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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances third-quarter 2015 earnings conference call.

(Operator Instructions)

I would now like to introduce Michael DeVeau, Vice President Global Corporate Communications and Investor Relations. You may begin.

Michael DeVeau - *International Flavors & Fragrances Incorporated - VP of Global Corporate Communications & IR*

Thank you. Good morning, good afternoon, and good evening, everyone. Welcome to IFF's third-quarter 2015 conference call. Yesterday, we distributed a press release announcing our financial results. A copy of the release can be found at our IR website at IFF.com. Please note that this call is being recorded and will be available for replay. Please take a moment to review our forward-looking statements.

During the call, we will be making forward-looking statements about the Company's performance, particularly with regard to our outlook for the fourth quarter and full year of 2015. These statements are based on how we see things today and contain elements of uncertainty. For additional information concerning factors that can cause actual results to differ materially from forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K filed on March 2, 2015, and our press release that we filed yesterday.

Today's presentation will include non-GAAP financial measures which excludes those items that we believe affect comparability. A reconciliation of these non-GAAP financial measures to their respective GAAP measures is set forth in our press release. With me on the call today is our Chairman and CEO, Andreas Fibig; our Executive Vice President and CFO, Alison Cornell; our Group President of Flavors, Matthias Haeni; and our Group

President of Fragrances, Nicolas Mirzayantz. We will start with prepared remarks from Andreas and Alison, and then the entire team will be available for any questions that you may have.

Before turning the call over to Andreas, I would like to let you know that we continue to explore options to improve our liquidity on Euronics Paris. We remain optimistic that we can enhance our liquidity on Euronics to allow more European investors access to our shares. We will continue to keep you updated on our progress as we move forward.

With that, I would like to now introduce our Chairman and CEO, Andreas Fibig.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Thank you, Mike. I would like to start by providing an executive overview of our operational performance this quarter. In addition, similar how we structured the quarter two conference call, I want to provide an update on the execution of our four pillar Vision 2020 strategy. Once finished, I will ask Alison to review our financial results in greater detail, including the specifics on each business unit as well as our cash flow statement and our outlook for the balance of the year.

I'm pleased to report that our financial results for the third quarter accelerated versus our second quarter performance, both in terms of currency neutral sales and currency neutral adjusted operating profit growth as we continue to benefit from diversity of our business as well as our recent acquisitions. Currency neutral sales in the third quarter improved 7%, including approximately 3% point relating to the acquisition of Ottens Flavors and Lucas Meyer Cosmetics. Organic top-line performance, which increased 4% this quarter, continued to be driven by new wins, particularly in fragrance compounds with the contribution of new wins were at the highest level in nearly two years. This was favorable to profitability as adjusted operating profit and adjusted EPS both grew 10% on a currency neutral basis.

On a year-to-date basis, results remain strong. Currency neutral sales growing 6% comprised of 8% growth in Flavors and 5% growth in Fragrances. For the first nine months in 2015, consolidated adjusted operating profit increased 9% on currency neutral basis, driven by sales growth, the benefit of productivity programs, and manufacturing and RSA cost leverage. Complementing our expansion in gross margin and adjusted operating profit margin, lower interest expense, a more favorable effective tax rate and reduction of our shares outstanding led to an 11% increase in our currency neutral adjusted EPS.

From a strategic perspective, I would like to talk about a couple of areas. In the areas where we are targeting a market leadership position defined by number one or two market share position, we believe are taking the right steps to deliver on our ambition of accelerated growth. North America, the Flavors team has done a nice job integrating our recent acquisition of Ottens Flavors. Leveraging their defined go-to-market strategy which focuses on winning key regional accounts in the US. Our Flavors North America business was up 19%.

Flavors Latin America, our proprietary delivery system continues to perform well as evident with its eighth consecutive quarter of double-digit growth. In the third quarter, growth was very strong, up 20%, on a currency neutral basis. Within Fragrance, North America Fragrance compounds grew 7% with 8% growth in Consumer Fragrances and a 4% growth in Fine Fragrance. The Quarter three sub category performance that we're most notable in North America were Hair Care and Home Care, both of which grew double digits, plus Fabric Care which grew high single digits. The third quarter, China Fragrances, another area where we have ambitions to accelerate growth, grew 6% on a currency neutral basis as we continue to have success with many of the strong regional consumer Fragrance brands.

From a category perspective, Home Care, another area of focus for us, improved high single digits globally on a currency neutral basis led by double-digit growth in North America and Latin America. Delivery Systems across both Flavors and Fragrance continues to drive growth. Strong trends in Fabric Care and Beverage continued in the third quarter driven by our industry-leading encapsulation technology in Fragrances and proprietary delivery systems in Flavors. Fabric Care grew double digits on a currency-neutral basis in the third quarter with all geographic markets posting strong growth. This is a direct result of our differentiated encapsulation technology.

Given our success in Fabric Care, we have begun to expand into other categories as well. In the third quarter, while it's still early in terms of strategic execution, we have seen strong results in encapsulation related sales in toiletries and home care, both which grew double digits. Supporting the expansion of this technology into more categories, our R&D team developed a next generation capsule technology that allows us to further penetrate personal care applications. This technology should allow us to efficiently customize solutions to deliver Fragrance at the points desired by consumers.

In Fragrances, building on our legacy of pioneering first, one of our Vision 2020 goals is to launch more new captive molecules to give our perfumers a competitive edge when creating the next generation Fragrance. Tracking this initiative, we have recently launched two new highly anticipated ingredients to our perfumers, [kosmo] fruit which is a high impact complex fruity note with spicy undertones, and crystal fizz, which is a watery, fresh (inaudible) note to be used internally by our perfumers as exclusive IFF molecules which we are not selling externally. As we look to the fourth quarter, we expect to commercialized two additional molecules which will bring our commercialized molecules to four this year. If successful, this would effectively put us on track to double our annual Fragrance molecule output average over the past decade, providing us with greater confidence on our accelerated growth ambition.

As I mentioned moments ago in Flavors, our proprietary delivery system continues to perform well. This technology is expanding beyond just Latin America as proprietary delivery system related sales is growing strong double digits globally. Sales of our Sweetness and Savory modulation portfolio continue to produce strong results, increasing strong double digits. The categories where we had the most success were savory, dairy, and beverage, as our innovative solutions are allowing our customers to meet the demands of the consumers who are looking for better-for-you products, including reduced sugar and salt.

To complement this, I'm pleased to announce that we have also commercialized a new natural taste modulator, the second one this year, which is a sour masker designed to reduce the sour perception without changing the product's acidity, particularly useful for yogurts and juice applications. This addition will strengthen our modulation capability as it provides our Flavors a more competitive [delight] to build winning solutions. Building on our robust technology pipeline is critical. The third quarter is an example that we are making strong progress against key initiatives that will lead to greater differentiation and ultimately accelerated growth.

In addition to the strides we have made from market share and innovation perspective, we also made progress in our never-ending quest to become our customer's partner of choice. To meet the growing trends in Naturals, in October 2015, IFF-LMR Naturals received its fourth For Life social responsibility designation, this time in cooperation with our Vetiver partner in Haiti. The For Life designation recognizes an organization's adherence to specific sustainability criteria, including transparency, environmental responsibility, fair working conditions, and positive relations with producers and local communities. This recognition comes after certification of IFF-LMR Naturals for the [rose] supply chain in Turkey and it's patchouli basil supply chain in Madagascar.

When it comes to sustainability, we won't accept the status quo. Recently, we became the first Flavors and Fragrance Company to join [TFS] and enter in the growing consortium of multinational companies committed to ensuring