book value of Frutarom's net assets, as a result of the merger. The pro forma adjustment to equity also reflects the issue of IFF shares to Frutarom out of the treasury shares of the Company as part of the purchase consideration (Note 3). The cost to reissue treasury stock is determined using the average cost method. See table below for more details:

	<b>Reversal of Frutarom's equity</b>	<b>Issue of IFF's shares to Frutarom</b>	<b>Pro forma adjustment</b>
Common Stock	(17,094)		(17,094)
Capital in excess of par value	(116,132)	1,333,317	1,217,185
Treasury stock, at cost	3,693	701,390	705,083
Other equity	(787,494)		(787,494)

<b>Total</b>	<b>\$ (917,027)</b>	<b>\$</b>	<b>2,034,707</b>	<b>\$ 1,117,680</b>
--------------	---------------------	-----------	------------------	---------------------

S-43

**Table of Contents**

In addition, other pro forma adjustments to other equity include the following adjustments:

	Amount	Tax impact	Pro forma adjustment
Adjustment related to extinguishment of IFF's debt (Note 6f)	(38,841)	8,173	(30,668)
Adjustment related to acquisition related cost (Note 6h)	(38,046)		(38,046)
Adjustment related to bridge finance commitment fee (Note 6h)	(29,224)	6,838	(22,386)
Adjustment related to fair valuation of derivatives (Note 6g)	8,463	(1,782)	6,681
<b>Total</b>		<b>\$ 13,229</b>	<b>\$ (84,419)</b>

- f) IFF expects to finance the merger with a combination of up to \$3.2 billion of new debt, cash on hand and up to \$2.3 billion in equity. The financing is expected to consist of (i) issuing new par value debt in the form of notes of approximately \$2,750 million at a weighted average effective interest rate of 3.44% per annum with maturities ranging from 2 – 30 years, a portion of which will be denominated in currencies other than the U.S. dollar (ii) obtaining a new term loan facility of up to \$350 million (iii) the recent issuance of new Tangible Equity Units (TEU) of \$825 million, securities consisting of (a) 3-year prepaid common stock purchase contract of approximately \$685.5 million and (b) 3-year amortizing bond of approximately \$139.5 million at an effective interest rate of 5.83%, and (iv) the recent issuance of new common shares for \$1,650 million.

Based on the expected structure of the TEUs, IFF expects the purchase contract component of the TEUs to meet equity classification which has been reflected as such in the unaudited pro forma condensed combined balance sheet. The classification of the TEU will be subject to detailed assessment once finalized and a different conclusion may result in a material impact on these unaudited pro forma condensed combined financial information.

IFF has entered into a debt commitment letter with Morgan Stanley Senior Funding, Inc. to obtain a 364-day bridge facility of up to \$5,450 million to the extent IFF does not receive \$5,450 million of net cash proceeds from the financing arrangements discussed above. This bridge facility is not expected to be utilized, and thus the fee of the bridge facility financing totaling \$39.8 million is not included in the calculation of pro forma interest expense but will be considered an acquisition related cost (see Note 6(h)). On June 6, 2018, IFF entered into a term loan credit agreement to replace a portion of the bridge facility, reducing the amount of the bridge facility by \$350 million. If IFF is not able to consummate the financing discussed above, and instead must utilize the bridge facility to fund the acquisition, the adjustment to annual interest expense is expected to be approximately \$35.4 million for the six months ended June 30, 2018 and \$71.0 million for the year ended December 31, 2017 respectively. Financial expenses related to the amortization of the fee for bridge financing recognized by IFF during the six months ended June 30, 2018, amounting to \$10.6 million, have been removed for pro forma purposes, since it does not have a continuing impact (see Note 6(h)). In addition, the accrual created by the Company for the bridge financing fee of \$12 million as of June 30, 2018 has been reversed to reflect the total impact of estimated bridge facility financing to cash and retained earnings on pro forma balance sheet (see Note 6(l)).

IFF intends to retire all of Frutarom's existing debt utilizing funds raised by the expected financing arrangements above. Additionally, in connection with the merger, IFF intends to prepay in full IFF's current outstanding senior secured notes due 2019-2027. Pursuant to this, IFF will incur certain pre-payment penalties and swap unwind costs. These transactions will be treated as an extinguishment of debt, with a loss of \$38.8 million associated with the pre-payment of senior secured notes due 2019-2027 along with swap unwind fee. The loss on extinguishment is reflected in the unaudited pro forma balance sheet as a reduction of retained earnings and a reduction of cash as it will be expensed by IFF. It is not reflected in the pro forma statement of operations due to its nonrecurring nature.

S-44



**Table of Contents**

The following pro forma adjustments have been recorded in the pro forma condensed combined balance sheet in relation to the new debt (in USD thousands):

	<b>As of June 30, 2018</b>
Term loan	350,000
Senior notes	2,750,000
Debt portion of TEUs	139,472
Debt issuance costs	(24,852)
Extinguishment of Frutarom's existing debt	(797,434)
Repayment of IFF's existing debt	(249,776)
<b>Pro forma adjustment</b>	<b>\$ 2,167,410</b>
Allocated to:	
Short-term borrowings	198,088
Long-term debt	1,969,322
<b>Pro forma adjustment</b>	<b>\$ 2,167,410</b>

The following pro forma adjustments have been recorded in the pro forma condensed combined balance sheet in relation to the issuance of equity, net of issuance costs (in USD thousands):

	<b>Issue of common stock</b>	<b>Equity portion of Tangible equity units</b>	<b>Pro forma adjustment</b>
Common Stock	1,583		1,583
Capital in excess of par value	1,600,392	663,913	2,264,305
<b>Total</b>	<b>\$ 1,601,975</b>	<b>\$ 663,913</b>	<b>\$ 2,265,888</b>

The following pro forma adjustments have been recorded in the pro forma condensed combined statements of operations (in USD thousands):

	<b>Six Months Ended June 30, 2018</b>	<b>Year Ended December 31, 2017</b>
Interest expense on Term Loan	4,528	12,679
Interest expense TEU notes	2,543	6,964
Interest on Senior Notes	41,057	91,465

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

Frutarom Interest Expense	(10,600)	(10,075)
Retirement of IFF Senior Notes	(8,219)	(16,438)
Reversal of fee recognized for bridge financing	(10,576)	
Reversal of mark-to-market gain recognized foreign currency forward (note 6g)	24,937	
Total pro forma adjustment	\$ 43,670	\$ 84,595

The weighted-average interest rate on the new term loan, new senior notes and amortizing bond (TEU) as of the issuance is expected to be 3.62%. The actual financing and terms of the financing will be subject to market conditions. A 1/8% change in interest rates on the debt to be incurred as part of the merger would result in a change in interest expense of \$5.1 million annually.

S-45

**Table of Contents**

- g) IFF entered into deal contingent foreign currency forward contract and interest rate swaps. The deal contingent foreign currency forward serves as an economic hedge of the Euro denominated portion of the senior notes to be issued, while the deal contingent interest rate swaps serve as an economic hedge of the underlying interest rate of the USD denominated senior notes. Upon securing the permanent financing, IFF intends to net settle these derivatives with the financial institutions by making or receiving payment. The foreign currency forward and interest rate swaps have not been considered to be designated as a hedge for the purposes of pro forma financial information. As of September 17, 2018, the foreign currency forward had a fair value of a gain of approximately \$14,645 and the interest rate swaps had a fair value of a loss of approximately \$6,182. For the purpose of the unaudited pro forma financial statements, recognition of these derivatives have been considered an event that is directly attributable to the merger, however, since these are deal contingent, there is no continuing impact. Accordingly, the pro forma balance sheet has been adjusted to reflect the fair value of these derivatives as of September 17, 2018, as if these derivatives were settled on the said date increasing cash and retained earnings. No future impact on pro forma statement of operations is considered due its non-recurring nature. However, during the six months ended June 30, 2018, IFF recognized \$24,937 of mark-to-market gain related to interest rate swaps under Financing expenses net, and \$10,979 of mark-to-market loss relates to foreign current forward under Other (income) expenses, net. The unrealized gain/loss recognized by IFF on mark-to-market valuation of these derivatives during the six months ended June 30, 2018, has been eliminated from the pro forma statement of operations, since it does not have a continuing impact. The pro forma adjustments were tax effected using the worldwide weighted average statutory tax rate in the jurisdictions to which the adjustments are expected to relate.
- h) The pro forma condensed combined balance sheet has been adjusted to reflect an adjustment of \$93,801 for estimated acquisition-related costs consisting of bridge facility financing fees of \$39,800 and professional, legal and other acquisition-related fees of \$50,501. Pursuant to the requirements for the preparation of pro forma financial information under Article 11 of Regulation S-X, these acquisition-related costs are not included in the pro forma condensed combined statements of operations, since these costs are nonrecurring. During the six months ended June 30, 2018, IFF recognized \$12,455 as acquisition-related expenses. The Company paid \$2,605 of these expenses and \$9,850 are accrued as liability in the balance sheet as of June 30, 2018. The remaining costs expected to be paid in the future are reflected in the unaudited pro forma condensed combined balance sheet as a decrease to cash and cash equivalents, with the related tax benefits reflected as a decrease in other current liabilities and the after tax impact presented as a decrease to retained earnings. The acquisition-related costs recognized by IFF during the six months ended June 30, 2018, have been eliminated from the pro forma statement of operation, since it does not have a continuing impact. The adjustment related to acquisition-related cost in the pro forma financial statements is summarized below:

	<b>Total estimated cost</b>	<b>Paid until June 30, 2018</b>	<b>Pro Forma adjustment to cash</b>	<b>Expense recognized during Six Months ended June 30, 2018</b>	<b>Pro forma adjustment to retained earnings</b>
Bridge financing fee	39,800	(24,716)	15,084	(10,576)	29,224
Acquisition-related cost	50,501	(2,605)	47,896	(12,455)	38,046
			<b>\$ 62,980</b>		<b>\$ 67,270</b>

i)

The pro forma condensed combined statement of operation has been adjusted for the impact of the adoption of ASU 2017-07 Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, to present the non-service components of periodic pension cost to Other (income) expense, net in the pro forma condensed combined statements of operations.

S-46

**Table of Contents**

- j) The estimated tax impact of the interest expense adjustments have been reflected in the pro forma condensed combined statement of operation using the weighted average statutory tax rate of the jurisdictions expected to be impacted. Because the tax rate used for these pro forma financial statements is an estimate, it will likely vary from the actual rate in periods subsequent to the completion of the business combination and those differences may be material.
- k) The following table summarizes the pro forma adjustments to cash and cash equivalent (in USD thousands):

	<b>Pro Forma adjustment</b>
Proceeds from debt financing (Note 6f)	2,167,410
Proceeds from equity financing (Note 6f)	2,265,888
Prepayment penalty and loss-unwind fee (Note 6f)	(38,841)
Payment of Acquisition-related cost (Note 6h)	(62,980)
Net payment upon settlement of derivatives (Note 6g)	8,463
<b>Total</b>	<b>\$ 4,339,940</b>

- l) The following table summarizes the pro forma adjustments to other current liabilities (in USD thousands):

	<b>Pro Forma adjustment</b>
Tax impact of adjustment posted (Note 6e)	13,229
Reversal of accrual created for bridge financing fee (Note 6f)	12,001
Reversal of accrual created for acquisition related cost (Note 6h)	9,850
	<b>\$ 35,080</b>

**Note 7 Pro Forma Earnings Per Share**

The following table presents the calculation of pro forma combined basic and diluted net loss per share of common stock, after giving effect to:

- (a) the preliminary estimated number of shares of IFF common stock to be issued as part of purchase consideration calculated using the exchange ratio;
- (b) the preliminary estimated number of shares of IFF common stock to be issued in order to finance the acquisition; and

- (c) the dilutive impact of equity portion of the tangible equity units

S-47

**Table of Contents**

for the year ended December 31, 2017 and the six months ended June 30, 2018 (in USD thousands, except per share amounts):

	<b>Year Ended December 31, 2017</b>	<b>Six Months Ended June 30, 2018</b>
Pro forma net profit attributable to stockholders	282,873	259,746
Weighted average number of IFF shares outstanding Basic	79,070	79,041
IFF shares issued to Frutarom as part of purchase consideration (Note 3)	14,907	14,907
Fresh equity of common stock to finance the acquisition (Note 6f)	12,089	12,089
Common stock issuable upon conversion of Tangible equity units	5,171	5,171
Pro forma weighted average number shares outstanding Basic	111,237	111,208
Weighted average number of IFF shares outstanding Diluted	79,370	79,347
IFF shares issued to Frutarom as part of purchase consideration (Note 3)	14,907	14,907
Fresh equity of common stock to finance the acquisition (Note 6f)	12,089	12,089
Diluted common stock issuable upon conversion of Tangible equity units	6,334	6,334
	112,700	112,677
Pro forma net income per share of common stock Basic	2.54	2.34
Pro forma net income per share of common stock Diluted	2.52	2.31

S-48

---

**Table of Contents**

**DESCRIPTION OF THE NOTES**

*The following description supplements and, to the extent inconsistent therewith, replaces the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.*

*The notes will be governed by an indenture, dated as of March 2, 2016, between us and U.S. Bank National Association, as trustee, as supplemented by a supplemental indenture with respect to the notes. We refer to the indenture, as supplemented, as the indenture. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act).*

*The following discussion summarizes the material provisions of the notes and the indenture. Because this is only a summary, it is not complete and does not describe every aspect of the notes and the indenture, and is subject to, and is qualified in its entirety by reference to, all the provisions of the indenture, including definitions of certain terms in the indenture. You should read the indenture for provisions that may be important to you, but which are not included in this summary.*

**General**

We are offering \$300,000,000 aggregate principal amount of our 2020 notes, \$400,000,000 aggregate principal amount of our 2028 notes and \$800,000,000 aggregate principal amount of our 2048 notes. We may from time to time, without giving notice to or seeking the consent of the holders of the original notes, issue notes having the same ranking and the same interest rate, maturity and other terms as the original notes. Any additional notes having such similar terms, together with the applicable original notes, will constitute a single series of notes under the indenture, provided that any such further notes are issued pursuant to a qualified reopening of the original notes, are otherwise treated as part of the same issue of debt instruments as the original notes or are issued with no more than a de minimis amount of original discount, in each case for U.S. federal income tax purposes.

The 2020 notes will bear interest at 3.400% per annum, the 2028 notes will bear interest at 4.450% per annum and the 2048 notes will bear interest at 5.000% per annum. Interest on the notes will accrue from September 26, 2018. Interest on the 2020 notes will be payable semi-annually in cash in arrears on March 25 and September 25 of each year, beginning on March 25, 2019, to holders of record at the close of business on the fifteenth calendar day (whether or not that date is a business day), as the case may be, immediately preceding such interest payment date. Interest on the 2028 notes and the 2048 notes will accrue from September 26, 2018, and will be payable semi-annually in cash in arrears on March 26 and September 26 of each year, beginning on March 26, 2019, to holders of record at the close of business on the fifteenth calendar day (whether or not that date is a business day), as the case may be, immediately preceding such interest payment date. The 2020 notes will mature on September 25, 2020, the 2028 notes will mature on September 26, 2028 and the 2048 notes will mature on September 26, 2048.

Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. Any payment otherwise required to be made in respect of the notes on a date that is not a business day may be made on the next succeeding business day with the same force and effect as if made on that date. No additional interest will accrue as a result of a delayed payment. A business day is defined in the indenture as any day, other than a Saturday, Sunday or other day on which banking institutions in the City of New York are authorized or required by law or regulation to close.

The notes will be issued only in fully registered, book-entry form without coupon and in minimum denominations of \$2,000 and in integral multiples of \$1,000 above that amount. The notes will be represented by one or more global securities registered in the name of Cede & Co., as nominee of DTC. Except as described below under Book-Entry



Issuance; Delivery and Form, the notes will not be issuable in certificated form.

**Ranking**

The notes will be our direct, unsecured and unsubordinated obligations and will rank equally with all of our existing and future other unsecured and unsubordinated indebtedness. The notes will be effectively subordinated to any of our existing and future secured indebtedness, to the extent of the assets securing such indebtedness, and will be effectively subordinated to all liabilities of our subsidiaries, including trade payables.

S-49

## **Table of Contents**

### **Special Mandatory Redemption**

The Company expects to use the net proceeds from this offering as partial consideration for the Merger, as described under the heading Use of Proceeds. If the closing of the Merger has not occurred on or prior to February 7, 2019, or if, prior to such date, the Merger Agreement is terminated (each, a Special Mandatory Redemption Event), the provisions set forth below will be applicable.

Upon the occurrence of a Special Mandatory Redemption Event, each series of the notes will be redeemed in whole by us at a special mandatory redemption price (the Special Mandatory Redemption Price) equal to 101% of the aggregate principal amount of the applicable series of notes, plus accrued and unpaid interest on the principal amount of such series of the notes to, but not including, the Special Mandatory Redemption Date (as defined below).

Upon the occurrence of a Special Mandatory Redemption Event, the Company shall promptly (but in no event later than five business days following such Special Mandatory Redemption Event) notify the trustee in writing of such event, and the trustee shall, no later than five business days following receipt of such notice from the Company, notify the holders (the date on which such notification is distributed, the Redemption Notice Date), that the notes will be redeemed on the 10<sup>th</sup> business day following the Redemption Notice Date (such date, the Special Mandatory Redemption Date), in each case in accordance with the applicable provisions of the indenture. The trustee, upon receipt of the notice specified above, on the Redemption Notice Date shall notify each holder in accordance with the applicable provisions of the indenture that all of the outstanding notes shall be redeemed at the Special Mandatory Redemption Price on the Special Mandatory Redemption Date automatically and without any further action by the holders of any series of the notes. Prior to the opening of business on the Special Mandatory Redemption Date, the Company shall deposit with the trustee funds sufficient to pay the Special Mandatory Redemption Price for each series of notes. If such deposit is made as provided above, the notes will cease to bear interest on and after the Special Mandatory Redemption Date.

Upon the occurrence of the closing of the Merger, the foregoing provisions regarding the special mandatory redemption will cease to apply.

### **Optional Redemption**

We may redeem each series of notes, in whole or in part, at our option, at any time prior to the maturity date with respect to the 2020 notes, June 26, 2028 (three months prior to the maturity date) with respect to the 2028 notes, and March 26, 2048 (six months prior to the maturity date) with respect to the 2048 notes, at a redemption price equal to the greater of the following amounts:

100% of the principal amount of the notes to be redeemed on that redemption date; and

the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed on that redemption date, excluding accrued and unpaid interest on the redemption date, discounted to the redemption date on a semi-annual basis based at the Treasury Rate (as defined below), plus 10 basis points in the case of the 2020 notes, 25 basis points in the case of the 2028 notes and 30 basis points in the case of the 2048 notes, as determined by the Reference Treasury Dealer (as defined below); plus, in each case, accrued and unpaid interest on the notes being redeemed to, but excluding, the redemption date.

On or after June 26, 2028 (three months prior to the maturity date) with respect to the 2028 notes, and March 26, 2048 (six months prior to the maturity date) with respect to the 2048 notes, the redemption price for the notes to be redeemed will be equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest on the notes to be redeemed to, but excluding, the redemption date.

Notwithstanding the foregoing, installments of interest on notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the

S-50

## **Table of Contents**

registered holders as of the close of business on the relevant record date in accordance with the notes and the indenture. The redemption price will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

We will mail notice of any redemption at least 30 days, but not more than 60 days, before the redemption date to each registered holder of the notes to be redeemed. Once notice of redemption is mailed, the notes called for redemption will become due and payable on the redemption date and at the applicable redemption price, plus accrued and unpaid interest to the redemption date. The notice of redemption will state any conditions applicable to a redemption and the amount of notes to be redeemed.

**Comparable Treasury Issue** means the U.S. Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the notes of the applicable series to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

**Comparable Treasury Price** means, with respect to any redemption date, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (b) if the Quotation Agent obtains fewer than four Reference Treasury Dealer Quotations, the average of all these quotations.

**Quotation Agent** means the Reference Treasury Dealer selected by us.

**Reference Treasury Dealer** means (a) each of Morgan Stanley & Co. LLC, BNP Paribas Securities Corp., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC (or their respective affiliates which are Primary Treasury Dealers (as defined below)), and their respective successors; provided, however, that if any of those entities ceases to be a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer ) we will substitute for those entities another Primary Treasury Dealer; and (b) any other Primary Treasury Dealer(s) selected by us.

**Reference Treasury Dealer Quotation** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

**Treasury Rate** means, with respect to any redemption date, the rate per annum equal to the equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption, unless we default in the payment of the redemption price and accrued interest. On or before the redemption date, we will deposit with a paying agent, or the trustee, money sufficient to pay the redemption price of and accrued interest on the notes to be redeemed on that date. If less than all of the notes are to be redeemed, the notes to be redeemed will be selected by the trustee, in accordance with the rules of DTC, by lot or in such other manner the trustee deems to be fair and appropriate.

## **Sinking Fund**

The notes will not be entitled to the benefit of any mandatory redemption or sinking fund.

S-51

**Table of Contents**

**Offer to Repurchase Upon Change of Control Triggering Event**

Upon a Change of Control Triggering Event (as defined below), unless we have previously exercised any right to redeem the notes as described above under Optional Redemption, each holder of notes will have the right to require us to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of such holder's notes pursuant to the offer described below (the Change of Control Offer). In the Change of Control Offer, we will offer payment in cash equal to 101% of the aggregate principal amount of such notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to, but excluding, the date of repurchase (the Change of Control Payment).

Within 30 days following the date upon which the Change of Control Triggering Event occurs, or, at our option, prior to any Change of Control but after the public announcement of the pending Change of Control, we will mail a notice to each holder of notes, with a copy to the trustee, describing the terms of the Change of Control Offer and offering to repurchase the notes. Such notice will state, among other things, the purchase date, which must be no earlier than 30 days and no later than 60 days from the date such notice is mailed, other than as may be required by law (the Change of Control Payment Date). If the notice is mailed prior to the date of consummation of the Change of Control, it will state that the Change of Control Offer is conditioned on the Change of Control being completed on or prior to the Change of Control Payment Date.

We will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Triggering Event provisions of the indenture and the notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Triggering Event provisions by virtue of compliance with such securities laws or regulations.

We will not be required to make a Change of Control Offer if a third party makes an offer to purchase the notes at a purchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, on such notes to the date of purchase, in the manner, at the times and otherwise in compliance with the requirements for a Change of Control Offer made by us and such third party purchases all the notes properly tendered and not withdrawn under its offer.

On the Change of Control Payment Date, we will, to the extent lawful:

accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

deliver or cause to be delivered to the trustee for cancellation the notes properly accepted together with an officers' certificate stating the aggregate principal amount of the notes being purchased by us.

For purposes of the foregoing discussion of a repurchase at the option of holders upon the occurrence of a Change of Control, the following definitions are applicable:

*Change of Control* means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our properties or assets and of our subsidiaries' properties or assets taken as a whole to any person (as that term is used in Section 13(d)(3) and Section 14(d) of the Exchange Act) other than us or one of our subsidiaries; (2) the adoption of a plan relating to our liquidation or dissolution; (3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any person (as defined in clause (1) above) becomes the beneficial owner (as defined

## **Table of Contents**

in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our then outstanding Voting Stock (measured by voting power rather than number of shares); or (4) we consolidate with, or merge with or into, any Person, or any Person consolidates with, or merges with or into, us, in any such event pursuant to a transaction in which any of our outstanding Voting Stock or Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of our Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person immediately after giving effect to such transaction.

*Change of Control Triggering Event* means the occurrence of both (1) a Change of Control and (2) a Ratings Event.

*Investment Grade* means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, or if applicable, the equivalent investment grade credit rating from any substitute Rating Agency selected by us.

*Moody's* means Moody's Investors Service, Inc. and its successors.

*Person* means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity, and includes a person as used in Section 13(d)(3) of the Exchange Act.

*Rating Agencies* means (1) each of Moody's and S&P; and (2) if either of Moody's or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by us (as certified by a resolution of our board of directors) as a replacement agency for Moody's or S&P, or both as the case may be.

*Ratings Event* means the occurrence of the events described in (1) or (2) below on any date during the period commencing 60 days prior to the date of the public notice of the occurrence of a Change of Control or our intention to effect a Change of Control and ending 60 days following consummation of such Change of Control (the Trigger Period), which Trigger Period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by either of the Rating Agencies: (1) in the event the notes are rated by both Rating Agencies as investment grade, the rating of the notes shall be reduced so that the notes are rated below investment grade by both Rating Agencies, or (2) in the event the notes are rated investment grade by one Rating Agency and below investment grade by the other Rating Agency, the rating of the notes by either Rating Agency shall be decreased by one or more gradations (including gradations within rating categories, as well as between rating categories) so that the notes are then rated below investment grade by both Rating Agencies.

*S&P* means S&P Global Ratings, a division of S&P Global, Inc. and its successors.

*Voting Stock* of a Person means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

## **Certain Covenants**

### ***Limitations on Liens***



We will not, and will not permit any Restricted Subsidiary (as defined below) to, issue, incur, create, assume or guarantee any debt for borrowed money (collectively referred to as Debt ) secured by any mortgage, security

S-53

**Table of Contents**

interest, pledge, lien, charge or other encumbrance (each a Lien and collectively, Liens ) on any Principal Property (as defined below) or shares of stock (or other equivalents of or interests in equity) or indebtedness of a Restricted Subsidiary, unless the notes, and, at our option, any other indebtedness or guarantee ranking equally with such notes, are secured equally and ratably with, or at our option, prior to, such secured Debt, for so long as such Debt is so secured.

This restriction will not apply to Debt secured by:

liens on property, shares of stock or indebtedness of an entity existing at the time it becomes a Restricted Subsidiary, but not created in anticipation of the transaction in which such entity becomes a Restricted Subsidiary;

liens on property acquired by us or a Restricted Subsidiary existing at the time of acquisition by us or a Restricted Subsidiary;

liens on property acquired by us or a Restricted Subsidiary and created prior to, at the time of, or within 180 days after the acquisition of such property, or the completion of construction, the completion of improvements or the commencement of substantial commercial operation of such property, for the purpose of financing all or any part of the purchase price of such property, such construction or the making of such improvements;

liens on property, shares of stock or indebtedness of an entity existing at the time such entity is merged into or consolidated with us or a Restricted Subsidiary or at the time of a sale, lease or other disposition of all or substantially all of the properties of an entity as an entirety or substantially as an entirety to us or a Restricted Subsidiary, provided that the lien was not incurred in contemplation of such merger or consolidation or sale, lease or other disposition;

liens on our or a Restricted Subsidiary's property or in favor of governmental bodies to secure payments of amounts owed under contract or statute or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to such liens;

liens to secure indebtedness owing to us or a Restricted Subsidiary;

liens existing on the date of the initial issuance of the notes; and

any extension, renewal or replacement of any Lien referred to above or of any Debt secured by that Lien; provided, however, that such extension, renewal or replacement Lien will secure no larger an amount of Debt than that existing at the time of such extension, renewal or replacement.

Notwithstanding the restrictions described above, we or a Restricted Subsidiary may issue, incur, create, assume or guarantee Debt secured by a Lien which would otherwise be subject to the foregoing restrictions without equally and ratably securing the notes, provided that after giving effect to the Debt secured by such Lien, the aggregate amount of all Debt so secured by Liens, not including Liens permitted above, does not exceed the greater of (1) 15% of Consolidated Net Tangible Assets (as defined below) or (2) \$100 million.

***Limitations on Sale and Lease-back Transactions***

Sale and Lease-Back Transactions (as defined below) by us or any Restricted Subsidiary of any Principal Property, other than any such transaction involving a lease for a term of not more than three years or any such transaction between us and one of our Restricted Subsidiaries or between Restricted Subsidiaries, are prohibited unless at the effective time of such transaction:

we or the Restricted Subsidiary would be entitled, pursuant to the covenant relating to Limitation on Liens, without equally and ratably securing the notes, to incur Debt secured by a Lien on the Principal Property involved in such transaction in an amount at least equal to the Attributable Debt (as defined below) with respect to such Sale and Lease-Back Transaction; or

S-54

## **Table of Contents**

we or the Restricted Subsidiary applies, within 180 days of the effective date of the Sale and Lease-Back Transaction, an amount equal to the greater of (1) the net proceeds of such sale or (2) the Attributable Debt with respect to such Sale and Lease-Back Transaction, to either, or a combination of, (x) the prepayment or retirement, other than any mandatory retirement, mandatory prepayment or sinking fund payment or payment at maturity, of debt for borrowed money of us or a Restricted Subsidiary, other than debt subordinate to the notes or debt to us or a Restricted Subsidiary, that matures more than 12 months after its creation or (y) the purchase, construction or development of other comparable property.

### ***Certain Definitions***

For purposes of the foregoing discussion of certain covenants, the following definitions are applicable:

*Attributable Debt* as used with respect to a Sale and Lease-Back Transaction, means, at the time of determination, the lesser of (a) the fair market value of the Principal Property leased, as determined in good faith by our Board of Directors, or (b) the present value of the total net amount of rent required to be paid under such lease during the remaining term thereof, including any period for which such lease has been extended, discounted at the rate of interest set forth or implicit in the terms of such lease, as determined in good faith by our Board of Directors, compounded semi-annually.

*Consolidated Net Tangible Assets* means, as of any particular time, the aggregate amount of assets included on our consolidated balance sheet as of the end of the last fiscal quarter for which financial information is available, less applicable reserves and other properly deductible items, after deducting from such amount:

all current liabilities, including current maturities of long-term indebtedness and current maturities of obligations under capital leases; and

the total of the net book values of all assets of us and our Subsidiaries properly classified as intangible assets under U.S. generally accepted accounting principles, including goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets.

*Principal Property* means the land, improvements, buildings and fixtures (including any leasehold interest therein), constituting the principal corporate office, any manufacturing plant or any manufacturing or research or engineering facility, whether owned at or acquired after the date of the indenture, that is owned or leased by us or a Restricted Subsidiary, that is located within the continental United States, and that has a net book value at the time of the determination in excess of the greater of 10% of our Consolidated Net Tangible Assets or \$50 million, unless our Board of Directors has determined in good faith that such property is not material to the operation of the business conducted by us and our Subsidiaries taken as a whole; provided, however, for purposes of the indenture, our corporate office located at 521 West 57th Street, New York, New York 10019-2960 will not be deemed a Principal Property.

*Restricted Subsidiary* means any Subsidiary (1) substantially all of whose property is located within the continental United States, (2) which owns a Principal Property and (3) in which our investment exceeds 1% of the aggregate amount of assets included on our consolidated balance sheet as of the end of the last fiscal quarter for which financial information is available. However, the term *Restricted Subsidiary* does not include any Subsidiary that is principally engaged in certain types of leasing and financing activities.

*Sale and Lease-Back Transaction* means any arrangement with any person providing for the leasing by us or any Restricted Subsidiary of any Principal Property, whether owned at the date of the issuance of the notes or thereafter acquired, excluding temporary leases of a term, including renewal periods, of not more than three years, that has been or is to be sold or transferred by us or any Restricted Subsidiary to such person with the intention of taking back a lease of this property.

*Subsidiary* means (a) any corporation at least a majority of whose outstanding voting stock shall at the time be owned, directly or indirectly, by us or by one or more of our subsidiaries or by us and one or more of our

S-55

## **Table of Contents**

subsidiaries, (b) any general partnership, limited liability company, joint venture or similar entity, at least a majority of whose outstanding partnership or similar interests shall at the time be owned by us, or by one or more of our subsidiaries, or by us and one or more of our subsidiaries and (c) any limited partnership of which we or any of our subsidiaries is a general partner.

## **Additional Notes**

We may, without the consent of the holders of the notes, create and issue additional notes ranking equally with any series of notes in all respects and having the same interest rate, maturity and other terms as such series of notes (except for the public offering price and issue date and, in some circumstances, the first interest payment date) so that such additional notes shall be consolidated and form a single series with such notes; provided, however, that unless such additional notes are issued pursuant to a qualified reopening of the original notes, are otherwise treated as part of the same issue of debt instruments as the original notes or are issued with no more than a de minimis amount of original discount, in each case for United States federal income tax purposes, the additional notes will have a different CUSIP number.

## **Book-Entry; Delivery and Form**

### *Global Notes*

The notes will be represented by one or more global notes in definitive, fully registered, book-entry form. The global notes will be deposited with or on behalf of DTC and registered in the name of Cede & Co., as nominee of DTC. We will not issue certificated notes to you, except in the limited circumstances described below. Each global note will be issued to DTC, which will keep a computerized record of its participants whose clients have purchased the notes. Each participant will then keep a record of its own clients. Unless it is exchanged in whole or in part for a certificated note, a global note may not be transferred. DTC, its nominees and their successors may, however, transfer a global note as a whole to one another, and these transfers are required to be recorded on our records or a register to be maintained by the trustee.

### *DTC, Clearstream and Euroclear*

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither we nor the underwriters take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised us that it is (1) a limited purpose trust company organized under the laws of the State of New York, (2) a banking organization within the meaning of the New York Banking Law, (3) a member of the Federal Reserve System, (4) a clearing corporation within the meaning of the New York Uniform Commercial Code, as amended and (5) a clearing agency registered pursuant to Section 17A of the Exchange Act. DTC was created to hold notes for its participants and facilitates the clearance and settlement of notes transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC's participants include brokers and dealers, including the underwriters, banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, referred to as indirect participants, that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own notes held by or on behalf of DTC only through participants or indirect participants.

Pursuant to procedures established by DTC, upon deposit of each of the global notes, DTC will credit the accounts of participants designated by the underwriters with an interest in the global notes. Ownership of the

S-56

---

**Table of Contents**

notes will be shown on, and the transfer of ownership of notes will be effected only through, records maintained by DTC, with respect to the interests of participants, and the records of participants and the indirect participants, with respect to the interests of persons other than participants.

We understand that under existing industry practice, in the event that we request any action of holders of notes, or a holder that is an owner of a beneficial interest in a global note desires to take any action that DTC, as the holder of such global note, is entitled to take, DTC would authorize the participants to take the action and the participants would authorize holders owning through the participants to take the action or would otherwise act upon the instruction of the holders. Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to the notes. Payments with respect to the principal of, and premium, if any, liquidated damages, if any, and interest on, any notes represented by a global note registered in the name of DTC or its nominee on the applicable record date will be payable by the trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the global note representing the notes under the indenture. Under the terms of the indenture, we may treat, and the trustee may treat, the persons in whose names the notes, including the global notes, are registered as the owners of the notes for the purpose of receiving payment on the notes and for any and all other purposes whatsoever. Accordingly, neither we nor the trustee has or will have any responsibility or liability for the payment of these amounts to owners of beneficial interests in the global note, including principal, premium, if any, liquidated damages, if any, and interest.

Links have been established among DTC, Clearstream Banking, *société anonyme*, which we refer to as Clearstream, and Euroclear Bank S.A./N.V., which we refer to as Euroclear. Clearstream and Euroclear are two European book-entry depositaries similar to DTC, to facilitate the initial issuance of notes sold outside the United States and cross-market transfers of the notes associated with secondary market trading.

Noteholders may hold their notes through the accounts maintained by Euroclear or Clearstream in DTC only if they are participants of those systems, or indirectly through organizations that are participants in those systems. Euroclear and Clearstream will hold omnibus book-entry positions on behalf of their participants through customers' securities accounts in Euroclear's and Clearstream's names on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in the names of the nominees of the depositaries on the books of DTC. All securities in Euroclear and Clearstream are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts.

Transfers of notes by persons holding through Euroclear or Clearstream participants will be effected through DTC, in accordance with DTC rules, on behalf of the relevant European international clearing system by its depositaries; however, such transactions will require delivery of exercise instructions to the relevant European international clearing system by the participant in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the exercise meets its requirements, deliver instructions to its depositaries to take action to effect the exercise of the notes on its behalf by delivering notes through DTC and receiving payment in accordance with its normal procedures for next-day funds settlement. Payments with respect to the notes held through Euroclear and Clearstream will be credited to the cash accounts of Euroclear participants or Clearstream participants in accordance with the relevant system's rules and procedures, to the extent received by its depositaries. Euroclear and Clearstream may change any of their policies without notice.

*Certificated Notes*



We will only issue certificated notes to each person that DTC identifies as the beneficial owner of the notes represented by a global note upon surrender by DTC of the global note if:

DTC notifies us that it is no longer willing or able to act as a depository for such global note or ceases to be a clearing agency registered under the Exchange Act, and we have not appointed a successor depository within 90 days of that notice or becoming aware that DTC is no longer so registered;

S-57

**Table of Contents**

an event of default under the indenture has occurred and is continuing, and DTC requests the issuance of certificated notes; or

we determine not to have the notes represented by a global note.

Neither we nor the trustee will be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the notes. We and the trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the certificated notes to be issued. If a global note is exchanged for certificated notes, the trustee will keep the registration books for the notes at its corporate office and follow customary practices and procedures regarding those certificated notes.

**Defeasance**

The defeasance provisions described in the accompanying prospectus under Description of Debt Securities Discharge, Defeasance and Covenant Defeasance will be applicable to the notes; provided that the coin or currency unit to be deposited with the trustee under such provisions shall be U.S. dollars.

**Governing Law**

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

**Concerning the Trustee**

The trustee with respect to the notes is U.S. Bank National Association, which will also serve as registrar and paying agent with respect to the notes.

**Table of Contents****UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material U.S. federal income tax considerations that may be relevant to a holder of a note. This summary is based on provisions of the Internal Revenue Code of 1986, as amended, applicable Treasury regulations, laws, rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect. This summary deals only with beneficial owners of notes that will hold notes as capital assets, and does not address particular tax considerations that may be applicable to investors that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, regulated investment companies, dealers in securities, traders in securities electing to mark to market for U.S. tax accounting purposes, persons that will hold notes as a position in a straddle or conversion transaction, or as part of a synthetic security or other integrated financial transaction, entities or arrangements taxed as partnerships or the partners therein, persons subject to the alternative minimum tax, nonresident alien individuals present in the United States for 183 days or more during a taxable year, U.S. expatriates or persons that have a functional currency other than the U.S. dollar.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local or foreign tax laws or the Medicare tax on net investment income. Investors should consult their tax advisors in determining the tax consequences to them of holding notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

As used herein, a U.S. holder is a beneficial owner of a note that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the note. A non-U.S. holder is a beneficial owner of a note that is an individual, corporation, estate or trust that is not a U.S. holder.

U.S. holders that use an accrual method of accounting for tax purposes (accrual method holders) generally are required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements (the book/tax conformity rule). The application of the book/tax conformity rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although it is not clear to what types of income the book/tax conformity rule applies. This rule generally is effective for tax years beginning after December 31, 2017 or, for debt securities issued with original issue discount, for tax years beginning after December 31, 2018. Accrual method holders should consult their tax advisors regarding the potential applicability of the book/tax conformity rule to their particular situation.

**U.S. Holders**

*Payments of Interest.* Payments of stated interest generally will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is actually or constructively received, in accordance with the holder's method of accounting for U.S. federal income tax purposes. It is expected, and this discussion assumes, that the notes will be issued with no more than a *de minimis* amount of original issue discount (OID). In general, however, if the notes are not issued with less than *de minimis* OID, a U.S. holder will be required to include OID in gross income, as ordinary income, under a constant-yield method before the receipt of cash attributable to such income, regardless of the U.S. holder's regular method of accounting for U.S. federal income tax purposes.

*Sale, Exchange and Retirement of Notes.* Upon the sale, exchange or retirement of a note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which will be taxable as such) and the U.S. holder's tax basis in such note. A U.S. holder's tax basis in a note generally will equal the cost of the note to such holder. Gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the note for more than one year at the time

of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

S-59

---

**Table of Contents****Non-U.S. Holders**

*Payments of Interest.* Subject to the discussions below under *FATCA* and *Information Reporting and Backup Withholding*, payments of interest on the notes to a non-U.S. holder generally will be exempt from withholding of U.S. federal income tax under the portfolio interest exemption, provided that (i) the non-U.S. holder properly certifies as to its foreign status by providing a properly executed IRS Form W-8BEN or W-8BEN-E (or appropriate substitute form) to the applicable withholding agent; (ii) the non-U.S. holder does not actually or constructively own 10% or more of the total combined voting power of our stock entitled to vote; and (iii) the non-U.S. holder is not a controlled foreign corporation that is related to us actually or constructively through stock ownership.

*Sale, Exchange and Retirement of Notes.* Subject to the discussions below under *FATCA* and *Information Reporting and Backup Withholding*, a non-U.S. holder generally will not be subject to U.S. federal income tax on gain recognized on a sale, exchange or retirement of notes.

*FATCA.* Under the U.S. tax rules known as the Foreign Account Tax Compliance Act ( *FATCA* ), a holder or beneficial owner of notes generally will be subject to 30% U.S. withholding tax on interest payments on the notes (and, starting on January 1, 2019, principal payments on the notes and gross proceeds from the sale or other taxable disposition (including early redemption) of the notes) if the holder or beneficial owner is not FATCA compliant, or holds its notes through a foreign financial institution that is not FATCA compliant. In order to be treated as FATCA compliant, a holder or beneficial owner must provide us or an applicable financial institution certain documentation (usually an IRS Form W-8BEN or W-8BEN-E) containing information about its identity, its FATCA status, and if required, its direct and indirect U.S. owners. For a foreign financial institution to be FATCA compliant, it generally must enter into an agreement with the U.S. government to report, on an annual basis, certain information regarding accounts with or interests in the institution held by certain United States persons and by certain non-U.S. entities that are wholly or partially owned by United States persons, or must satisfy similar requirements under an intergovernmental agreement between the United States and another country (an *IGA* ). These requirements may be modified by the adoption or implementation of a particular IGA or by future U.S. Treasury Regulations. If any taxes are required to be deducted or withheld from any payments in respect of the notes as a result of a beneficial owner or intermediary's failure to comply with the foregoing rules, no additional amounts will be paid on the notes as a result of the deduction or withholding of such tax.

Documentation that holders provide in order to be treated as FATCA compliant may be reported to the IRS and other tax authorities, including information about a holder's identity, its FATCA status, and if applicable, its direct and indirect U.S. owners. Prospective investors should consult their tax advisors about how information reporting and the possible imposition of withholding tax under FATCA may apply to their investment in the notes.

**Information Reporting and Backup Withholding**

Information returns will be filed with the IRS in connection with payments on the notes made to, and the proceeds of dispositions of notes effected by, certain U.S. holders. In addition, certain U.S. holders may be subject to backup withholding in respect of such amounts if they do not provide their taxpayer identification numbers to the person from whom they receive payments. Certain information returns will be filed with the IRS in connection with payments on the notes made to non-U.S. holders, and non-U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of other information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a U.S. or non-U.S. holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS.

S-60

**Table of Contents****UNDERWRITING**

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus supplement, the underwriters named below, for whom Morgan Stanley & Co. LLC, BNP Paribas Securities Corp., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC are acting as joint book-running managers and representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the principal amount of notes indicated below:

<b>Underwriters</b>	<b>Principal Amount of 2020 Notes</b>	<b>Principal Amount of 2028 Notes</b>	<b>Principal Amount of 2048 Notes</b>
Morgan Stanley & Co. LLC	\$ 135,000,000	\$ 180,000,000	\$ 360,000,000
BNP Paribas Securities Corp.	33,000,000	44,000,000	88,000,000
Citigroup Global Markets Inc.	33,000,000	44,000,000	88,000,000
J.P. Morgan Securities LLC	33,000,000	44,000,000	88,000,000
Citizens Capital Markets, Inc.	12,000,000	16,000,000	32,000,000
ING Financial Markets LLC	12,000,000	16,000,000	32,000,000
MUFG Securities Americas Inc.	12,000,000	16,000,000	32,000,000
U.S. Bancorp Investments, Inc.	12,000,000	16,000,000	32,000,000
Wells Fargo Securities, LLC	12,000,000	16,000,000	32,000,000
HSBC Securities (USA) Inc.	3,000,000	4,000,000	8,000,000
Standard Chartered Bank	3,000,000	4,000,000	8,000,000
<b>Total:</b>	<b>\$ 300,000,000</b>	<b>\$ 400,000,000</b>	<b>\$ 800,000,000</b>

The underwriters and the representatives are collectively referred to as the underwriters and the representatives, respectively. The underwriters are offering the notes subject to their acceptance of the notes from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the notes offered by this prospectus supplement are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the notes offered by this prospectus supplement if any such notes are taken.

The underwriters initially propose to offer the notes to the public at the offering prices listed on the cover page of this prospectus supplement. In addition, the underwriters initially propose to offer the notes to certain dealers at prices that represent a concession not in excess of 0.200% of the principal amount, with respect to the 2020 notes, 0.400% of the principal amount, with respect to the 2028 notes, or 0.550% of the principal amount, with respect to the 2048 notes. Any underwriter may allow, and any such dealer may reallow, a concession not in excess of 0.100% of the principal amount, with respect to with respect to the 2020 notes, 0.250% of the principal amount, with respect to the 2028 notes, or 0.300% of the principal amount, with respect to the 2048 notes, to certain other dealers. After the initial offering of the notes, the underwriters may from time to time vary the offering price and other selling terms. The underwriters may offer and sell notes through certain of their affiliates.

The following table shows the underwriting discounts that we will pay to the underwriters in connection with the offering:

	<b>Per 2020 Note</b>	<b>Total for the 2020 Notes</b>	<b>Per 2028 Note</b>	<b>Total for the 2028 Notes</b>	<b>Per 2048 Note</b>	<b>Total for the 2048 Notes</b>
Underwriting discounts to be paid by us	0.350%	\$ 1,050,000	0.650%	\$ 2,600,000	0.875%	\$ 7,000,000

The estimated offering expenses payable by us, exclusive of the underwriting discounts, are approximately \$1,500,000.

S-61



## **Table of Contents**

Each series of notes is a new issue of securities, and there is currently no established trading market for the notes. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system. The underwriters have advised us that they intend to make a market in the notes, but they are not obligated to do so. The underwriters may discontinue any market making in the notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices you receive when you sell will be favorable.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that underwriters may be required to make in respect of those liabilities.

We have agreed, during the period from the date of the underwriting agreement until the business day immediately following the delivery of the notes, not to offer, sell, contract to sell or otherwise dispose of any debt securities or warrants to purchase or otherwise acquire debt securities issued by us that are substantially similar to the notes without the prior written consent of the representatives, subject to certain exceptions.

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of each series of notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of such series of notes. If the underwriters create a short position in the notes of any series in connection with the offering, i.e., if they sell more notes of such series than are on the cover page of this prospectus, the underwriters may reduce that short position by purchasing notes of such series in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of any series of notes. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. In addition, Morgan Stanley & Co. LLC has acted as our financial adviser in connection with the Merger. In connection with the Merger, we entered into a term loan credit agreement with an affiliate of Morgan Stanley & Co. LLC, as administrative agent, and the lenders party thereto, including affiliates of Morgan Stanley & Co. LLC, BNP Paribas Securities Corp., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, pursuant to which the lenders committed to provide, subject to certain conditions, a senior unsecured term loan facility in an original aggregate principal amount of up to \$350 million, maturing three years after the funding date thereunder. Also in connection with the Merger, we and certain of our subsidiaries entered into Amendment No. 2 to the Credit Agreement with Citibank, N.A. as administrative agent, and the lenders party thereto, including affiliates of Morgan Stanley & Co. LLC, BNP Paribas Securities Corp., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, which amended and restated the Credit Agreement, dated as of November 9, 2011, amended and restated as of December 2, 2016 and amended as of May 21, 2018 among us, certain of our subsidiaries, the lenders party thereto, and Citibank, N.A. as administrative agent (as so amended and restated, the Revolving Credit Agreement ). The Revolving Credit Agreement, among other things, provides a five-year \$1.0 billion senior unsecured revolving loan

credit facility.

S-62

## **Table of Contents**

Some of the underwriters and their respective affiliates are or will be lenders under the senior unsecured term loan facility, the senior unsecured revolving loan credit facility and the Bridge Facility, and funding of the Merger with the proceeds from this notes offering and the common stock and tangible equity units offerings will result in the reduction of the lenders' obligations under the Bridge Facility. Certain of the underwriters in this offering also acted as underwriters in the common stock offering and the tangible equity units offering, either directly or through affiliates. In addition, U.S. Bancorp Investments, Inc. is an affiliate of the trustee, paying agent and registrar.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

Standard Chartered Bank will not effect any offers or sales of any notes in the United States unless it is through one or more U.S. registered broker-dealers as permitted by the regulations of FINRA.

## **Selling Restrictions**

### ***Canada***

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

### ***European Economic Area***

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, MiFID II); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point

(10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the Prospectus Directive ). Consequently no key information document required by

S-63

## **Table of Contents**

Regulation (EU) No 1286/2014 (as amended, the PRIIPs Regulation ) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This prospectus supplement and the accompanying prospectus have been prepared on the basis that any offer of notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. This prospectus supplement and the accompanying prospectus are not a prospectus for the purposes of the Prospectus Directive.

### ***United Kingdom***

In addition, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at: (i) in the United Kingdom, persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order ), and/or persons falling within Article 49(2)(a) to (d) of the Order; (ii) persons who are outside the United Kingdom; and (iii) any other persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as relevant persons ). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to, and will be engaged in only with, relevant persons.

### ***Hong Kong***

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### ***Japan***

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended (the Financial Instruments and Exchange Law ), and each underwriter will not offer or sell any of the notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Singapore***

This prospectus supplement and the accompanying prospectus have not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of

the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures

S-64

**Table of Contents**

Act, Chapter 289 of Singapore (the SFA ), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) the transfer is by operation of law.

Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1), we have determined, and hereby notify all relevant persons (as defined in Section 309A of the SFA) that the notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

***Switzerland***

The notes may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (the SIX ) or on any other stock exchange or regulated trading facility in Switzerland. This document does not constitute a prospectus within the meaning of, and has been prepared without regard to the disclosure standards for issuance prospectuses under, art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this document nor any other offering or marketing material relating to the notes or the offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this document nor any other offering or marketing material relating to the offering, us, or the notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of notes will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of notes has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the CISA ). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the notes.

**Table of Contents**

**LEGAL MATTERS**

Certain legal matters with respect to the validity of the notes offered under this prospectus supplement will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Certain legal matters relating to the offering will be passed upon for the underwriters by Davis Polk & Wardwell LLP, New York, New York.

**EXPERTS**

The financial statements of International Flavors & Fragrances Inc. and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to International Flavors & Fragrances Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Frutarom Industries Ltd. as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this prospectus supplement have been so included in reliance on the report of Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, independent accountants, given on the authority of said firm as experts in auditing and accounting.



Table of Contents

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

We are incorporating by reference into this prospectus supplement specific documents that we file with the SEC, which means that we can disclose important information to you by referring you to those documents that are considered part of this prospectus supplement. Information that we file subsequently with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below, and any future documents that we file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until we sell all of the securities offered by this prospectus supplement.

We incorporate by reference into this prospectus supplement the following documents filed by us with the SEC, other than information furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K, each of which should be considered an important part of this prospectus supplement:

**Commission Filing (File No. 001-04858)**

**Period Covered or Date of Filing**

Annual Report on Form 10-K (including the portions of our Proxy Statement on Schedule 14A for our 2018 Annual Meeting of Shareholders filed with the Commission on March 23, 2018 that are incorporated herein by reference)

Year Ended December 31, 2017

Quarterly Reports on Form 10-Q

Quarter Ended March 31, 2018 and June 30, 2018

Current Reports on Form 8-K

May 3, 2018, May 7, 2018, May 9, 2018, May 24, 2018, June 8, 2018, August 3, 2018, August 27, 2018, September 10, 2018, September 17, 2018 and September 20, 2018

All subsequent documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until we sell all of the securities offered by this prospectus supplement

We will provide to each person to whom a prospectus supplement and the accompanying prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus supplement and the accompanying prospectus but not delivered with this prospectus supplement and the accompanying prospectus.

You may request a copy of each of our filings at no cost, by writing or telephoning us at the following address or telephone number:

International Flavors & Fragrances Inc.

Attention: Investor Relations

521 West 57th Street

New York, NY 10019

Phone: (212) 765-5500



**Table of Contents**

**FRUTAROM INDUSTRIES LTD. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<b><u>Report of Independent Auditors</u></b>	F-2
<b><u>Consolidated Financial Statements</u></b>	
<u>Consolidated Statement of Financial Position as of December 31, 2017 and 2016</u>	F-3
<u>Consolidated Income Statement for the Years Ended December 31, 2017, 2016 and 2015</u>	F-5
<u>Statement of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015</u>	F-6
<u>Consolidated Statement of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015</u>	F-7
<u>Consolidated Statement of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015</u>	F-10
<u>Notes to the Consolidated Financial Statements</u>	F-12
<b><u>Condensed Consolidated Interim Financial Information</u></b>	
<u>Condensed Consolidated Statements of Financial Position as of June 30, 2018 and 2017</u>	F-77
<u>Condensed Consolidated Statements of Income for the Six and Three-Month Period Ended June 30, 2018 and 2017</u>	F-79
<u>Condensed Consolidated Statements of Comprehensive Income for the Six and Three-Month Period Ended June 30, 2018 and 2017</u>	F-80
<u>Condensed Consolidated Statements of Changes in Equity for the Six and Three-Month Period Ended June 30, 2018 and 2017</u>	F-81
<u>Condensed Consolidated Statements of Cash Flows for the Six and Three-Month Period Ended June 30, 2018 and 2017</u>	F-86
<u>Explanatory Notes to the Condensed Consolidated Financial information</u>	F-88

**Table of Contents**

**REPORT OF INDEPENDENT AUDITORS**

To the Shareholders of

**FRUTAROM INDUSTRIES LTD.**

We have audited the accompanying consolidated financial statements of Frutarom Industries Ltd. (hereafter the Company) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of income, of comprehensive income, changes in equity and cash flows for each of the three years in the period ended on December 31, 2017.

***Management and Board of Directors Responsibility for the Consolidated Financial Statements***

Management and Board of Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management and Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frutarom Industries Ltd. as of December 31, 2017 and 2016, and their results of operations and their cash flows for each of the three years in the period ended on December 31, 2017, in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board.

Haifa, Israel

/s/ Kesselman & Kesselman

June 14, 2018

Certified Public Accountant (Isr.)

A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, Building 25, MATAM, P.O BOX 15084 Haifa, 3190500, Israel

Telephone: +972 -4- 8605000, Fax:+972 -4- 8605001, [www.pwc.com/il](http://www.pwc.com/il)

F-2

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As of December 31	
		2017	2016
		U.S. dollars in thousands	
<b>Assets</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	19	118,214	113,528
Accounts receivable:	16		
Trade		248,043	200,106
Other		23,647	29,888
Prepaid expenses and advances to suppliers		21,265	20,248
Inventory	17	308,891	260,951
		720,060	624,721
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	7	312,876	268,820
Intangible assets	2f.8	829,226	657,781
Investment in associates and available for sale assets	15	77,541	27,976
Deferred income tax assets	13d	3,886	3,477
Other	18	3,599	2,686
		1,227,128	960,740
<b>Total assets</b>		<b>1,947,188</b>	<b>1,585,461</b>

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

Date of approval of the financial statements by the Board of Directors: June 14, 2018.



**Table of Contents****FRUTAROM INDUSTRIES LTD.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	As of December 31	
		2017	2016
		U.S. dollars in thousands	
<b>Liabilities and shareholders equity</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit and loans and current maturities of long-term loans	9	372,135	234,204
Accounts payable:			
Trade	20a	98,813	81,630
Other	20b	140,560	109,607
Put option liability for the shareholders of a Subsidiary	5a.1		40,350
		611,508	465,791
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans net of current maturities	9	262,151	299,576
Retirement benefit obligations, net	10	34,006	35,041
Deferred income tax liabilities	13d	58,306	50,147
Liability for shareholders of a subsidiaries and other	3	102,304	70,302
		456,767	455,066
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>	11		
<b>TOTAL LIABILITIES</b>		1,068,275	920,857
<b>EQUITY:</b>	12		
<b>Equity attributable to owners of the parent:</b>			
Ordinary shares		17,086	16,997
Other capital surplus		120,288	114,396
Translation differences	2c	(45,187)	(109,043)
Retained earnings		783,029	637,868
Less cost of Company shares held by the company		(3,409)	(3,765)
<b>NON-CONTROLLING INTERESTS</b>		7,106	8,151
<b>TOTAL EQUITY</b>		878,913	664,604
<b>TOTAL EQUITY AND LIABILITIES</b>		1,947,188	1,585,461

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



F-4

Table of Contents**FRUTAROM INDUSTRIES LTD.****CONSOLIDATED INCOME STATEMENT**

	Note	<b>Year ended December 31</b>		
		<b>2017</b>	<b>2016</b>	<b>2015</b>
		<b>U.S. dollars in thousands, (except for per share information)</b>		
<b>SALES</b>		1,362,396	1,147,041	872,796
<b>COST OF SALES</b>	21a	837,271	709,488	534,737
<b>GROSS PROFIT</b>		525,125	437,553	338,059
Selling, marketing, research and development expenses net	21b	220,014	196,001	141,237
General and administrative expenses	21c	92,155	81,637	63,742
Other expenses net	21d	3,392	11,772	2,826
Group's share of earnings of investees accounted for at equity	15	1,402	1,113	
<b>INCOME FROM OPERATIONS</b>		210,966	149,256	130,254
<b>FINANCIAL EXPENSES net</b>	21e	24,606	12,841	12,197
<b>INCOME BEFORE TAXES ON INCOME</b>		186,360	136,415	118,057
<b>INCOME TAX</b>	13e	34,797	25,346	21,972
<b>NET INCOME FOR THE YEAR</b>		151,563	111,069	96,085
<b>PROFIT ATTRIBUTED TO:</b>				
Owners of the parent company		149,679	109,245	94,859
Non-controlling interest		1,884	1,824	1,226
<b>TOTAL INCOME:</b>		151,563	111,069	96,085
			<b>U.S dollars</b>	
<b>EARNINGS PER SHARE:</b>	2w			
Basic		2.52	1.85	1.62
Fully diluted		2.51	1.84	1.60

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

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31		
		2017	2016	2015
		U.S. dollars in thousands		
<b>INCOME FOR THE YEAR</b>		151,563	111,069	96,085
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified subsequently to profit or loss:</b>				
Remeasurement of net defined benefit Liability		2,716	1,123	(858)
<b>ITEMS THAT COULD BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>				
Gain from available-for-sale financial assets			41	
Transfer of available-for-sale financial assets to profit and loss	15b.2	(41)		
Translation differences		64,428	3,910	(65,293)
<b>Total comprehensive income for the Year</b>		218,666	116,143	29,934
<b>ATTRIBUTABLE TO:</b>				
Owners of the parent		216,210	114,615	28,911
Non-controlling interest		2,456	1,528	1,023
<b>TOTAL INCOME</b>		218,666	116,143	29,934

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

Table of Contents

(Continued) 1

**FRUTAROM INDUSTRIES LTD.**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT**

					Total attributed Cost of company to shares Owners held of the Non- by the parent controlling company company interest			Total
Note	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	by the company	of the parent company	interest	
					U.S. dollars in thousands			
<b>BALANCE AT JANUARY 1, 2015</b>	16,822	106,664	(48,159)	445,653	(2,587)	518,393	3,626	522,019
<b>CHANGES DURING THE YEAR ENDED December 31, 2015:</b>								
<b>Comprehensive income:</b>								
Income for the year				94,859		94,859	1,226	96,085
Other comprehensive income	2c		(65,090)	(858)		(65,948)	(203)	(66,151)
<b>Total comprehensive income for the year</b>			(65,090)	94,001		28,911	1,023	29,934
Plan for allotment of Company shares to employees of subsidiary:								
Acquisition of the Company shares by the Company	2s				(1,085)	(1,085)		(1,085)
Receipts in respect of allotment of Company shares to employees	12b		(374)		561	187		187
Allotment of shares and options to senior employees-Recognition of compensation related to employee stock and option grants	12b					1,541		1,541
Proceeds from issuance of shares to senior		90	2,635			2,725		2,725

employees									
Dividend paid to the non-controlling interests in subsidiary							(58)	(58)	
Dividend paid	12c			(5,774)		(5,774)		(5,774)	
		90	3,802	(5,774)	(524)	(2,406)	(58)	(2,464)	
Non-controlling interest from business combination	5j						2,195	2,195	
<b>BALANCE AT December 31, 2015</b>		16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684

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

F-7

Table of Contents

(Continued) 2

**FRUTAROM INDUSTRIES LTD.**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT**

					Cost of company shares held	Total attributed to Owners	Non- controlling interest	Total	
	Note	Ordinary shares	Other capital surplus	Translation differences	Retained earnings	by the company	to Owners	interest	
U.S. dollars in thousands									
<b>BALANCE AT JANUARY 1, 2016</b>		16,912	110,466	(113,249)	533,880	(3,111)	544,898	6,786	551,684
<b>CHANGES DURING THE YEAR ENDED December 31, 2016:</b>									
<b>Comprehensive income:</b>									
Income for the year					109,245		109,245	1,824	111,069
Other comprehensive income	2c		41	4,206	1,123		5,370	(296)	5,074
<b>Total comprehensive income for the year</b>			41	4,206	110,368		114,615	1,528	116,143
Plan for allotment of Company shares to employees of subsidiary:									
Acquisition of the Company shares by the Company	2s					(1,395)	(1,395)		(1,395)
Receipts in respect of allotment of Company shares to employees	12b		(494)			741	247		247
Allotment of shares and options to senior employees-Recognition of compensation related to employee stock and option grants	12b		1,577				1,577		1,577
Proceeds from issuance of shares to senior employees		85	2,729				2,814		2,814

Changes of ownership rights in subsidiary		77			77	(973)	(896)		
Dividend paid to the non-controlling interests in subsidiary						(63)	(63)		
Dividend paid	12c			(6,380)	(6,380)		(6,380)		
		85	3,889	(6,380)	(654)	(3,060)	(1,036)		
Non-controlling interest from business combination	5b					873	873		
<b>BALANCE AT December 31, 2016</b>		16,997	114,396	(109,043)	637,868	(3,765)	656,453	8,151	664,604

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





Changes of ownership rights in a subsidiary			1,055			1,055	(3,450)	(2,395)	
Dividend paid to the non-controlling interests in subsidiary							(51)	(51)	
Dividend paid	12c			(7,234)		(7,234)		(7,234)	
		89	5,933	(7,234)	356	(856)	(3,501)	(4,357)	
<b>BALANCE AT December 31, 2017</b>		17,086	120,288	(45,187)	783,029	(3,409)	871,807	7,106	878,913

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

Table of Contents**FRUTAROM INDUSTRIES LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Year ended December 31		
		2017	2016	2015
		U.S. dollars in thousands		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash generated from operations (see Appendix)		223,210	139,235	112,625
Income tax paid net		(35,681)	(14,610)	(20,963)
Net cash provided by operating activities		187,529	124,625	91,662
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment		(34,394)	(28,493)	(23,900)
Purchase of intangibles		(2,890)	(1,344)	(717)
Interest received		1,294	656	428
Acquisition of subsidiaries net of cash acquired	5	(109,265)	(103,786)	(143,777)
Payments on account of acquisition of subsidiary				(131,838)
Purchase of available for sale securities		(40,169)	(2,199)	
Proceeds from sale of property and other assets		454	11,099	2,191
Net cash used in investing activities		(184,970)	(124,067)	(297,613)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Dividend paid to the non-controlling interests in subsidiary		(51)	(1,434)	(542)
Receipts from senior employees in respect of allotment of shares		4,385	2,814	2,725
Interest paid		(8,929)	(7,324)	(3,973)
Receipt of long-term bank loans		133,373	156,890	185,616
Settlement of Put option to shareholders in a subsidiary	5a	(42,227)		
Acquisition of non-controlling interests in subsidiary		(2,395)	(896)	
Repayment of long-term bank and financial institutions loans		(172,909)	(92,460)	(48,638)
Receipt (repayment) of short-term bank loans and credit-net		88,455	(3,056)	87,463
Acquisition of the Company shares by the Company net of receipts in respect of the Shares		(900)	(1,148)	(898)
Dividend paid		(7,234)	(6,380)	(5,774)
Net cash provided (used) by financing activities		(8,432)	47,006	215,979
<b>INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS</b>		(5,873)	47,564	10,028
Balance of cash and cash equivalents and bank credit at beginning of year and bank credit		113,528	68,997	63,975
Profits (losses) from exchange differences on cash and cash Equivalents		10,559	(3,033)	(5,006)
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		118,214	113,528	68,997

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

F-10

Table of Contents**FRUTAROM INDUSTRIES LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS****APPENDIX TO CONDENSED CONSOLIDATED STATEMENT CASH FLOWS**

<b>CASH GENERATED FROM OPERATIONS:</b>	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
<b>Income before tax</b>	186,360	136,415	118,057
<b>Adjustments required to reflect the cash flows from operating activities:</b>			
Depreciation and amortization	46,797	43,115	31,385
Recognition of compensation related to employee stock and option grants	1,838	1,577	1,541
Retirement benefit obligation net	(641)	1,236	1,428
Loss (gain) from sale and write-off of fixed assets and other assets	1,934	(4,003)	(250)
Dividend received from companies accounted for under the equity method	2,250		
Group's share of losses (earnings) of companies accounted for at equity, net	(1,402)	(1,113)	
Erosion of long-term loans	(1,247)	2,387	(3,096)
Interest paid net	7,635	6,668	3,545
Erosion of Liability for put option for the shareholders of a subsidiary			13,118
	57,164	49,867	47,671
<b>Changes in operating asset and liability items:</b>			
Decrease (increase) in accounts receivable:			
Trade	(16,804)	(14,106)	1,293
Other	9,263	(49)	(13,447)
Decrease (increase) in other long-term receivables	(1,223)	(2,390)	(106)
Increase (decrease) in accounts payable:			
Trade	2,036	(5,097)	(7,226)
Other	3,385	(3,685)	(5,484)
Increase (decrease) in other long-term payables	1,815	336	321
Increase in inventories	(18,786)	(22,056)	(28,454)
	(20,314)	(47,047)	(53,103)
<b>Net cash flows from operating activities</b>	<b>223,210</b>	<b>139,235</b>	<b>112,625</b>

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 GENERAL**

**Information on the activities of Frutarom Industries Ltd. and its subsidiaries (hereafter the Group ).**

Frutarom Industries Ltd. (hereafter the Company) is a global company, founded in 1933. The Company itself and through its subsidiaries ( Frutarom or the Group ) develops, produces and markets flavors and fine ingredients used in the manufacture of food, beverages, flavors, fragrances, pharma/nutraceuticals, cosmetics and personal care products. On December 31, 2017, Frutarom operated 72 production sites, 90 research and development laboratories, and 109 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, marketed and sold over 70,000 products to more than 30,000 customers in more than 150 countries and employed 5,250 people throughout the world.

Frutarom has two main activities: the Flavors activity and the Fine Ingredients activity (the core businesses ). In addition, the Company imports and markets raw materials that it does not itself manufactured, as part of the service offered to customers, which includes providing them comprehensive solutions for their needs. This activity is presented as part of trade and marketing operations. Segment information for the reporting years is presented in note 6.

The Company is a limited liability company incorporated and domiciled in Israel. The address of its registered office is 2 Hamenofim St., Herzeliya. The Company s controlling shareholder is ICC Industries Inc.

The Company s shares have been listed on the Tel-Aviv Stock Exchange (the TASE ) since 1996. Since February 2005, Company shares are also listed through Global Depository Receipts on the official list of the London Stock Exchange (the LSE ).

In recent years, with Frutarom s internal growth and acquisitions, seasonal effects on its results have diminished. Nonetheless, increased demand for beverages, yogurts, ice cream and other food products during the summer months brings about higher sales and improvement to a certain extent in Frutarom s profitability margins in the second and third quarters of the year.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**a. Basis of Preparation:**

- 1) The Group s financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, are in compliance with International Financial Reporting Standards (hereafter IFRS) as issued by the International Accounting Standards Board ( IASB ) and interpretations to IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC).

The significant accounting policies described below have been applied consistently in relation to all the years presented, unless otherwise stated.

The financial statements have been prepared under the historical cost convention, subject to adjustments in respect of revaluation of amounts funded for severance pay, financial assets at fair value through profit or loss or available for sale presented at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ significantly from those estimates and assumptions.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

- 2) The period of the Group's operating cycle is 12 months.
- 3) The Group analyses the expenses recognized in the income statements using the classification method based on the functional category to which the expense belongs.

**b. Principles of Consolidation**

1) Business combinations and subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary (hereafter the acquired company) is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (except for certain exceptional items specified in IFRS 3 Business Combinations) (as amended), hereafter IFRS 3R) are measured initially at their fair values at the acquisition date. The Group recognizes non-controlling interest in an acquired company which are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation in accordance with the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRSs

Any contingent consideration accrued to the Group as part of a business combination is measured at fair value at the date of business acquisition. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 Financial Instruments either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the overall amount of the transferred consideration, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired and the liabilities assumed is recorded as goodwill (see also f(1)

below).

In cases where the net amount at acquisition date of the identifiable assets acquired and of the liabilities assumed exceeds the overall consideration that was transferred, the amount of non-controlling interest in the acquiree and the fair value as of date of acquisition of any previous equity interest in the acquiree as above, the difference is recognized directly in income or loss at date of acquisition.

Inter-company transactions, balances, including income, expenses and dividends on transactions between group companies are eliminated. Profits and losses resulting from inter- company transactions that are recognized in assets (in respect of inventory and fixed assets) are also

F-13



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2) Associate companies

An associate is any entity in which the Group has significant influence, but not control. Investment in an associate is accounted for using the equity method of accounting.

According to the equity method, an investment is initially recorded at cost and the carrying amount is subsequently adjusted to reflect the investor's share of the net assets of the associate or joint venture since acquisition date.

The Group determines on each reporting date whether indications exist of impairment of its investment in the associate. If such indications are present, the Group calculates the amount of impairment as a difference between the recoverable amount of investment (the higher of value in use and fair value less cost to sale) and its carrying amount, and recognizes an impairment loss in profit or loss near to the share in income (loss) of associates accounted for using the equity method item.

Income or loss arising from transactions between the Group and the companies are recognized in the financial statements of the Group only at the amount of the share in the associate or joint venture of investors that are unrelated to the Group. The share of the Group in the profit or loss of the associate or joint venture in relation to those transactions is eliminated. When the investment is no longer accounted as an associate or joint venture the Group would stop using the equity method and the investment would account as financial asset (IAS 39), as long as the associate or the joint venture has not become a subsidiary. The group would recognize profit or loss due to the difference between the fair-value of the remaining investment and returns for realization to the book value of the investment as of the time of losing the significant influence. All amounts recognized in other comprehensive income due to the investment would account as if the related assets or liabilities were realized (amounts that were recognized before as part of other comprehensive income might reclassified to profit or loss).

**c. Translation of Foreign Currency Balances and Transactions:**

1) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates (the Functional Currency). The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

2) Transactions and balances.

Foreign currency transactions in currencies different from the functional currency (hereafter foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are attributed to income or loss.

Gains and losses arising from changes in exchange rates are presented in the income statement among financial expenses .

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

## 3) Translation of Financial Statement of Group Companies

The results and financial position of all the Company's entities (none of which has the currency of hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates: in which case income and expenses are translated at the rate on the dates of the transactions);
- (c) All resulting exchange differences are recognized among other comprehensive income.

On consolidation of the financial statements, exchange differences arising from the translation of the net investment in foreign operations and from loans and other currency instruments designated to serve as hedges to those investments are carried to other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rate. Exchange differences arising from translation as above are recognized in other comprehensive income.

## 4) Information regarding exchange rates:

	NIS	Pound Sterling	Euro	Swiss Franc	Ruble
Exchange rate as of December 31:					
2017	3.47	0.74	0.83	0.98	57.6
2016	3.85	0.81	0.95	1.02	61.27
2015	3.90	0.67	0.92	0.99	73.31
Increase (decrease) of the dollar during the year:	%	%	%	%	%
2017	(9.8)	(9.0)	(12.2)	(4.4)	(5.9)
2016	(1.5)	20.6	3.5	2.7	(16.4)

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

2015	0.3	5.2	11.6	0.4	22.9
	<b>NIS</b>	<b>Pound Sterling</b>	<b>Euro</b>	<b>Swiss Franc</b>	<b>Ruble</b>
Average exchange rate during the year:					
2017	3.60	0.78	0.90	0.98	58.3
2016	3.84	0.74	0.90	0.99	66.23
2015	3.89	0.65	0.90	0.96	60.99
Increase (decrease) during of the dollar during the year:					
	%	%	%	%	%
2017	(6.3)	5.2	(0.7)	(0.1)	(12.0)
2016	(1.2)	12.7	0.3	2.5	8.6
2015	8.6	7.8	19.7	5.2	56.6

F-15

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**d. Segment Reporting (see also note 1)**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker in the Group, who is responsible for allocating resources and assessing performance of the operating segments.

The Group is organized and managed on a worldwide basis in two major operating activities: Flavors and the Fine Ingredients. Another operation is Trade and Marketing.

**e. Property, Plant and Equipment:**

The cost of a property, plant and equipment item is recognized as an assets only if: (a) it is probable that the future economic benefits associated with the item will flow to the Group and (b) the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and only when the two criteria mentioned above for recognition as assets are met.

The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The cost of a property, plant and equipment item includes:

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation and impairment of property, plant and equipment are recognized in the income statement.

Land owned by the Group is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

	<b>Percentage of Annual Depreciation</b>
Buildings and land under financial lease	2-4
Machinery and equipment	5-10
Vehicles and lifting equipment	15-20
Computers	20-33
Office furniture and equipment	6-20
Leasehold improvements	See below

Leasehold improvements are amortized by the shorter of straight-line method over the terms of the lease or estimated useful life of the improvements.

The asset's residual values, the depreciation method and useful lives are reviewed, and adjusted if appropriate, at least once a year.

F-16

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2g).

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement among other income net.

**f. Intangible Assets:**

- 1) The overall amount of goodwill arising on acquisition of a subsidiary, associated company or activity represents the excess of the consideration transferred in respect of acquisition of a subsidiary over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and which is not larger than an operating segment (before aggregation) (see also g. below).

Impairment reviews of CGUs (or groups of CGUs) are undertaken annually and whenever there is any indication of impairment of CGU or group of CGUs. The carrying value of the CGU (or group of CGUs) is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

Any impairment loss is allocated to write-down the carrying amount of the CGU's assets (or CGUs) in the following order: first, the write down of any goodwill allocated to a cash generating unit (or a group of CGUs); and afterwards to the remaining assets of the CGU or (group of CGUs) on a proportionate basis using the carrying amounts of each asset of the CGU (or group of CGUs). Any impairment is recognized immediately as an expense and impairment of goodwill is not subsequently reversed.

- 2) Product formulas acquired as part of a business combination transaction are initially recorded at fair value and amortized on a straight-line basis over their useful lives of 20 years.
- 3) Customer relationships acquired in a business combination are measured at fair value at the acquisition date. The customer relations have a finite useful life and are carried at the recognized amount less accumulated amortization. Amortization is calculated using the straight-line method over the expected

life of the customer relationship (10 years).

- 4) Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a definite useful life and are presented at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years).

- 5) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3-5 years) using the straight-line method.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

Computer software development costs recognized as assets are amortized over their estimated useful lives using the straight line method (3-5 years) commencing the point in time when the asset is available for use, i.e., it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

6) Research and Development

Research expenses are accounted for as expenses as incurred. Cost incurred in respect of development projects (attributable to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are met:

It is technically feasible to complete the intangible assets so that it will be available for use;

Management intends to complete the intangible asset and use it or sell it;

There is an ability to use or sell the intangible asset;

It can be demonstrated how the software product will generate probable future economic benefits;

Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development costs that do not qualify for recognition as assets are recognized as cost as incurred. Development costs previously recognized as an expense are not recognized as an asset on a subsequent period.

The Group fully recognized the R&D expenses as incurred.

**g. Impairment of non-financial assets**

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment or more often if events have occurred or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that were subject to impairment are reviewed for possible reversal of the impairment recognized in respect thereof at each statement of financial position date.

#### **h. Government Grants**

The group's research and development activities are supported in some of the countries in which it operates, and in Israel through the Israel innovation authority by way of grants. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognized in the income statement on a systematic basis over the periods in which the Group recognizes the relating costs (the costs that the grants are intended to compensate).

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**i. Financial assets:**

**1) Classification**

The Group classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, available for sale assets, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Group management determines the classification of its financial assets at initial recognition.

**a) Financial assets at fair value through profit or loss**

This category includes two sub-categories: financial assets held for trade and financial assets designated at fair value through profit or loss. A financial asset is classified into this category if it was acquired principally for the purpose of selling in the short term or if was designated to this category by management. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

**b) Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Receivables of the Group are classified as accounts receivable, Cash and cash equivalents and long-term loans and other receivables in the statement of financial position (Note 2k below).

**c) Available-for-sale assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position, in which case they are classified as current assets.

**2) Recognition and measurement**

Regular purchases and sales of financial assets are recognized on the settlement date, which is the date on which the asset is delivered to the Group or delivered by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss, are initially recognized at fair value, and transaction costs are expensed in the income

statement. Financial assets are derecognized when the rights to receive cash flows there from have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available for sale assets are subsequently carried at fair value. Loans and receivables are measured in subsequent periods at amortized cost using the effective interest method.

Gains or losses that stem from changes in the fair value of financial assets at fair value through profit or loss are presented in income statement under financial expenses net in the period in which they incurred. Dividend income from financial assets at fair value through profit or loss are recognized in income statement under other income net when the group is eligible to these payments.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

Gains or losses that stem from changes in the fair value of financial assets at available for sale assets are presented in statement of comprehensive income in the period in which they incurred. When selling available for sale assets, the accumulated gain or losses are reclassified from the comprehensive income to the profit or loss in other expenses net .

**3) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**4) Impairment of financial assets**

a) Financial assets at fair value through profit or loss

Financial assets are presented at amortized cost.

The Group assesses at the each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event ) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment of a financial assets or group of financial assets include observable information that came to the attention of the Group in connection with the following loss events:

Significant financial difficulty of the issuer or obligor;

breach of contract, such as a default or delinquency in interest or principal payments;

The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

The disappearance of an active market for that financial asset because of financial difficulties;

Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

Where objective evidence for impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount of the financial assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed for the asset upon initial recognition). The asset's carrying amount is reduced and the amount of the loss is recognized in the income statement.

If the amount of impairment loss in a subsequent period decreases, and this decrease may be attributed to an objective event that took place after the impairment was recognized (like improved credit rating of the borrower), reversing the previously recognized impairment loss is recorded in income statements.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

b) Available-for-sale financial assets

The group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. For testing whether there is objective evidence for impairment of a debt instrument, the Group uses the criteria in (a) above. For investments in equity securities, in addition to the criteria in (a) above, information regarding significant changes having adverse effect on the technological, economical or legal environment in which the issuer operates implicating that the cost of the equity investment might not be recovered as well as significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any such evidence exists, the cumulative loss (recognized in other comprehensive income) measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is reclassified from equity and recognized in income or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement. Impairment losses that are recognized in profit or loss for investment in an equity instrument are not reversed through income or loss.

**j. Derivatives financial instruments, embedded derivatives and hedging activity**

Hedge of net investment

Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognized in other comprehensive income. Gain or loss on the ineffective portion is recognized in profit or loss. Gains or losses accumulated in equity are recycled to profit or loss when the foreign operation is disposed of or sold.

**k. Inventories**

Inventories are measured at the lower of cost or net realizable value. Raw material cost is determined using the moving average method.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes capitalization of borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the applicable and variable selling expenses.

**I. Trade Receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment of accounts receivable (hereafter provision for impairment or provision for impairment of accounts receivable ). As to the way the impairment provision is determined and accounting treatment applied thereto subsequently see i4) above.

F-21



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**m. Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, short-term bank deposits and other highly liquid short-term investments, the maturity of which does not exceed three months, bank overdrafts (repayable upon demand).

**n. Share Capital**

Ordinary shares of the Company are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in the equity as a deduction, net of tax, from the proceeds of issuance.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects are included in equity. Any difference between the cost of acquisition of the treasury shares and the consideration is carried to premium on shares.

**o. Trade Payables**

Trade payables are obligations of the Group to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

If not, they are classified as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**p. Loans**

Loans are recognized initially at their fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost; any difference between the consideration (net of transaction costs) and the redemption value is recognized in the income statement over the period of the loan using the effective interest method.

Loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the loans for at least 12 months after the end of the reporting period, in which case they are classified as non-current liabilities.

**q. Current and Deferred Income Taxes**

The tax expenses for the reported years comprise of current and deferred tax. Tax is recognized in the income statement, except for taxes related to equity and other comprehensive income items.

The current income tax charge is calculated on basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company and the subsidiaries operate and generate taxable income. Management periodically evaluates tax issues related to its taxable income, based on relevant tax law, and makes provisions in accordance with the amounts payable to the Income Tax Authorities.

F-22

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Nevertheless, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The amount of deferred income taxes is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax is not calculated on temporary differences arising on investments in subsidiaries, as long as the timing of reversal of the differences is controlled by the Group and it is expected that no such reversal will take place in the foreseeable future.

The group recognizes deferred income tax assets in respect of temporary differences deductible for tax purposes only if it is expected that the temporary difference is reversed in the foreseeable future and to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset only if:

- There is a legally enforceable right to offset current tax assets against current tax liabilities; and
- When the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

As stated in Note 13c, upon distribution of dividends from tax-exempt income of approved enterprises or benefited enterprises, the amount distributed will be subject to tax at the rate that would have been applicable had the company not been exempted from payment thereof. The amount of the related tax is charged as an expense in the statement of comprehensive income, when such dividend is distributed.

**r. Employee Benefits:**

1) Pension Obligations and retirement benefits

The companies in the group operate a number of post-employment employee benefit plans, including defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The companies in the group operate a number of pension plans. The plans are funded through payments to insurance companies or pension funds that are managed in trust.

Table of Contents

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

According to their terms, those pension plans satisfy the above definition of a defined contribution plan.

According to labor laws and agreements in Israel and the practices of the companies in the Group, Group companies are obligated to pay retirement benefits to employees dismissed or retiring in certain circumstances.

According to the obligation of group companies to employees who participate in a defined benefit plan, the amounts of benefits those employees are entitled to upon retirement are based on the number of years of services and the last monthly salary.

The obligation of the group companies to all other employees is a defined contribution plan, in which regular contributions are made to a separate and independent entity, and the companies of the Group have no legal or constructive liability to make any further payments if the assets of the funds are insufficient to pay all employees the benefits for work services in the current and past periods.

The total retirement benefit obligation presented in the statement of financial position is the present value of defined benefit contribution as of the date of financial position, less the fair value of plan assets. The defined contributions benefit is measured on an annual basis by an actuary using the projected unit credit method.

The present value of the liability is determined by discounting expected future cash flows (after taking into account the expected rate of payroll hikes) based on the interest rate of government/corporate bonds denominated in the currency in which the benefits will be paid and whose terms to maturity approximate the term of retirement benefit obligation.

According to IAS 19 Employee Benefits, the discount rate used for calculating the actuarial obligation is determined by using the market return of high-quality corporate bonds on the date of the statement of financial position. However, IAS 19 indicates that in countries where there is no deep market in such bonds, the market rates on government bonds are used.

The group recognizes remeasurements of net obligations (the asset) for defined benefit plan to other comprehensive income in the period in which they incurred. Those remeasurements are created as a result of changes in actuary assumptions, difference between past assumptions and actual results and differences between plan assets return and the amounts included in net interest on net liabilities (the asset) for defined benefit. Past-service costs are recognized immediately in income. Amount funded for severance benefits are measured at fair value. The amounts funded are plan assets as defined by IAS 19, and therefore were offset from the balance of retirement benefit obligation for presentation purposes in the statement of financial position.

As discussed above, the group purchase insurance policies and make contributions to pension and severance pay funds to fund its obligation under defined contribution plan. The group has no further payment obligations once the contributions have been paid. The contributions are defined as an expense for employee benefits concurrently to receiving services from employees that entitle them for contributions. Prepaid contributions are recognized as an asset

to the extent that a cash refund or a reduction in the future payments is available.

2) Vacation and Recreation Fees

Under the law in various countries, employee is entitled for vacation days and recreation fees (in Israel), both computed on an annual basis. The entitlement is based on the period of employment.

F-24

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

The Group records a liability and an expense in respect of vacation and recreation fees, based on the benefit accumulated for each employee.

3) **Bonus plans**

Some of the Group's employees are entitled to receive an annual bonus in accordance with the bonuses plan determined by Group management for that year. The Group provides for payment of the bonus in accordance with meeting the targets of the plan and in accordance with Group's estimate as to the total amount of bonuses to be paid to employees.

**s. Share-Based Compensation**

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense over the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted:

including any market performance conditions (for example, an entity's share price);

Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);

**t. Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and it is possible to prepare a reliable estimation of the amount of liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the cash flow expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**u. Revenue Recognition Policy**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenues from sale of goods are recognized by the Group when all of the following conditions are met:

- (a) The significant risks and rewards of ownership of the goods have been transferred by the Group to the buyer;
- (b) The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- (c) The amount of revenues can be reliably measured.
- (d) It is probable that future economic benefit relating to the transaction will flow to the Group; and
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The products are occasionally sold with volume discounts; customers have a right to return faulty products. Sales are recorded based on the selling price, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is present as the sales are made with an average credit term, which is not higher than the market practice.

**v. Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Long-term lease contracts for lease of land from the Israel Land Administration and from other countries are presented among fixed assets.

**w. Earnings per Share**

Basic:

The computation of basic earnings per share is based, as a general rule, on the profit attributable to holders of ordinary Company shares divided by the weighted average number of ordinary shares in issue during the period, excluding Company shares held by group subsidiaries (Notes 2m).

Fully Diluted:

When calculating the diluted earnings per share, the Group adds to the average number of shares outstanding that was used to calculate the basic earnings per share also the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares. The potential shares, as above are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

The weighted average number of shares used in calculating Basic and Diluted earnings per share is as follows:

	<b>Basic</b>	<b>Diluted</b>
	<b>In thousands</b>	<b>In thousands</b>
<b>Year-end December 31:</b>		
2017	59,342	59,632
2016	58,916	59,494
2015	58,573	59,141

**x. Dividends**

Dividend distribution to the Company's owners is recognized as a liability in the Group's statement of financial position on the date on which the dividends are approved by the Group's Board of Directors. Dividend paid includes an erosion component (from date of approval of dividend through date of payment thereof).

Table of Contents

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

**y. New standards, amendments and interpretations of existing standards, which have not yet become effective and not been early adopted by the Company:**

**1. Amendment to IFRS 9 Financial Instruments (hereafter IFRS 9 or the standard ):**

IFRS 9, Financial instruments , addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The new impairment model establishes a three-stage approach, based on changes in expected credit risk of a financial instrument. Each stage determines how to measure credit losses and how to apply the effective interest method. In addition, for financial assets that have no material financing element, such as receivables, it is possible to implement a simpler method. At initial recognition of a financial asset, an entity recognizes a loss allowance equal to 12 months expected credit losses, or the loss expected over the life of the instruments for accounts receivables, unless the asset is considered to have an credit impaired rating .

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through other comprehensive income.

IFRS 9 simplifies the requirements for testing hedge effectiveness by dropping the strict quantitative thresholds for testing hedge effectiveness. IFRS 9 requires economic relationship between the underlying hedged risk component and the hedging instrument, and that the hedge ratio is the same used for risk management purposes. The standard retains the requirement for maintaining documentation throughout the hedge period, but documentation is different than that required by IAS 39.

IFRS 9 will be applied retrospectively for annual reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

According to the Company assessment, the adoption of IFRS 9 is not expected to have material impact on the financial statements.

**2. IFRS 15 Revenue from Contracts with Customers (hereinafter IFRS 15)**

IFRS 15 will replace after its first-time adoption the guidance on revenue recognition in current IFRSs.

The core principle of IFRS 15 is that revenue from contracts with customers should be recognized using the method that best depicts the transfer of control of goods and services to the customer, the amount of consideration that the entity expects to be entitled to in exchange for transferring promised goods or services to a customer.

IFRS 15 has a single model for revenue recognition, based on a five-step approach:

- (1) Identify the contract(s) with the customer

F-27

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

(2) Identify the separate performance obligations in the contract

(3) Determine the transaction price

(4) Allocate the transaction price to separate performance obligations

(5) Recognize revenue when (or as) each performance obligation is satisfied

IFRS 15 covers accounting for a variety of issues related to implementation of that model, including: recognition of contractual variable consideration, adjustment of contractual transaction price to reflect the time value of money, and cost of obtaining and fulfilling the contract.

The standard expands the disclosure requirements about revenue, and, among other things, requires quantitative and qualitative information about significant management judgments that were considered for determining the amount of revenue recognized.

On July 22, 2015, the IASB decided to defer the effective date of the standard by one year, such that the standard will be applied retrospectively for annual periods beginning on or after January 1, 2018 with some exceptions as provided in the transition provisions of IFRS 15. According to the provisions of IFRS 15, early adoption is permitted.

Group management believes that the new standard is not expected to have material impact on the financial statements.

**3. IFRS 16 Leases**

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 Leases (hereafter IAS 17 ). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a right-of-use asset in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a lease and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transition provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The group has decided to early adopt the standard, while applying the accumulated impact as of January 1, 2018 and additional reliefs, as the standard allows. The implementation is expected to impact the accounting of lease agreements: real-estate, equipment and vehicles. Starting January 1, 2018, the Company is going to recognize assets and liabilities due to leases, which until then were accounted as operating leases.

According to the Company assessment and the information available as of the date of this report:

- 1) During the first-time implementation Increase of approx. \$37 million in assets and liabilities.

F-28

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued):

- 2) Decrease of operational expenses during 2018 amounting approx. \$9 million to \$11 million and an increase of depreciation and financial expenses in a Appx amount. Additional impact is expected to the increase of cash flow from operating activities and a decrease in the cash flow from financing activities amounting \$9 million to \$11 million.
- 3) The assessment is based on the information currently available and changes in lease agreements and additional examination could have impact on the final amounts.

**NOTE 3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:**

**a. Financial Risk Management**

1) Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors and senior management. These policies cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity. Group policies also cover areas such as cash management and raising short and long-term debt.

The Group's business is characterized by considerable dispersion. The Group produces tens of thousands of products intended for tens of thousands of customers throughout the world, using tens of thousands of raw materials purchased from a wide range of suppliers worldwide. As stated, the Group is not significantly dependent on any of its customers, products or suppliers.

Discussions on implementing the risk management policy as relates to currency exposure and interest are conducted by the Group's management once each quarter.

a) Market Risks:

1) Foreign Exchange Risk

The Group operates globally and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in U.S. dollars.

Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. Most Group entities produce their income primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale are in foreign currencies. Similarly, transaction exposure arises on net balances of financial assets held in foreign currencies. Since raw materials purchases for the Group's production are also conducted in various currencies, currency exposure is reduced.

The Group's subsidiaries manage this exposure locally. In addition, Group management monitors total global exposure of the Group.

Translation exposure arises from the consolidation of the Foreign Currency denominated financial statements of the Company's subsidiaries. The effect on the Group's consolidated comprehensive income is shown as a currency translation difference.



Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT** (continued):

The following table presents currency exposure in respect of balance denominated in currencies that are different than the functional currency of the reporting company and also the effect on income after taxes. At December 31, 2017 and 2016, if the currencies specified below had weakened/strengthened by 1% against the other functional currencies of group companies, with all other variables unchanged:

	<b>December 31 2017</b>			
	<b>U.S. dollars in thousands</b>			
	<b>NIS</b>	<b>Pound Sterling</b>	<b>Euro</b>	<b>Swiss Franc</b>
Financial asset (liabilities), net	(22,927)	3,531	(81,296)	3,468
<b>Gain (loss) from change:</b>				
Impact of 1% weakening	229	(35)	813	(35)
Impact 1% strengthening	(229)	35	(813)	35
	<b>December 31 2016</b>			
	<b>U.S. dollars in thousands</b>			
	<b>NIS</b>	<b>Pound Sterling</b>	<b>Euro</b>	<b>Swiss Franc</b>
Financial asset (liabilities), net	(3,444)	711	(195,240)	911
<b>Gain (loss) from change:</b>				
Impact of 1% weakening	34	(7)	1,952	(9)
Impact 1% strengthening	(34)	7	(1,952)	9

\* Represents amounts lower than \$1 thousand.

## 2) Cash Flow Risk Relating to Interest Rates

Since on a current basis the Group does not have significant assets bearing interest, its revenues and operating cash flow are not dependent on changes in interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings received at variable rates expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on post tax profit for the year 2017 of a 0.1% shift in interest rate on loans would have been a change of \$362 thousand (2016 \$258 thousand; 2015 \$233 thousand).

b) Credit Risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Group.

Trade receivables are subject to a policy of active risk management, which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and accounting monitoring procedures.

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT** (continued):

There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored. Collateral is generally not required.

The provision for impairment of trade receivables is determined on basis of a periodic test of all amounts due.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

Group entities must have sufficient availability of cash to meet their obligations. Each company is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies and to monitoring of Group management.

The table presented below classifies the Group's financial liabilities into relevant maturity groupings based on the remaining period at December 31, 2017 to the contractual maturity date. Group entities do not have derivative financial liabilities. The amounts presented in the table represent the projected undiscounted cash flows.

	<b>Less than 1 year</b>	<b>Between 1 and 3 years</b>	<b>Between 3 and 5 years</b>
<b>U.S. dollars in thousands</b>			
<b>As of December 31, 2017:</b>			
Borrowings Variable interest	311,215	157,598	31,973
Borrowings Fixed interest	67,030	54,774	22,112
Liability for put option for the shareholders of a subsidiary	7,560	50,367	51,011
Accounts payable and accruals	231,813	926	
	617,618	263,665	105,096
<b>As of December 31, 2016:</b>			
Borrowings Variable interest	203,233	157,406	48,282
Borrowings Fixed interest	34,074	71,959	28,418
Liability for put option for the shareholders of a subsidiary	40,350	18,261	31,746
Accounts payable and accruals	190,427	21,105	
	468,084	268,731	108,446

c) Liabilities in respect of put options

As part of several acquisition transactions, former owners of the acquired entities were granted an option to sell the Company their remaining shares, and the Company has an option to buy those shares; (the price and the conditions of the call options are identical to the price of the put option). This mechanism exists in the following acquisitions:

1. Sonarome Private Ltd. ( Sonarome ).
2. Amco SP ( Amco ), see note 5j.

F-31

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 3 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT** (continued):

3. Ingenieria Alimentaria S.A. De C.V ( Piasa ), see note 5p.
4. Western Flavors Fragrances Production Joint Stock Company, ( WFF ), see note 5d.
5. Brasil Industria E Comercio Ltda, ( SDFLC ), see note 5e.
6. Turpaz Perfume and Flavor Extracts Ltd. ( Turpaz ), see note 5h.

As of December 31, 2017, the total amount of the PUT options is \$93,984 thousand. This liability was estimated in accordance with the average EBITDA to be achieved during the period of the agreement. The annual weighted discount rate of the option is 3.3%.

The main unobservable data used by the Company for the purpose of valuing the option is the future EBITDA to be achieved. For the purpose of estimating the value of the liabilities for the options and their update, the Company used its current business results and its forecast.

**b. Capital management**

Group's objective is to maintain, as possible, stable capital structure. In the opinion of Group's management, its current capital structure is stable. Consistent with others in the industry, the Group monitors capital, on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at December 31, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Total borrowings (Note 9)	634,286	533,780
Less cash and cash equivalents (Note 19)	(118,214)	(113,528)
<b>Net debt</b>	<b>516,072</b>	<b>420,252</b>
Total equity	878,913	664,604

Total capital	1,394,985	1,084,856
<b>Gearing ratio</b>	37.0%	38.7%

**NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may not necessarily be equal to the related actual results. The estimates and assumptions with significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**a. Estimate of Impairment of Goodwill**

The Group tests annually for impairment of goodwill, in accordance with the accounting policy states in note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued):**

**b. Taxes on Income and Deferred Taxes**

The Group is subject to income taxes in a large number of countries. Judgment is required in determining the worldwide provision for income taxes. The Group is involved in transactions and computations in which final tax liabilities cannot be determined with certainty in the normal course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due as a result of the tax audits. Where the final tax outcome of these matters, determined by tax authority is different from the amounts that were initially recorded, such differences may impact the provisions for income tax and deferred tax liabilities in the period in which such determination is made.

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

**c. Severance Pay**

The present value of the liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include, inter alia, the yield rate and discount rate. Changes in those assumptions may influence the carrying amount of the assets and liabilities in respect of severance pay.

The assumption regarding the appropriate discount rate is determined by external actuaries at the end of each year. This discount rate is used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The Company uses the market of high-quality corporate bonds when this market available, and when it is not, government bonds are used instead. Therefore, in determining this rate, the Group uses interest rate in the currency in which the benefits will be paid.

Other key assumptions relating to severance pay liabilities, such as future payroll raise and retirement rates, are partially based on existing market conditions on that time and on past experience.

**d. Provisions**

Provision for legal liabilities are recorded in the books of accounts in accordance with Group management's judgment, based on the opinion of its legal advisors, regarding the likelihood that cash outflows will be needed to meet the

liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash outflows required to meet the existing liabilities.

F-33



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS:**

**a. Acquisition of remaining share capital of subsidiaries**

**1) Acquisition of the remaining holdings of Vantodio:**

On February 1, 2017, The Company exercised its option to acquire the remaining 25% equity interest in Vantodio Holdings Limited, which holds the Russian group Protein Technologies Ingredients, from the end of the third year, at a multiple of between 6 and 7 of the average annual EBITDA achieved in the three years prior to the exercise of the option. The Company holds from that date 100% of the share capital of Vantodio. The option was exercised for a total consideration of approximately \$40 million. The purchase of the remaining 25% interest stake was financed through bank credit.

**2) Acquisition of the remaining holdings of Nutrafur**

On June 12, 2017, the Company signed, through a subsidiary, an agreement for the purchase of approx. 21% of the shares of the Spanish company Nutrafur S.A. ( Nutrafur ) from that company's founding families for US\$2.4 million (approx. 2.1 million) such that Frutarom now holds 100% of Nutrafur shares (On September 3, 2015, the Company acquired approx. 79% of the shares of Nutrafur). The transaction was closed upon signing.

**3) Acquisition of the remaining holdings of BSA**

On July 5, 2017, Frutarom purchased a 5% interest stake in the Canadian company Les Ingrédients Alimentaires BSA Inc. ( BSA ) for approximately US\$2 million (approx. CAD 2.75 million) and thereby completed acquisition of 100% of the shares in BSA, and this is further to the purchase of 95% of BSA's share on May 15, 2015.

**b. Acquisition of Unique**

On February 8, 2017, the Company signed, through a subsidiary, an agreement for the purchase of 100% of the shares of the South African companies Unique Flavors Proprietary Limited and Unique Food Solutions Proprietary Limited (collectively: Unique) in consideration (including the taking on of debt) for approx. ZAR 90 million (approx. USD 6.4 million), of which approximately USD 1 million will be paid as deferred payment. The purchase agreement includes a mechanism for future consideration contingent on Unique's future business performance at approx. ZAR 6.1 million (approx. USD 493 thousand), which was paid after the balance sheet date. The transaction was financed through bank debt.

Unique, which was founded in 2001, is engaged in the development, production and marketing of flavors, with emphasis on savory flavors (the non-sweet spectrum of flavors) and on sweet taste solutions. Unique has an R&D, production and marketing site in Pretoria, South Africa, near Frutarom's new South African site, and a wide customer base in South Africa and other important emerging markets of the Sub-Saharan region like Ghana, Malawi, Zimbabwe and Mozambique. Unique has a workforce of 64 people.

The cost of acquisition was allocated to the tangible assets, intangible assets and liabilities acquired based on their fair value at the time of acquisition. The intangible assets that were recognized include: product formulas valued at ZAR 14,525 thousand (\$1,080 thousand), customer relations at ZAR 16,929 thousand (\$1,258 thousand), goodwill at ZAR 66,790 thousand (\$4,966 thousand) and software at ZAR 108 thousand (\$8 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Trade	2,114
Inventory	314
Others	97
<b>Non-current assets:</b>	
Property, plant and equipment	173
Intangible assets	7,312
<b>Current liabilities:</b>	
Trade payables	(1,567)
Other account payables	(1,326)
Short-term loans	(48)
<b>Non-current liabilities:</b>	
Deferred taxes	(700)
	<b>6,369</b>

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have yielded revenues of \$9,159 thousand. In the course period, Unique and Frutarom South Africa were merged into a single entity, which operates under a single management.

**C. Acquisition of Rene Laurent**

On April 4, 2017, the Company signed an agreement for the purchase of 100% of the French Company René Laurent in consideration of approx. EUR 20 million (approx. USD 21 million). The transaction was closed upon the signing of the agreement and was financed through bank debt.

Founded in 1885, René Laurent engages in the development, production and marketing of flavors and natural extracts. René Laurent has two production sites (one focusing on sweet flavors and the other on savory flavors), and an R&D center near Cannes, in Grasse, France, plus a production site near Casablanca, Morocco. René Laurent has approximately 100 employees.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas amounting to EUR 1,763 thousand (\$1,880 thousand), customer relations amounting to EUR 2,870 thousand (\$3,060 thousand) and goodwill amounting to EUR 9,553 thousand (\$10,186 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

F-35

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	969
Trade	3,665
Inventory	4,110
Others	232
<b>Non-current assets:</b>	
Property, plant and equipment	1,515
Intangible assets	15,126
<b>Current liabilities:</b>	
Trade payables	(1,765)
Other payables	(784)
<b>Non-current liabilities:</b>	
Other long-term payables	(706)
Deferred taxes	(1,412)
	<b>20,950</b>

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated revenues of \$10,891 thousand and net profit of \$142 thousand (net of acquisition costs).

**d. Acquisition of WFF**

On April 5, 2017, the Company signed an agreement for the purchase of 60% of the Vietnamese company Western Flavors Fragrances Production ( WFF ) for approx. VND 23.9 billion (approx. USD 1.1 million). The purchase agreement includes a mutual option for purchasing the remaining WFF shares beginning four years from closing the transaction at a price that is based on the business performance of WFF during that period. The transaction was financed by own resources.

WFF was founded in 2003, has 44 employees and engages in the development, production and marketing of flavors. WFF has a plant and laboratory in Ho Chi Minh City in southern Vietnam and a sales and marketing office in Hanoi, in the country's northern region. Frutarom intends to build a modern new flavors plant in Ho Chi Minh City, which

will enable it to significantly expand its activity in the Vietnamese market and in the emerging markets of the region.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at VND 7,741 thousand (\$342 thousand), customer relations at VND 15,180 thousand (\$671 thousand) and goodwill at VND 10,445 thousand (\$462 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	114
Trade	351
Inventory	743
Others	140
<b>Non-current assets:</b>	
Property, plant and equipment	411
Intangibles	1,475
<b>Current liabilities:</b>	
Trade payables	(392)
Other payables	(444)
<b>Non-current liabilities:</b>	
Other long-term payables	
Deferred taxes	(223)
Other long-term payables	(1,118)
	1,057

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated \$726 thousand in revenue and \$74 thousand in net income (net of acquisition costs).

**e. Acquisition of SDFLC**

On June 22, 2017, the Company signed an agreement for the purchase of 80% of the shares of the Brazilian company SDFLC Brasil Indústria E Comércio Ltda. ( SDFLC ), in exchange for approx. BRL 98 million (approx. US\$29.5 million). The purchase agreement includes debt and a contingent consideration mechanism that is based on SDFLC future business performance, which, as of the date of acquisition, is estimated at approximately BRL 10 million. Additionally, the agreement includes a mutual option for acquiring the remaining shares starting two and a half years from closing date of the transaction at a price based on SFCLC s business performance. The transaction was closed upon signing and was financed through bank debt.

SDFLC was founded in 2001 in the city of Sete Lagoas in the Brazilian state of Minas Gerais and is a provider of taste solutions for ice creams and desserts in Brazil. SDFLC employs about 90 workers and serves around 2,250 customers in Brazil, including independent artisan ice cream makers, multinationals, food processing companies and leading dining chains.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at BRL 16,049 thousand (\$4,812 thousand), customer relations at BRL 52,988 thousand (\$15,884 thousand), goodwill at BRL 120,983 thousand (\$36,271 thousand) and software at BRL 39 thousand (\$14 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

F-37



Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	38
Trade	2,154
Inventory	1,786
Others	264
<b>Non-current assets:</b>	
Property, plant and equipment	2,613
Intangible assets	56,981
<b>Current liabilities:</b>	
Bank credit and loans	(219)
Trade payables	(717)
Other account payables	(7,036)
<b>Non-current liabilities:</b>	
Deferred taxes	(4,329)
Long-term other account payables	(20,198)
Long-term loans	(1,908)
	<b>29,429</b>

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated \$15,983 thousand in revenue and \$3,844 thousand in net income (net of acquisition costs).

**f. Acquisition of F&E**

On August 14, 2017, the Company signed an agreement for the purchase of 100% of the shares of the UK Company Flavours and Essences (UK) Ltd. ( F&E ) for approximately £15.6 million (approximately US\$20.3 million) and a contingent consideration mechanism based on F&E's future business performance over the period of three years from the purchase date. The transaction was closed upon signing and was financed through bank debt.

F&E, which was founded in 1998, is engaged in the development, production and marketing of flavors and natural coloring. F&E operates a production site and R&D center in Blackburn, England, employs 41 people, and has a broad

customer base in Europe, particularly in the UK and Ireland.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at GBP 2,516 thousand (\$3,269 thousand), customer relations at GBP 4,265 thousand (\$5,541 thousand) and goodwill at GBP 10,001 thousand (\$12,993 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively.

F-38

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

Set forth below are the assets and liabilities of F&E as at the date of acquisition:

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	2,529
Trade	3,879
Inventory	1,774
<b>Non-current assets:</b>	
Property, plant and equipment	575
Intangible assets	21,803
<b>Current liabilities:</b>	
Trade payables	(1,855)
Other payables	(1,933)
<b>Non-current liabilities:</b>	
Long-term other payables	(5,010)
Deferred taxes	(1,459)
	20,303

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated \$8,634 thousand in revenue and \$1,989 thousand in net income (net of acquisition costs).

**g. Acquisition of Muhlehof**

On August 21, 2017, the Company signed an agreement for the purchase of 100% of the shares of the Swiss company Mühlehof Gewürze AG ( Mühlehof ) for approx. CHF 6.7 million (approx. \$7 million). The transaction was closed upon signing and financed through bank debt.

Mühlehof, which was founded in 1979, is engaged in the development, production and marketing of savory taste solutions (the non-sweet spectrum of flavors), with emphasis on convenience foods and meats. Mühlehof, with 9 employees, has a site in Switzerland for development, manufacturing and marketing which is included among the acquired assets.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at CHF 567 thousand (\$592 thousand), customer relations at CHF 593 thousands (\$618 thousand), goodwill amounting to CHF 4,407 thousand (\$4,597 thousand) and software at CHF 7 thousand (\$8 thousand). Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The determination of the fair value of the assets and liabilities is subject to a final appraisal for the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

F-39

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	463
Trade	257
Inventory	246
Other receivables	97
<b>Non-current assets:</b>	
Property, plant and equipment	480
Intangible assets	5,815
<b>Current liabilities:</b>	
Trade payables	(117)
Other payables	(55)
<b>Non-current liabilities:</b>	
Deferred taxes	(211)
	6,975

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated \$1,158 thousand in revenue and net income of \$108 thousand (net of acquisition costs).

**h. Acquisition of Turpaz**

On September 6, 2017, Frutarom invested in and purchased shares of Turpaz Perfume and Flavor Extracts Ltd. ( Turpaz ) and BKF Perfume Compounding Ltd. (a company that owns 80% of the share capital of Turpaz, BKF ) and became owner of approx. 51% of share capital and voting rights in Turpaz. The consideration paid by Frutarom for the shares is approx. NIS 14.5 million (approx. US\$4.1 million), and in addition, Frutarom injected an investment of approx. NIS 27 million (approx. US\$7.4 million) into BKF. The purchase and investment agreement includes a mutual option for Frutarom to purchase the remaining shares of Turpaz and BKF starting four years from the date of closing the transaction at a price that will be based on their future business performance in the eighth quarters preceding the notification to realize the option. Considering the mutual option terms, the group has recognized 100% of the share capital of Turpaz and the related liability due to the capitalized value of the option. The transaction was financed through bank debt.

Turpaz is engaged mainly in the development, production and marketing of fragrance solutions. Turpaz, with 16 employees, has an R&D, manufacturing and marketing site in Israel and recently opened a center for R&D, production, sales and marketing in New Jersey.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at NIS 6,834 thousand (\$1,900 thousand), customer relations at NIS 11,297 thousand (\$3,142 thousand) and goodwill at NIS 82,253 thousand (\$22,873 thousand). The product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The determination of the fair value of the assets and liabilities is subject to a final appraisal for the allocation of the purchase prices to the fair value of the assets and

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	8,713
Trade	2,057
Inventory	1,171
Other receivables	239
<b>Non-current assets:</b>	
Property, plant and equipment	111
Intangible assets	27,915
<b>Current liabilities:</b>	
Trade payables	(636)
Other payables	(1,672)
<b>Non-current liabilities:</b>	
Bank loans	(1,770)
Other long-term payables	(23,372)
Deferred taxes	(1,215)
	11,541

From the date it was included in the consolidated financial statements of the Company through December 31, 2017, the acquired operations have generated revenues of \$2,520 thousand and net income of \$328 thousand (net of acquisition costs).

**i. Acquisition of Pollena**

On December 19, 2017, Frutarom purchased 99.96% of the shares in the Polish company Fabryka Substancji Zapachowych Pollena-Aroma Sp, z.o.o. ( Pollena-Aroma ) for approx. \$8.4 million (approx. PLN 29.2 million). The transaction was closed upon signing and financed from own sources.

Pollena-Aroma, established in 1956, is engaged in the development, production and marketing of flavors, fragrances and specialty ingredients for the aromatherapy and natural cosmetics industries. Pollena-Aroma operates a modern

advanced production site near Warsaw, which includes an R&D center and labs, and state-of-the-art production with robotic equipment in the US, and which will become a significant R&D, production, and sales and marketing center for Frutarom's European fragrances activity. Pollena-Aroma has 64 employees and a large customer base in Europe, particularly in Poland and Ukraine.

The cost of acquisition was allocated to tangible assets, intangible assets and liabilities that were acquired based on their fair value at the time of the acquisition. The intangible assets that were recognized include: product formulas valued at PLN 2,356 thousand (\$676 thousand), customer relations at PLN 30 thousand (\$9 thousand), goodwill at PLN 7,810 thousand (\$2,240 thousand) and software at PLN 62 thousand (\$17 thousand).

F-41



Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

Product formulas and customer relations are amortized over economic useful lives of 20 years and 10 years, respectively. The determination of the fair value of the assets and liabilities is subject to a final appraisal for the allocation of the purchase prices to the fair value of the assets and liabilities; this appraisal has not yet been completed as of the date of approval of these financial statements.

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

	<b>Fair value U.S. dollars In thousands</b>
<b>Current assets:</b>	
Cash and cash equivalents	374
Trade	1,240
Inventory	893
Other receivables	57
<b>Non-current assets:</b>	
Property, plant and equipment	6,390
Intangible assets	2,942
<b>Current liabilities:</b>	
Trade payables	(680)
Other payables	(782)
<b>Non-current liabilities:</b>	
Other long-term payables	(1,928)
Deferred taxes	(118)
	<b>8,388</b>

The results of Pollena will be consolidated as of December 31, 2017. Therefore, the results of this company have no effect on income and loss for 2017.

**Acquisitions carried out in 2016:****j. Acquisition of control in Amco SP.Z.O.O**

On January 11, 2016, Frutarom completed acquisition of 75% of share capital of the Polish company Amco Sp. z.o.o, (hereafter Amco ) in consideration of \$22.4 million (PLN 88.5 million). The purchase agreement includes a mutual option for acquiring the remaining shares starting two and a half years from closing date of the transaction at a price

that will be based on Amco's business performance. Considering the mutual terms of the option, the Company recognized the full implicit liability of the option realization.

**k. Acquisition of Wiberg**

On January 28, 2016, Frutarom completed the acquisition of 100% of the shares of Sagema GmbH of Austria and Wiberg GmbH of Germany (including Wiberg's 50% ownership stake in a Canadian subsidiary (Wiberg Corporation) and 51% ownership stake in a Turkish subsidiary (WIBERG BAHARAT SANAYİ VE TİCARET ANONİM ŞİRKETİ which was subsequently fully acquired) (hereafter collectively: Wiberg ) in consideration of approx. \$129.9 million ( 119.1 million). The purchase was fully funded using bank funding.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 5 BUSINESS COMBINATIONS** (continued):

**l. Acquisition of Grow Company Inc.**

On January 11, 2016, the Company signed an agreement for the acquisition of 100% of the shares of the US-based company Grow Company Inc. (hereafter "Grow") in consideration of \$20 million. The transaction was closed on the date of signing the agreement and was financed using bank debt. The purchase agreement included a contingent consideration mechanism based on the Company's business performance in 2016 and completed in late first quarter of 2017 in the amount of \$10,800 thousand.

**m. Acquisition of Extrakt Chemie**

On May 2, 2016, the Company signed an agreement for the acquisition of 100% of the rights and the general partner of the German partnership Extrakt Chemie Dr. Bruno Stellmach GmbH & Co. KG (hereafter "Extrakt Chemie") as well as the property on which Extrakt Chemie's plant is situated in consideration for approx. \$6.3 million in cash (approx. 5.4 million) plus the assumption of debt (net) at approx. \$1.4 million (approx. 1.2 million). The purchase agreement includes a mechanism for future consideration conditional on the business performance of Extrakt Chemie that will be paid in 2018.

**n. Acquisition of Redbrook Ingredient Services Limited**

On August 2, 2016, the Company signed, through a subsidiary, an agreement for the purchase of 100% of shares in the Irish company Redbrook Ingredient Services Limited ("Redbrook") in exchange for approximately USD 44.8 million (40 million). The purchase agreement includes a mechanism for additional consideration based on Redbrook's future business performance.

**o. Acquisition of Nardi Aromas**

On October 11, 2016, the Company signed, through a subsidiary, an agreement for the purchase of 100% of shares in the Brazilian company Nardi Aromas Ltda. ("Nardi") in exchange for approximately USD 1.6 million (BRL 5.1 million).

**p. Acquisition of Piasa**

On November 9, 2016, Frutarom signed, through a subsidiary, an agreement to acquire 75% of share capital of the Mexican company Ingenieria Alimentaria, S.A. De C.V. ("Piasa"), as well as real estate in Monterrey, Mexico, where its central manufacturing site and headquarters are located, in exchange for a cash consideration (including debt) of \$15.1 million, and deferred consideration of \$2.3 million. The purchase agreement includes a mechanism for additional consideration based on business performance in 2016. Additionally, the agreement included a mutual option to acquire

the remaining shares beginning from 5 years after closing at a price that is based on business performance of the Company. Considering the mutual terms of the option, the Company recognized the full implicit liability of option realization.

- q.** Had the acquisitions carried out in 2017 and 2016 been completed on January 1, 2016, based on the unaudited information provided by owners of acquirees based on the pre-acquisition accounting activity, the revenue of the Group for the year ended December 31, 2016 would have been \$1,292,086 thousand, and net income for that year would have been \$137,736 thousand. Based on the above, the revenue of the Group for the year ended December 31, 2017 would have been \$1,401,960 thousand, and net income for that year would have been \$158,396 thousand.

**Table of Contents****FRUTAROM INDUSTRIES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****NOTE 5 BUSINESS COMBINATIONS (continued):**

The above results include interest expenses on loans to finance the acquisition that would have been registered in that period, depreciation and amortization that may have been recognized in that period for amortization of intangible assets and one-off expenses recognized on acquisition date. The aforesaid calculation does not take into account synergies that would result from merger of the acquisitions with activity of the company.

**NOTE 6 SEGMENT REPORTING****a. Operating Segments**

The core activity of the Group is organized to support management in implementing a worldwide strategy in two major operating activities: Flavors and Fine Ingredients. Another operating activity is Trade and Marketing (each operation is considered a separate reportable segment (Note 2d). Results of operating segments are measured based on operating income.

Frutarom's Flavors Activity develops, produces, markets and sells high-quality, value added sweet and savory flavors used mainly by manufacturers of food and beverages and other consumer products including flavors and Food Systems products (products combining fruits, vegetables and/or other natural ingredients, including sweet and non-sweet flavors). Frutarom's Specialty Fine Ingredients Activity develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, natural algae based biotechnical products, aroma chemicals, specialty essential oils, unique citrus products, natural gums and stabilizers.

The Specialty Fine Ingredients products are sold primarily to the food and beverage, flavor and fragrance, pharmaceutical/nutraceutical, cosmetics and personal care industries.

The Trade and Marketing activity is not considered a core activity, and focuses on trade and marketing of raw materials that are produced by third parties, as part of providing a complete range of solutions and services to customers.

These operations are the basis on which the Group reports its primary segment information.

Segment as data provided to the chief operating decision-maker in respect of the reported segments are as follows:

**December 31, 2017:**

<b>Flavors operations</b>	<b>Fine ingredients operations</b>	<b>Trade and marketing</b>	<b>Elimination</b>	<b>Total Consolidated</b>
-------------------------------	--	------------------------------------	--------------------	-------------------------------

Income statement information:	<b>operations</b>				
	<b>U.S. dollars in thousands</b>				
Sales net:					
Unaffiliated customers	1,025,359	246,075	90,962		1,362,396
Intersegment		14,047		(14,047)	
Total sales and other operating income	1,025,359	260,122	90,962	(14,047)	1,362,396
Segment results	177,680	31,638	1,664	(16)	210,966
Financial expenses net					24,606
Taxes on income					34,797
Net income					151,563

F-44

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 SEGMENT REPORTING** (continued):**December 31, 2016:**

	<b>Flavors operations</b>	<b>Fine ingredients operations</b>	<b>Trade and marketing operations</b>	<b>Elimination</b>	<b>Total Consolidated</b>
	<b>U.S. dollars in thousands</b>				
Income statement information:					
Sales net:					
Unaffiliated customers	846,517	221,030	79,494		1,147,041
Intersegment		6,830		(6,830)	
Total sales and other operating income	846,517	227,860	79,494	(6,830)	1,147,041
Segment results	125,825	21,549	1,938	(56)	149,256
Financial expenses net					12,841
Taxes on income					25,346
Net income					111,069

**December 31, 2015:**

	<b>Flavors operations</b>	<b>Fine ingredients operations</b>	<b>Trade and marketing operations</b>	<b>Elimination</b>	<b>Total Consolidated</b>
	<b>U.S. dollars in thousands</b>				
Income statement information:					
Sales net:					
Unaffiliated customers	607,534	180,918	84,344		872,796
Intersegment		4,026		(4,026)	
Total sales and other operating income	607,534	184,944	84,344	(4,026)	872,796
Segment results	108,751	18,900	2,870	(267)	130,254
Financial expenses net					12,197

Taxes on income	21,972
Net income	96,085

**a. Additional information:**

## 1) Geographical Segment Information

As of December 31, 2017, Frutarom operated 72 production sites, 90 research and development laboratories, and 109 sales offices in Europe, North America, Latin America, Israel, Asia, Africa and New Zealand, and markets and sells over 70,000 products to more than 30,000 customers in more than 150 territories.

F-45



Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 6 SEGMENT REPORTING** (continued):

## 2) Sales by Destination Based on End Customer Location

The following is information on the distribution of the Company's sales by market:

	Year ended December 31		
	2017	2016	2015
	U.S. dollars in thousands		
Emerging Market*	585,619	470,247	384,804
West Europe**	494,149	424,292	281,745
USA and North America***	195,280	173,216	136,633
Other	87,348	79,286	69,614
Total consolidated sales	1,362,396	1,147,041	872,796

\* Sales in Russia amounted to \$160,363 thousand, \$150,370 thousand and \$142,885 thousand in 2017, 2016 and 2015, respectively.

\*\* Sales in Germany amounted to \$134,964 thousand, \$121,261 thousand and \$66,018 thousand in 2017, 2016 and 2015, respectively.

\*\*\* Sales in the USA amounted to \$149,579 thousand, \$132,649 thousand and \$111,767 thousand in 2017, 2016 and 2015, respectively.

**NOTE 7 PROPERTY, PLANT AND EQUIPMENT**

## a. Composition of assets, grouped by major classifications and changes therein in 2017 is as follows:

	Cost				Accumulated depreciation				Depreciated balance		
	Balance at beginning of year	Additions during the year	Retirements during the year	Other*	Balance at beginning of year	Additions during the year	Retirements during the year	Other*			
	U.S. dollars in thousands				U.S. dollars in thousands						
Land and buildings	223,850	9,106	(863)	32,869	264,962	71,686	3,583	(59)	8,471	83,681	181,281

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

Machinery and equipment	265,112	18,867	(10,949)	31,443	304,473	183,469	14,078	(10,248)	22,064	209,363	95,110
Vehicles and lifting equipment	10,716	1,756	(2,445)	1,309	11,336	6,713	1,488	(2,086)	665	6,780	4,556
Furniture and office equipment (including computers)	48,595	3,498	(1,572)	3,895	54,416	24,236	2,568	(1,290)	3,772	29,286	25,130
Leasehold improvements	17,479	1,167	(796)	1,206	19,056	10,828	1,404	(695)	720	12,257	6,799
	565,752	34,394	(16,625)	70,722	654,243	296,932	23,121	(14,378)	35,692	341,367	312,876

F-46

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 7 PROPERTY, PLANT AND EQUIPMENT** (continued):**a. Composition of assets, grouped by major classifications and changes therein in 2016 is as follows:**

	Cost				Accumulated depreciation					Depreciated balance at end December 31 2016	
	Balance at Beginning of year	Addition during the year	Retirements during the year	Other*	Balance at end of year	at beginning of year	Addition during the year	Retirements during the year	Other*		
	U.S. dollars in thousands				U.S. dollars in thousands						
Land and buildings	188,582	6,440	(1,328)	30,156	223,850	55,705	6,804	(38)	9,215	71,686	152,164
Machinery and equipment	240,587	14,502	(21,801)	31,824	265,112	171,428	12,375	(19,318)	18,984	183,469	81,643
Vehicles and lifting equipment	8,963	2,016	(1,628)	1,365	10,716	5,689	1,326	(1,197)	895	6,713	4,003
Furniture and office equipment (including computers)	43,694	3,503	(5,538)	6,936	48,595	24,059	385	(5,342)	5,134	24,236	24,359
Leasehold improvements	19,033	2,032	(5,880)	2,294	17,479	11,192	1,366	(3,289)	1,559	10,828	6,651
	500,859	28,493	(36,175)	72,575	565,752	268,073	22,256	(29,184)	35,787	296,932	268,820

\* Arising from acquisition of subsidiaries and operations and from translation of foreign-currency financial statements of subsidiaries.

**b. Lease of land**

- 1) Frutarom Ltd. has a leasehold right in a land property located in the Akko Industrial Zone and the Haifa Bay. Net discounted lease payments as at December 31, 2017, in respect of the said land properties is \$981 thousand (2016 \$1,013 thousand). The lease period is 49 years ending in 2032 and 2042, respectively. Frutarom Ltd. has a right to extend the lease for an additional 49-year

period.

- 2) A subsidiary in China has Land Use Rights to land properties in China. The rights are for a period of 50 years ending in 2046 and 2052. Net discounted lease payments as at December 31, 2017 in respect of the said land properties is approximately \$135 thousand (2016 \$143 thousand) and \$1,062 (2016 \$1,041), respectively.
- 3) In 2015, a subsidiary in China acquired Land Use Rights . The rights are for a period of 50 years. Net discounted lease payments as at December 31, 2017, in respect of the land property is \$1,211 thousand.

F-47

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 8 INTANGIBLE ASSETS:**

	Original amount		Amortized balance	
	December 31 2017	December 31 2016	December 31 2017	December 31 2016
Know-how and product formulas	161,999	136,903	119,324	104,509
Goodwill	593,168	456,944	589,250	454,687
Customer relations	177,926	137,010	116,628	94,688
Trademarks	309	500	18	58
Computer software	30,607	31,305	4,006	3,839
	964,009	762,662	829,226	657,781

**Composition of Intangible Assets, Grouped by Major Classifications and Changes Therein is as Follows:**

	Computer software	Know-how and product formulas	Goodwill*	Customer relations	Trademarks	Total
	U.S. dollars in thousands					
<b>Balance as of January 1, 2016 net</b>	4,294	73,112	335,538	60,707	156	473,807
Changes in the year ended December 31, 2016:						
Acquisitions	950	297			97	1,344
Retirements during the year	(100)				(5)	(105)
Additions due to business combinations	588	39,382	129,341	48,252		217,563
Foreign exchange gains and losses	(35)	(1,856)	(11,034)	(2,139)	(94)	(15,158)
Changes in the excess of cost of acquisition	347		842			1,189
Annual amortization charge (Note 2f)	(2,205)	(6,426)		(12,132)	(96)	(20,859)
<b>Closing net book amount</b>	3,839	104,509	454,687	94,688	58	657,781
Changes in the year ended December 31, 2017:						
Acquisitions	1,669	1,163			58	2,890

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

Retirements during the year	(141)					(141)
Additions due to business combinations	47	14,549	95,295	30,269	17	140,177
Foreign exchange gains and losses	465	6,174	43,111	6,585	(6)	56,329
Changes in the excess of cost of acquisition	(499)	262	(3,843)	(54)		(4,134)
Annual amortization charge (Note 2f)	(1,374)	(7,333)		(14,860)	(109)	(23,676)
<b>Closing net book amount</b>	<b>4,006</b>	<b>119,324</b>	<b>589,250</b>	<b>116,628</b>	<b>18</b>	<b>829,226</b>

F-48

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 8 INTANGIBLE ASSETS** (continued):**Test for impairment of goodwill**

The goodwill recorded in the Group's books of accounts arises from acquisitions of subsidiaries and operations carried out by the Group over the years. Goodwill is allocated to the cash-generating units of the Group in accordance with the unit and the business segment from which it arises.

Set forth below is a summary of goodwill allocation between the various cash-generating units:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in</b>	
	<b>thousands</b>	
Cash-generating unit 1	331,870	242,383
Cash-generating unit 2	156,677	115,628
Cash-generating unit 3	58,325	56,276
Cash-generating unit 4	42,378	40,400
<b>Total</b>	<b>589,250</b>	<b>454,687</b>

The Company has 6 cash-generating-units, 4 of which have goodwill. The Company's management continuously reviews the structure of its cash-generating units and adjust it to allow development of its business.

The changes in goodwill between the years are due to acquisitions of new companies/operations, and changes in the exchange rate of the currencies of the foreign operations compared to the US dollar, as explained in Notes 5 and 2c-4.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on past results of the unit, its budget for the following year and the projection for future years, cash flows from the fifth year are extrapolated using a grow rate of 2.5%-3%, according to the activity area of the cash generating unit, which does not exceed the long-term growth rate for the food business and the relevant areas, in which the Group operates.

The average discount rate taken into account in the calculation is 9.1% before taxes.

Group management determines profit margins based on past performance and its expectations for development of each cash-generating units.

The recoverable amounts of cash-generating unit 1, 2 and 3 were calculated and examined by an external assessor, whereas the recoverable amount of cash-generating unit 4 was calculated and examined by Group management.

The results of the above analysis show that the value of goodwill of each of the said cash-generating units has not been impaired, both according to the basic calculations and calculations performed for the purpose of sensitivity test.

F-49



Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 BORROWINGS**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars</b>	
	<b>in thousands</b>	
<b>Non-current borrowings</b>	262,151	299,576
<b>Current borrowings:</b>		
Current maturities of long-term loans	213,469	174,534
Bank borrowings	158,666	59,670
	372,135	234,204
<b>Total borrowings</b>	634,286	533,780

Bank borrowings as of December 31, 2017 mature until 2024 and bear average interest of 1.47% according to the loan terms and LIBOR rates as of December 31, 2017.

The exposure of the Group's cash flows to interest rate changes is dependent at the rate of LIBOR-Euro, LIBOR-Dollar, LIBOR-Swiss franc and LIBOR-Pound Sterling and it is updated on a quarterly basis.

Due to the above, the fair value of current and non-current borrowings is equal to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted by the borrowings' discount rate.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<b>Weighted average interest rates*</b>	<b>December 31</b>	
		<b>2017</b>	<b>2016</b>
		<b>U.S. dollars in thousands</b>	
Pound sterling	1.75%	99,784	56,481
Dollars	2.71%	170,008	121,087
Euro	1.04%	263,789	282,647
Swiss Franc	0.54%	96,088	71,357
Other currencies	6.50%	4,617	2,208
		634,286	533,780

\* Interest rates as of December 31, 2017.

Long-term liabilities (net of current maturities) mature in the following years after the balance sheet date:

	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in</b>	
	<b>thousands</b>	
Second year	114,709	171,420
Third year	94,232	54,946
Fourth year	23,168	64,498
Fifth year	30,042	8,712
	262,151	299,576

F-50

Table of Contents

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 9 BORROWINGS** (continued):

The Group has several loans, in respect of which it has undertaken to meet certain financial covenants (see note 14). As of December 31, 2017, the Group is in compliance with all required financial covenants.

**NOTE 10 RETIREMENT BENEFIT OBLIGATION:**

- a. Labor laws and agreements in Israel and abroad require the Company and part of its subsidiaries to pay severance pay and/or pensions to employees dismissed or retiring in certain other circumstances. Group companies' liability is covered mainly by regular contributions to defined contribution plans. The amounts funded as above are not reflected in the balance sheet since they are not under the control and management of the companies.
- b. Under the agreement with its employees, the U.S. subsidiary had a defined benefit plan. As part of the collective agreement signed between the Company's subsidiary and the labor union on October 13, 2000, the U.S. subsidiary suspended the said plan and joined, as from that date, a comprehensive pension plan of the labor union, which is a defined contribution plan.

The U.S. subsidiary will continue funding its existing liabilities under the suspended pension plan. The amount of retirement benefit obligation and amounts funded, as presented in the consolidated accounts, reflect, inter alia, the U.S. subsidiary's liability in respect of the suspended plan.

- c. The Swiss and German subsidiaries have a liability for payment of pension to employees in Switzerland and Germany under a defined benefit plan. The said liabilities have been transferred to these subsidiaries as part of the acquisition of subsidiaries in 2003 and 2007, respectively. The subsidiaries make contributions to pension plans in respect of these liabilities. The amount of the liability for pension (net) in the balance sheet reflects the difference between the liability for pension payments and the assets of the pension fund.
- d. The Company's severance pay liability in respect of Israeli employees who are covered for that purpose under Section 14 of the Severance Pay Law is covered by regular contributions to defined contribution plans. The amounts funded as above are not reflected in the consolidated statement of financial position.
- e. Amounts charged to the income statement in respect of defined benefit plan in 2017, 2016 and 2015 are \$2,351 thousand, \$2,493 thousand and \$2,468 thousand, respectively.

F-51

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 RETIREMENT BENEFIT OBLIGATION** (continued):**Changes in net liability (asset):**

	<b>Present value of obligation</b>	<b>Fair value of plan assets</b>	<b>Net liability (asset)</b>
	<b>US dollars in thousands</b>		
<b>Balance as of January 1, 2017</b>	63,739	(28,699)	35,040
Current service cost	2,351		2,351
Interest expenses (income)	733	(295)	438
Past service cost	(1,837)		(1,837)
	1,247	(295)	952
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)		(1,655)	(1,655)
Loss (gain) from change in demographic assumptions	8		8
Loss (gain) from change in financial assumptions	(787)		(787)
Loss (gain) from experience adjustments	(1,012)		(1,012)
	(1,791)	(1,655)	(3,446)
Financial statements translation gains and losses	4,374	(1,345)	3,029
Acquisition of subsidiaries			
Employer's contributions	745	(1,706)	(961)
Benefit payments	(3,136)	2,528	(608)
<b>Balance as of December 31, 2017</b>	65,178	(31,172)	34,006

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 RETIREMENT BENEFIT OBLIGATION** (continued):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	US dollars in thousands		
<b>Balance as of January 1, 2016</b>	61,499	(29,279)	32,220
Current service cost	2,493		2,493
Interest expenses (income)	788	(303)	485
Other	63		63
	3,344	(303)	3,041
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)		(358)	(358)
Loss (gain) from change in demographic assumptions	(980)		(980)
Loss (gain) from change in financial assumptions	1,179		1,179
Loss (gain) from experience adjustments	(1,200)		(1,200)
	(1,001)	(358)	(1,359)
Financial statements translation gains and losses	(1,757)	709	(1,048)
Acquisition of subsidiaries	3,855		3,855
Employer's contributions	835	(2,128)	(1,293)
Benefit payments	(3,036)	2,661	(375)
<b>Balance as of December 31, 2016</b>	63,739	(28,698)	35,041

The following amounts were recognized in the statement of financial position in relation to post-employment defined benefit plans:

December 31	
2017	2016

	<b>U.S. dollars in thousands</b>	
Present value of obligations arising from fully or partially funded plans	65,178	63,739
Fair value of plan assets	(31,172)	(28,698)
<b>Balance of liability recognized in the statement of financial position</b>	<b>34,006</b>	<b>35,041</b>

Amounts recognized in the statement of financial position for post-employment defined benefit plans are predominantly non-current and are reported as non-current liabilities.

F-53

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 10 RETIREMENT BENEFIT OBLIGATION** (continued):

The Group operates defined benefit schemes in several countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the defined benefit plans, were as follows:

	U.S.A.			Germany and Austria			Switzerland		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Discount rates	3.55%	3.55%	3.55%	1.75%	1.67%	2.3%	0.8%	0.7%	0.75%
Projected salary growth rate				1.5%	1.17%	1.17%	1.5%	1.5%	1.5%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions, assuming all other assumptions remained unchanged, and which were reasonably possible at the end of the reported period is:

	<b>Increase (decrease) in defined benefit obligation December 31, 2017 US dollars in thousands</b>
<b>Discount rate:</b>	
1% increase	(9,259)
1% decrease	12,042
<b>Salary growth rate:</b>	
1% increase	2,236
1% decrease	(1,813)

The assumptions concerning future mortality are based on public mortality tables.

**Plan assets**

The plan assets are composed as follows:

2017	2016
------	------



	<b>US dollars in thousands</b>	
Government bonds	2,425	2,419
Real estate held abroad	3,122	2,847
Qualifying insurance policies	963	960
Cash and cash equivalents	21,941	19,994
Other	2,721	2,478
 Total	 31,172	 28,698

**NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES****a. Commitments:**

## 1) Lease Commitments:

Some of the premises, warehouses, sites and vehicles in the U.K., Germany, Belgium and Israel in the possession of the Group are rented under various operating lease agreements. The lease agreements for the premises will expire on various dates between 2018 and 2022.

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES** (continued):

Minimum lease commitments of the Group under the above leases, at rates in effect on December 31, 2017, are as follows:

	<b>\$ in thousands</b>
Year ending December 31:	
2018	11,165
2019	8,885
2020	7,381
2021	6,816
2022	7,845
2023	4,436
	46,528

Rental expenses totaled \$11,251 thousand, \$10,148 thousand and \$8,657 thousand, in the years ended December 31, 2017, 2016 and 2015, respectively.

## 2) Royalty Commitments:

Frutarom Ltd. is committed to pay royalties to the Government of Israel on proceeds from sales of products that were developed with partially funded by Israeli government grants. Under the terms of those grants, the Company is required to pay royalties of 3%-5% on sales of products developed from a project so funded, up to 100% of the amount of the grant received by Frutarom Ltd., linked to the dollar (as from January 1, 1999 with the addition of annual interest at LIBOR).

The maximum royalty payable by Frutarom Ltd. at December 31, 2017 is \$2,044 thousand. The Company has not recorded liability for these royalties due to low likelihood of payment.

In 2017 and 2016, Frutarom Ltd. Has not received Chief Scientist grants.

**b. Contingent Liabilities:**

The subsidiaries of the Group are not a party to legal procedures in the ordinary course of business, which in the opinion of Group's management, may have material impact on the Group's financial position.

**NOTE 12 EQUITY:**

**a. Share Capital:**

1) Composed of ordinary shares of NIS 1 par value, as follows:

	<b>Number of shares in thousands and the amount thereof, denominated in NIS December 31</b>	
	<b>2017</b>	<b>2016</b>
Authorized	100,000	100,000
Issued and paid up	59,655	59,335

F-55

Table of Contents

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 EQUITY** (continued):

The Company listed shares are quoted on TASE at NIS 320.5 (\$92.44) per share as of December 31, 2017. The global depository receipts (GDRs) representing the Company's shares are listed on LSE.

- 2) Ordinary Company shares of NIS 1 par value, are held by the Company and included within the issued and paid up share capital, which constitute 0.2% (142,633 shares) and 0.4% (235,907 shares) of the balance of ordinary issued and paid up shares of this type as of December 31, 2017 and 2016, respectively.

The purchase cost of those shares was deducted from equity within cost of treasury shares balance. The shares are held as treasury shares.

**b. Employee Shares and Option Plans for Senior Employees of Subsidiaries:**

- 1) Commencing in 2003 and on a semi-annual basis, the Board of Directors resolves to allot options to senior managers and other senior employees based on the recommendations of the remuneration committee. In accordance with the Board of Directors' resolution, and taking into consideration the number of shares available to the Company for the purpose of allotment of options, the Company acquires Company shares in the Stock Exchange and grants the options against those shares.

Commencing in 2012, the options are granted in accordance with the 2012 option plan (plan 2012). The options are exercisable in three equal batches at every year-end in the 3 years from date of grant. The Board of Directors has the exclusive right to declare the exercise of the options at an earlier date, and with regards to senior office holders in accordance with compensation policy, in extraordinary cases and under comprehensive consideration.

The exercise price of the option granted in accordance with the said plans, as determined by the Board of Directors equals a third of the average purchase price paid by the Company for those shares. Options granted under this plan expire at the end of 6 years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee. The number of shares granted when exercising each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, including splits of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares. This is excluding a number of exceptions where the employment relationship between the Company and an employee is terminated; and in such cases, the employee is entitled to exercise all options exercisable at the date of termination of employment relationship within 90 days from the said date. The remaining unexercised options granted to the employee expire. Options that are not exercisable at the time of termination of the employment relationship expire immediately upon termination of the relationship as above.

Commencing in 2013, the grant of options in accordance with plan 2012 to the Company's president and CEO ( CEO ) is included in the equity component of the annual bonus; (for details regarding the compensation policy for the CEO, see Company's report dated June 27, 2013 (reference 2013-01-076263)). Commencing in 2014, and in accordance with plan 2012 to all senior office holders including the Company's president and CEO is included in the equity component of the annual bonus; (for details regarding the compensation policy that was approved, see the Company's report dated December 29, 2013 (reference 2013-01-111694)).

The fair value of the options granted in 2012-2017, is based on the following assumptions: expected dividend yield of 0.35%-0.44%, expected standard deviation of 16.94%-25.63%;

F-56

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 EQUITY** (continued):

risk-free interest rate of 0.67%-3.26% (based on the expected term of the option until exercise): two years in respect of the first batch, three years in respect of the second batch and four years in respect of the third batch.

The 2012 plan is managed in compliance with the provisions in Section 102 to the Israel Income Tax Ordinance. In accordance with the tax alternative chosen by the Company and pursuant to the terms thereof, the company is allowed to deduct the work income component credited to employees, and is not entitled to claim the amounts credited to employees as equity benefits.

- 2) The following is information on unexercised employee options granted under the 2012 plans as of December 31, 2017:

<b>Year of grant</b>	<b>Number of vested options</b>	<b>Number of unvested options</b>	<b>Exercise price (\$)</b>
2012	8,178		3.46-3.50
2013	21,030		4.79-5.80
2014	20,613		8.27-8.68
2015	17,957	12,679	13.90-14.18
2016	11,234	23,338	19.00-19.21
2017		27,347	19.87-26.44
	79,012	63,364	

As of December 31, 2017, the remaining amount of compensation, computed as the excess or the fair value of the said options granted to employees over the exercise price at the date of grant not yet recorded as expenses in the income statements is approximately \$815 thousand. The said remaining compensation will be accelerated and charged to income over the remaining vesting period.

As to options granted to the President of the Company Note 22.a.2.

The changes in the number of outstanding options and their related weighted average exercise prices are as follows:

<b>2017</b>		<b>2016</b>		<b>2015</b>	
<b>Average exercise price</b>	<b>Options</b>	<b>Average exercise price</b>	<b>Options</b>	<b>Average exercise price</b>	<b>Options</b>

	<b>in U.S. \$ per share</b>		<b>in U.S. \$ per share</b>		<b>in U.S. \$ per share</b>	
<b>Outstanding at January 1</b>	8.25	234,858	4.54	282,132	4.37	314,340
Granted	22.65	27,347	17.22	36,462	12.47	43,171
Forfeited	7.89	(3,402)	8.65	(7,437)	6.06	(16,805)
Exercised	5.42	(116,427)	3.51	(76,299)	3.55	(58,574)
<b>Balance at December 31</b>	14.23	142,376	8.25	234,858	4.54	282,132

F-57

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 EQUITY** (continued):

The following table summarizes information about exercise price and the contractual terms of options outstanding at December 31, 2017:

Exercise price \$	Share rights outstanding		Weighted average of exercise price \$	Share rights exercisable	
	Number outstanding at December 31, 2017	Weighted average of remaining contractual life Years		Number exercisable at December 31, 2017	Weighted average of remaining contractual life Years
3.15	2,211	0.25	3.15	2,211	0.25
3.12	5,967	0.75	3.12	5,967	0.75
4.32	11,207	1.25	4.32	11,207	1.25
5.23	9,823	1.75	5.23	9,823	1.75
7.46	6,729	2.25	7.46	6,729	2.25
7.83	13,884	2.75	7.83	13,884	2.75
12.53	11,786	3.25	12.53	5,574	3.25
12.79	18,850	3.75	12.79	12,383	3.75
17.13	17,273	4.25	17.13	5,569	4.25
17.32	17,299	4.75	17.32	5,665	4.75
19.87	15,794	5.25	19.87		5.25
26.44	11,553	5.75	26.44		5.75
	142,376			79,012	

- 3) On 15 July 2010, the Company's Board of Directors approved a plan to grant options to senior managers (the 2010 plan).

The options granted under this plan are exercisable in three equal batches at the end of each year commencing in the end of the second year from date of grant thereof. The Board of Directors has the exclusive authority to declare the exercise of the options at an earlier date. Options granted under these plans expire within six years from date of grant. All tax liabilities arising from grant of options and/or from exercise thereof apply to the employee.

The number of shares granted with exercising each option, as well as the exercise price are adjusted in accordance with the changes in the Company's share capital, including splits of shares, consolidation of shares, dividend distributed in shares and/or creation of new types of shares. This is excluding a number of exceptions where the



employment relationship between the Company and an employee is terminated; and in such cases the employee is entitled to exercise all options exercisable at the date of termination of employment relationship within 90 days from the said date. The remaining unexercised options granted to the employee expire. Options that are not exercisable at the time of termination of the employment relationship expire immediately upon termination of the relationship as above. As of this date, every two years, the Board decides on allocation of options to the management and senior employees, based on the recommendation of the compensation committee.

The exercise prices of the options under 2010 plan granted in 2012 are based on the average closing prices of the ten consecutive trading days prior to a Board's resolution on such allocation. According to the Company's compensation committee approved on January 14, 2014 by the general meeting of the Company's shareholders, the exercise prices of any future allocation of options under the 2010 plan shall not be less than the average closing rate of the Company shares in the 30 days preceding the Company's Board of Directors' resolution regarding grant of options, plus 5%. The exercise price of

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 12 EQUITY** (continued):

options granted in 2014 and 2016 is based on the compensation policy (applies to all offerees and not only to offerees who are subject to the compensation policy).

The fair value of the options at date of grant computed using the binomial model in respect to grants made in 2014 and 2016. This value is based on the following assumptions: adjusted standard deviation of 23%-30% per year, risk-free interest rate of 0.13%-1.96% and termination rate (prior to end of the vesting period) of 11.1%-13.5%. This rate is based on a sample of the changes in employment status and rank over several years prior to the grant.

As to the fair value of the options granted to President see note 22.a.2.

The 2010 plan is managed in compliance with the provisions in Section 102 to the Israel Income Tax Ordinance.

The Group creates deferred taxes for equity grants that are in the scope of IFRS 2 Share Based Payment in accordance with the proportionate part of the estimated amount deductible for tax purposes by the Group at date of exercise of benefit by the employee and in respect of which work services were provided by the employee through the date of the statement of financial position (i.e., the estimated overall amount deductible for tax purposes divided by the overall vesting period and multiplied by the vesting period that has elapsed through the date of the statement of financial position). The said deferred taxes are recognized in the income statement.

**c. Dividend and Retained Earnings**

- 1) The amounts of dividend paid presented in the statement of changes in shareholders' equity are net the share of Group companies holding Company shares (Note 2n). The dividend on shares held by Group companies share is \$20 thousand, \$28 thousand and \$29 thousand in 2017, 2016 and 2015, respectively.

In determining the amount of retained earnings available for distribution as a dividend, the Companies Law stipulates that the cost of the Company's shares acquired by Group companies (that are presented as a separate item on the statement of changes in shareholders' equity) has to be deducted from the amount of retained earnings presented within equity.

- 2) In its meeting on March 19, 2018, the Company's Board of Directors resolved to distribute a NIS 0.50 per share final cash dividend out of retained earnings as of December 31, 2017, totaling to \$8,604 thousand (NIS 29,840 thousand). Frutarom Ltd. does not intend to distribute dividend out of tax-exempt income arising from approved enterprise, as explained in Note 13c.

- 3) The dividend paid in 2017 and 2016 amounted to \$7,234 thousand (NIS 0.44 per share) and \$6,380 thousand (NIS 0.41 per share). The dividend in respect of the year ended December 31, 2017 at NIS 0.50 per share and totaling \$8,604 thousand was discussed in the Company's Board of Directors, as aforementioned above.

**NOTE 13 TAXES ON INCOME:**

**a. Corporate tax in Israel**

- 1) The Israeli companies of the Group are recognized as foreign-investor companies, and accordingly have elected to keep their books and records in dollars for tax purposes, as permitted under the Income Tax Regulations (Principles for the Bookkeeping of Foreign Invested Companies and of Certain Partnerships and the Determination of Their Taxable Income), 1986.

F-59

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):

2) Tax rates

The income of the Company and its Israeli subsidiaries (except for income of approved enterprises or benefited enterprises, see c. below) is liable to normal corporate tax rate.

The Law for Change of National Priorities (Legislative Amendments for the Achievement of Fiscal Objectives for 2013 and 2014), 2013, which was published in the official gazette on August 5, 2013, enacted, among other things, that the corporate tax rate will be 26.5% in 2014 and thereafter (as to the increase of tax rates on income of preferred enterprises under the Encouragement of Capital Investment Law, 1959, see c. below).

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a gradual reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

As a result of lowering tax rates as above (including the reduction of tax rates on the income of a preferred enterprise, as indicated in b. below), no material change have taken place in deferred tax assets/liabilities of the Group.

Capital gains of the Company are liable to the corporate tax rate beginning in the tax year.

**b. Subsidiaries outside Israel**

Subsidiaries that are incorporated outside of Israel are assessed for tax under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside Israel are as follows:

Companies incorporated in the USA tax rate of 36%-42% (Commencing 2018 21%-27%)

Companies incorporated in Germany tax rate of 30%

Company incorporated in Belgium tax rate of 34%

Company incorporated in Italy tax rate of 31.4%

Companies incorporated in the UK tax rate of 19% (April 2016 through March 2017 tax rate of 20%; commencing April 2017 tax rate of 19%)

Company incorporated in the Switzerland tax rate of 22%

Company incorporated in Slovenia tax rate of 19%

Companies incorporated in China tax rate of 25%

Companies incorporated in Brazil tax rate of 34%

Company incorporated in South Africa tax rate of 28%

Companies incorporated in Russia tax rate of 20%

Companies incorporated in Guatemala tax rate of 7% of revenues

Company incorporated in the Peru tax rate of 29.5%

Company incorporated in Canada tax rate of 26.5%

Companies incorporated in Spain tax rate of 25%

Companies incorporated in Austria tax rate of 25%

Companies incorporated in Mexico tax rate of 30%

Companies incorporated in India tax rate of 34%

F-60

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):

**c. Encouragement Laws in Israel**

**1) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (hereinafter the Law)**

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the approved enterprise or benefited enterprise status granted to certain enterprises of the Company, and by virtue of the Foreign Investor Company status it was granted, Frutarom Ltd. is entitled to various tax benefits.

**2) Amendment to the Israel Capital Investment Encouragement Law, 1959**

The Economic Policy Law for 2011 and 2012 (Legislation Amendments), 2011, which was approved by the Knesset (the Israeli Parliament) on December 29, 2010 includes an amendment to the Israel Capital Investments Encouragement Law, 1959 (hereinafter the amendment). The amendment became effective on January 1, 2011.

The amendment sets out new benefit programs to replace those previously provided by the Encouragement of Capital Investment Law, 1959 (hereinafter the Law) prior to the amendment, as follows: a grants program for entities in Development Area A, and two new tax benefit programs ( preferred enterprise and special preferred enterprise ), which mainly provide a uniform tax rate on the entire preferred income of an entity, as the term preferred income is defined in the Law.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing two new benefit tracks for the hi-tech industry: preferred technology enterprise and special preferred technology enterprise .

Frutarom Ltd elected to be governed by the amendment to the Law beginning in 2011, and to take advantage of tax benefits under the preferred enterprise track.

According to the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Objectives for 2013-2014), 2013, which was published in the Israeli government official gazette on August 5, 2013 (see a(2) above), the tax rate applicable to preferred income in 2014 and thereafter is as follows: the tax rate applicable to income of companies whose enterprises are located in Development Zone A will be 9% and the tax rate imposed on companies whose enterprises are located other than in Development Zone A will be 16%. As part of the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016, which was published in December 2016, the tax rate applicable to preferred income of companies whose enterprises are located in Development Zone A will be 7.5% in 2017 and thereafter.

Until the 2010 tax year, the Company took advantage of tax benefits under the Encouragement of Capital Investments prior to its amendment, under which, income of the Company attributable to preferred enterprises or benefited

enterprises it owns were subject to reduced tax rates/tax exemption during the benefits period set by the Law.

In the event of cash dividend distribution from the exempted income, the companies will be liable to pay tax on the grossed-up amount of distributed dividend, according to the tax rate that would have applied to the income in the year it was earned had no exemption been applicable.

F-61

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):**3) The Law for the Encouragement of Industry (Taxation), 1969:**

- a. Frutarom Ltd. is an industrial company as defined by this law. As such, Frutarom Ltd. is entitled to claim amortization over 8 years of acquired product formulas, as well as depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law, and have done so.
- b. The Company and Frutarom Ltd. file a consolidated tax return in accordance with the Law for the Encouragement of Industry. Accordingly, each company is entitled to set-off its tax losses (created commencing the year in which consolidated reporting for tax purposes began) against the taxable income of the other company, subject to certain restrictions.

**d. Deferred Income Taxes**

- 1) Composition of deferred taxes as of dates of statement of financial position and changes therein in those years are as follows:

	Depreciable fixed assets	Provisions for employee rights and Vacation Severance pay	recreation pay	Inventories	Other	In respect of Depreciable intangibles	Carry forward tax losses	Total
	U.S. dollars in thousands							
<b>Balance at January 1, 2016</b>	16,074	(5,905)	(190)	(1,947)	(1,355)	37,041	(6,231)	37,487
Changes in 2016:								
Additional taxes as a result of acquisition of subsidiaries	(278)	(72)		(167)	(61)	17,429		16,851
Changes in the excess of cost of acquisition								
Gains and losses from translation of foreign currency financial	(198)	202		(132)	(417)	(582)	(99)	(1,226)



statements of subsidiaries								
Recognized directly in equity		238			973			1,211
Amounts recognized in income statement	(1,839)	(581)	(6)	184	(1,030)	(786)	(3,595)	(7,653)
Balance at December 31, 2016	13,759	(6,118)	(196)	(2,062)	(1,890)	53,102	(9,925)	46,670
<b>Changes in 2017:</b>								
Additional taxes as a result of acquisition of subsidiaries					(12)	12,386	(320)	12,054
Changes in the excess of cost of acquisition						(1,538)		(1,538)
Gains and losses from translation of foreign currency financial statements of subsidiaries	603	(470)		64	155	4,114	209	4,675
Recognized directly in equity		730				512		1,242
Amounts recognized in income statement	(1,977)	1,248	(53)	466	(263)	(7,720)	(384)	(8,683)
<b>Balance at December 31, 2017</b>	<b>12,385</b>	<b>(4,610)</b>	<b>(249)</b>	<b>(1,532)</b>	<b>(1,498)</b>	<b>60,344</b>	<b>(10,420)</b>	<b>54,420</b>

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):

- 2) Deferred taxes are presented in the statements of financial position as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Among non-current assets	3,886	3,477
Among non-current liabilities	(58,306)	(50,147)
	(54,420)	(46,670)

- 3) The deferred taxes in respect of Group activities in Israel are computed based on a tax rate of 12.0%. This rate is an average, taking into account the tax rates applicable to income from Frutarom Ltd. s preferred enterprises (in accordance with the amendment to the law, see also note 13c.2).

Deferred taxes of foreign subsidiaries not in Israel are computed at the tax rates applicable to these companies (see b above).

**e. Taxes on Income Included in The Income Statements for the Presented Periods:**

- 1) As follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
<b>Current taxes:</b>			
For the reported year s income	42,521	34,815	24,836
Adjustments in respect of previous years	958	(1,816)	(2,466)
	43,479	32,999	22,370
<b>Deferred taxes:</b>			
Creation and reversal of deferred taxes	(8,682)	(7,653)	(398)
<b>Total</b>	<b>34,797</b>	<b>25,346</b>	<b>21,972</b>

Current taxes are computed in accordance with the statutory tax rates of Group entities around the world (see above) and in accordance with relevant tax benefits in each country.

F-63

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):

- 2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (Note 13c above) and the actual tax expense:

	2017	2016	2015
	U.S. dollars in thousands		
Income before taxes on income, as reported in the income statements	186,360	136,415	118,057
Theoretical tax expense in respect of this income at 24% (2016 25.0%; 2015 26.5%)	44,726	34,104	31,285
Less tax benefit arising from approved enterprise/benefited enterprise status	(1,459)	(1,249)	(1,698)
Increase in taxes resulting from different tax rates applicable to foreign subsidiaries	(1,946)	(2,645)	(3,667)
Decrease in taxes arising from computation of deferred taxes at a rate different than theoretical rate	(944)	(2,114)	(2,530)
Increase (decrease) in deferred taxes as a result of future changes in the tax rates	(4,272)		(208)
Increase (decrease) in taxes arising from permanent differences disallowable expenses (income)	(2,607)	27	1,110
Capital gains	152		
Decrease in taxes resulting from utilization, in the reported year, of carry forward tax losses and other expenses for which deferred taxes were not created (net of increase in taxes in respect of tax losses incurred in the reported year for which deferred taxes were not created)		(728)	(50)
Other	191	(233)	196
<b>Taxes on income for the reported year</b>	<b>33,841</b>	<b>27,162</b>	<b>24,438</b>

**f. Tax Assessments**

The Company and its Israeli subsidiaries have received final tax assessments through the 2009 tax year.

**g. Effect of adoption of IFRS in Israel on tax liability**

As mentioned in Note 2a, the Group prepares its financial statements in accordance with IFRS.

As also indicated in the said note, IFRS is different from Generally Accepted Accounting Principles in Israel (Israeli GAAP) and accordingly, preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from the ones presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

In accordance with the Law for the Amendment of the Income Tax Ordinance (No. 174 Temporary Provisions for Tax Years 2007, 2008 and 2009), 2010 that was passed in the Knesset on January 25, 2010 and published in the official gazette on February, 4, 2010 (hereafter the amendment to the ordinance), Accounting Standard No. 29 that was issued by the Israel Accounting Standard Board would not be used for determining the taxable income for tax purposes in respect of tax years 2007-2011; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 13 TAXES ON INCOME** (continued):

The meaning of the amendment to the ordinance is that IFRS would actually not be used in computation of the taxable income for the said tax years.

On October 31, 2011, the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter the law memorandum) resulting from application of IFRS in the financial statements. The law memorandum adopts IFRS in principle. Nevertheless, the law memorandum suggests making several amendments to the Income Tax Ordinance, which will serve to clarify and determine the manner of computation of taxable income for tax purposes in cases where the manner of computation is not clear and IFRS do not correspond with the tax principles applied in Israel. At the same time, the law memorandum generally adopts IFRS. The legislation procedures relating to the law memorandum have not yet been completed and it is doubtful whether they will be completed in the near future.

Since the legislative proceedings relating to the law memorandum have not yet been completed, the Company estimates that the term of the temporary provision for 2007 to 2013 will be extended to 2014-2017 as well. Therefore, the Group's management expects that, at this stage, the new legislation will not apply to tax years preceding 2018.

**h. US tax reform**

On December 22, 2017, the President of the United States signed into law a legislation that overhauls the US tax system (the reform). The reform introduced significant changes to US tax law, including several provisions that are expected to have impact on the tax liability of the Company in the US.

The following are provisions in the reform that are relevant to the Company:

- a) US federal corporate tax rate was cut from 35% to 21%, effective January 1, 2018.
- b) Deduction of net operating losses is limited to 80% of taxable income.
- c) Interest expenses According to the new legislation, in 2018 through 2021, interest expense deductions are capped at 30% of EBITDA. After 2021, companies will no longer be able to deduct interest expenses that are 30% of their EBIT. Any non-deductible amount can be carried forward based on the same mechanism and without time limit.
- d)

Bonus depreciation the reform includes a provision allowing companies to immediately write off expense of certain types of property acquired and placed in service between September 27, 2017 and January 1, 2028.

The impact on the financial statements of the Company as of December 31, 2017 and for the year then ended, as a result of the reform becoming effective, is as follows:

Deferred tax liabilities were reduced by \$4,249 thousand due to the tax rate reduction, which was recognized against deferred tax income in profit or loss.

**NOTE 14 LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:**

- a. To secure short-term borrowings and long-term loans received by a US subsidiary, this subsidiary recorded a negative pledge on its assets. Additional obligation for negative pledge on its assets carried out by a subsidiary in Israel.
  
- b. To secure long-term loans and other services received by subsidiaries in Israel and the UK, the subsidiary in Israel and the subsidiary in the UK recorded a negative pledge on their assets.

**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 14 LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES** (continued):

- c. To secure long-term loans from financial institutions received by subsidiaries in Switzerland and Spain, these subsidiaries recorded a negative pledge on their assets.
  
- d. To secure a long-term loan extended by local and international banks and financial institutions, the Group has undertaken upon itself to meet the following financial covenants:
  - 1) The amount representing the Group's equity would not be lower than \$375 million at any given time. As of December 31, 2017, the Group's equity was \$879 million.
  
  - 2) The amount representing the Group's equity would not be lower than 25% of total assets. As of December 31, 2017, the Company's equity was 45% of total net assets.
  
  - 3) The ratio between total financial liabilities of the Group and its pre-tax pro-forma operating profit from operating activities plus depreciation and amortization may not exceed 4.0 as of December 31, 2017. As of December 31, 2017, the above ratio is 1.85.
  
- e. The Company has undertaken upon itself to meet restrictions regarding dividend distribution. The Company would be allowed to distribute dividends as follows:
  - 1) Up to 50% of the retained earnings accumulated through December 31, 2011; based on the retained earnings balance recorded in the Company's balance sheet as of December 31, 2011.
  
  - 2) Up to 50% of the Company's net income for each calendar year based on the net income information recorded in the Company's income statement for the calendar year during which the said income was accumulated.

As mentioned above, as of December 31, 2017, the Group is in compliance with those covenants.

**NOTE 15 INVESTMENTS IN ASSOCIATES:**

**a. Composition:**



	December 31 2017				December 31 2016	
	Cost	Company's share of earnings (losses) of associates	Total	Translation gains and losses	Total	Total
<b>Associates</b>	76,879	265	77,144	397	77,541	27,976

b. The following is information about associates of the Company, as of December 31, 2017. Those associates are accounted for using the equity method. Their share capital is composed of ordinary shares only. The rate of voting rights of the Company in the associates is identical to its interest in their ordinary shares. The nature of investment in material associates in 2017:

Name of Company	Country of registration	Company's equity and voting rights
Wiberg Corporation	Canada	50%
Algalo	Israel	50%
Enzymotec	Israel	18.75%

F-66

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 15 INVESTMENTS IN ASSOCIATES** (continued):

- 1) Wiberg and Algalo are private companies and their share prices are not quoted.
- 2) During the year, the Company completed a \$42 million investment in 18.75% of the share capital of Enzymotec Ltd, a Company listed on NASDAQ.

On October 28, 2017, the Company engaged by way of reverse triangular merger with Enzymotec, and following that merger transaction, the Company acquired the remaining shares of Enzymotec. Merger closing was subject to conditions precedent and approval of the merger agreement by the meeting of shareholders of Enzymotec. The meeting of shareholders approved the merger agreement on December 11, 2017. Following that approval by the meeting of shareholders, and given the right of the Company to appoint directors, the Company obtained significant influence, and therefore, this investment, at \$52 million, was accounted for using the equity method. Accordingly, a capital fund amounted \$9.9 million, which was recognized before in other comprehensive income was released to profit and loss in Other expenses net. The conditions precedent for the deal were satisfied on January 11, 2018. Accordingly, after balance sheet date, the acquisition closed and Enzymotec became a wholly-owned subsidiary of the Company.

**NOTE 16 ACCOUNTS RECEIVABLE:**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
<b>a. Trade</b> composed as follows:		
Open accounts	246,303	197,497
Checks collectible	1,740	2,609
	248,043	200,106
The item includes provision for doubtful accounts	7,873	6,709

As of December 31, 2017, certain trade receivable balances at \$47,376 thousand (2016 \$31,977 thousand) are overdue for up to 120 days after date in which payment was due. A provision for impairment of accounts receivable of \$214 thousand (2016 \$79 thousand) was made in respect of those balances.

Those balances include the accounts of a large number of customers, in respect of which the Company has not encountered lately any collection problems. The carrying amount of accounts receivable is a reasonable approximation

of their fair value since the effect of discounting is immaterial.

F-67

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 16 ACCOUNTS RECEIVABLE** (continued):

The aging analysis of these trade receivables balances is as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Through 90 days	44,313	29,287
90 to 120 days	3,063	2,690
	47,376	31,977
Provision for impairment of accounts receivable	(214)	(79)
	47,162	31,898

As of December 31, 2017, the Company made a provision for impairment of accounts receivable in respect of overdue balances for more than 120 days totaling \$10,463 thousand (2016 \$8,256 thousand). The amount of the provision as of December 31, 2017 was \$7,636 thousand (2016 \$6,530 thousand).

The aging of the said balances is presented below:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
120 days to 1 year	3,742	3,491
Over 1 year	6,721	4,765
	10,463	8,256
Provision for impairment of receivables	(7,636)	(6,530)
	2,827	1,726

Amounts charged to the provision for impairment of accounts receivable or released therefrom were included among selling, marketing, research and development expenses in the income statement (see note 21b).

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
<b>b. Other:</b>		
Employees and institutions	1,690	491
Government institutions	18,880	19,927
Sundry	3,077	9,470
	<b>23,647</b>	<b>29,888</b>

F-68

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 17 INVENTORIES**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Raw materials and supplies	143,748	117,916
Products in process	22,518	16,827
Finished products	133,568	115,297
	299,834	250,040
Inventories for commercial operations purchased products	9,057	10,911
	308,891	260,951

**NOTE 18 OTHER**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Long-term deposits	3,393	2,474
Sundry	206	212
	3,599	2,686

**NOTE 19 CASH AND CASH EQUIVALENTS:**

Classified by currency, cash and cash equivalents are as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
US Dollars	20,950	20,290

Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 424B5

UK Pound	12,026	5,972
Euro	36,332	55,181
Swiss Franc	3,186	3,731
Yuan	5,069	3,726
NIS	858	97
Guatemalan Quetzal	1,832	741
Peruvian Sol	5,457	2,019
Brazilian Real	6,396	848
Ruble	7,321	13,046
Canadian Dollar	1,392	938
New Zealand Dollar	1,755	1,109
Polish Zloty	6,619	1,853
Mexican Peso	2,161	725
South African Rand	1,100	516
Other	5,760	2,736
	118,214	113,528

F-69

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 20 ACCOUNTS PAYABLE:**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
<b>a. Trade:</b>		
Open accounts	98,813	81,630
<b>b. Other:</b>		
Payroll and related expenses	30,097	27,422
Government institutions	41,750	28,582
Provision for commissions and discounts	6,591	4,143
Accrued expenses	19,118	12,242
Contingent consideration in respect of acquisition of subsidiaries	34,300	30,069
Sundry	8,704	7,149
	140,560	109,607

The carrying amount of accounts payable is a reasonable approximation of their fair value since the effect of discounting is immaterial.

**NOTE 21 INCOME STATEMENT ANALYSIS:**

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
<b>a. Cost of Sales:</b>			
Industrial operations:			
Materials consumed	614,677	496,729	362,402
Payroll and related expenses	98,583	87,541	66,125
Depreciation and amortization	17,970	15,838	13,182
Other production expenses	53,399	49,206	41,265
	784,629	649,314	482,974
Decrease (increase) in work in process and finished products inventories	(18,530)	1,345	(11,326)



	766,099	650,659	471,648
Commercial operations - cost of products sold	71,172	58,829	63,089
	837,271	709,488	534,737

F-70

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 21 INCOME STATEMENT ANALYSIS** (continued):

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>U.S. dollars in thousands</b>			
<b>b. Selling, Marketing, Research and Development</b>			
<b>Expenses net:</b>			
Payroll and related expenses	104,637	97,707	71,925
Transportation and shipping	27,243	23,785	18,849
Marketing commissions	24,081	16,957	11,788
Doubtful accounts	2,093	813	506
Depreciation and amortization	24,431	21,041	13,990
Travel and entertainment	17,300	17,014	11,105
Office rent and maintenance	6,660	6,254	5,787
Other	13,569	12,430	7,287
	220,014	196,001	141,237
The item includes expenses for product development and research activities, net*	50,977	44,372	37,200
* Net of participation from government agencies and others	180	204	219

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>U.S. dollars in thousands</b>			
<b>c. General and Administrative Expenses:</b>			
Payroll and related expenses	55,218	47,569	37,685
Depreciation and amortization	4,396	6,236	5,754
Professional fees	7,401	6,866	4,760
Rent and office maintenance	4,106	3,889	3,177
Computer and communications	6,191	4,935	3,864
Travel and entertainment	2,851	2,529	2,078
Other	11,992	9,613	6,424
	92,155	81,637	63,742

Table of Contents**FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 21 INCOME STATEMENT ANALYSIS** (continued):

	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
<b>d. Other Expenses (Income) net:</b>			
Capital loss on disposal of property, plant and equipment	966	(4,003)	(250)
Expenses relating to acquisition of subsidiaries	1,559	2,689	2,049
Net impact of Enzymotec acquisition*	(2,250)		
Expenses for site shutdown	1,926	13,680	754
Other	1,191	(594)	273
	<b>3,392</b>	<b>11,772</b>	<b>2,826</b>

\* Release of capital fund due to available-for-sale asset net of reorganization and acquisition costs. For the acquisition of Enzymotec, see note 15b.2.

<b>e. Financial Expenses net:</b>			
In respect of long-term loans and borrowings	8,707	6,686	3,208
In respect of cash and cash equivalents, short-term deposits and loans, short-term credit and other net	1,368	2,092	2,104
In respect of exchange differences on trade receivables and trade payables balances net	14,531	4,063	(3,043)
revaluation of put option			9,928
	<b>24,606</b>	<b>12,841</b>	<b>12,197</b>

**NOTE 22 RELATED PARTIES TRANSACTIONS AND BALANCES:****a. Transactions with Related Parties:**

Interested parties As this term is defined in Israel Securities Regulations (Annual Financial Statements), 2010.

A related party As this term is being defined in IAS 24 Related Party Disclosure (hereafter IAS 24R).

Key management personnel, who are included together with other officer holders, in the definition of related party as per IAS 24R) include the members of the board of directors and the president and CEO of the Company

The main shareholder of the company is ICC Industries Inc., which is holding 36.1% of company shares. The remaining shares are widely held. The controlling shareholder in ICC Industries Inc. is Dr. John Farber the Chairman of the Board of Directors, who also holds 0.08% of Company s shares.

1) Transactions with the controlling shareholder and its affiliates:

In the ordinary course of business, the Company and its affiliates conduct negligible transactions with the companies affiliated to the controlling shareholder. As part of these transactions, the Company s subsidiary sells to Fallek Chemical Japan, an affiliate of the controlling shareholder, products at arm s length for marketing to a specific customer in Japan. In addition, as part of these

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 22 RELATED PARTIES TRANSACTIONS AND BALANCES** (continued):

transactions, the Company purchases from Azur S.A., an affiliate of the controlling shareholder, raw materials at cost and production services at arm's length. Additionally, subsidiaries of the Company purchase raw materials at arm's length from companies affiliated to the controlling shareholder. These transactions were approved by the Company's Audit Committee and Board of Directors and they are considered to be negligible as this term is defined by the Securities Regulations (Annual Financial Reports), 2010 and in accordance with the Company's Guidelines on Negligible Transactions as approved by the Company's Audit Committee and Board of Directors on March 19, 2017 and March 22, 2017, respectively.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
<b>Income (expenses):</b>			
Sales affiliates (companies controlled by the controlling shareholder):			
Fallek Chemical Japan	228	137	119
Other		9	13
	228	146	132
Purchases:			
Affiliates (companies controlled by the controlling shareholder):			
ICC	(56)	(26)	(157)
Azur S.A	(2,467)	(2,459)	(2,012)
Dividend	(2,662)	(2,348)	(2,091)
Other expenses:			
Affiliates			
Azur S.A.			(1)
Benefits to related parties:			
Wages and salaries	(3,285)	(3,100)	(3,023)
Director fees (in the Company)	(240)	(244)	(207)

2) Shares granted to the President of the Company

On August 15, 2016, the Company's Board of Directors approved the grant of 60,845 options to the President of the Company. The value of the benefit is computed in accordance with the binomial model and was estimated at \$0.5 million at date of grant.

The total benefit component granted to the President (see note 12) in years 2017, 2016 and 2015, as computed at date of grant, is \$306 thousand, \$803 thousand and \$309 thousand, respectively.

Benefit costs that have been charged to the income statements, in respect of the said shares granted in the years 2017, 2016 and 2015 are \$586 thousand \$552 thousand and \$527 thousand, respectively.

3) Terms of the employment for the President of the Company

On January 14, 2014, the general meeting of the Company's shareholders approved the compensation policy for senior office holders in the Company, including the Company's

**Table of Contents****FRUTAROM INDUSTRIES LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 22 RELATED PARTIES TRANSACTIONS AND BALANCES (continued):**

president; On January 10, 2017, the general assembly approved the compensation policy after it was approved by the compensation committee and the Company's Board of Directors ( compensation policy ). For details regarding the compensation policy, see Company's report dated December 29, 2013 (reference 2013-01-111694) and for details regarding the updated compensation policy see Company's report dated November 29, 2016 (reference 2016-01-133543).

Under the compensation policy, the components of the President's compensation package include the following:

The terms of employment of Mr. Yehudai include a monthly salary (index-linked), statutory benefits in Israel (including senior employees insurance, education fund, disability insurance, recuperation pay, sick leave and vacation pay), a 13<sup>th</sup> month salary, other benefits (including mobile phone, landline at home and newspapers), and an executive car. Mr. Yehudai is also entitled to an annual bonus and is allocated options. The employment of Mr. Yehudai will end 6 months from the date on which the Company serves notice of its desire to end the engagement and 3 months from the date on which Mr. Yehudai notifies the Company of his desire to end the engagement. In the case the employment of Mr. Yehudai ends within 12 months of the date from which ICC Handels AG holds less than 26% of the Company's share capital or voting rights, Mr. Yehudai will be entitled to receive his salary from the Company (save for vacation pay, sick leave, bonuses and options) for a period of 12 months starting at the end of the notice period. In such case, Mr. Yehudai will also be entitled to immediately exercise all options previously granted to him even if their vesting period has not yet ended. Upon termination of his employment with the Company, Mr. Yehudai is entitled to receive double the amount of severance pay stipulated by law.

- 4) The articles of incorporation of the Company allow insurance coverage to officials in the Company as permitted by Israeli law. The Company applied a policy of indemnifying officers and other officials in subsidiaries. The Company decided to buy insurance to cover officers in relation to their duties, subject to the law and other restrictions.

**b. Balances with Related Parties:**

	<b>December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
1) Current receivables presented among other receivables-other and trade receivables - Affiliated companies:			
Fallek	110	105	
ICC	7	7	

	117	112	
Highest balance during the year	292	116	122
2) Current payables shareholder and related parties:			
Azur S.A.	50	55	347

F-74



**Table of Contents**

**FRUTAROM INDUSTRIES LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**NOTE 23 SUBSEQUENT EVENTS**

**a. Distribution of dividend**

On Mars 19, 2018, the Company's Board of Directors announced the distribution of NIS 0.50 per share dividend, totaling to \$8,604 thousand (at the exchange rate of approval date).

**b. Acquisition of Enzymotec**

Following a total investment of 18.75% in the share capital of Enzymotec Ltd. ( Enzymotec ), an Israeli public Company traded, in the NASDAQ (under the ticker symbol ENZY), at a total sum of approximately \$42 million, Frutarom signed an agreement on October 28, 2017, through its fully-owned subsidiary Frutarom Ltd. (the Acquiring Company ), by way of a reverse triangular merger with Enzymotec Ltd. and with a subsidiary of the Acquiring Company (the Merger Sub ). Under that merger transaction, the Acquiring Company acquired the outstanding shares of Enzymotec that were not already in its possession (approx. 81%) for a cash payment of \$11.9 per share by way of a full merger of the Merger Sub into Enzymotec, such that Enzymotec will become an indirectly wholly-owned subsidiary of Frutarom and its shares will be delisted from NASDAQ. The transaction was closed on January 11, 2018. On January 17, 2018, Frutarom sold Enzymotec Krill business, which is not a core activity, to the Norwegian Company Aker BioMarine Antarctic AS for approx. \$26.4 million. The overall net consideration (offsetting the cash and cash equivalents, deposits and tradeable securities in Enzymotec's treasury and net of the krill transaction consideration) that was paid by Frutarom for 100% of Enzymotec's shares, stands at approx. \$184 million (including cost of vested options, RSUs and estimated transaction expenses). The transaction was financed through bank debt.

**c. Acquisition of Mighty**

On October 18,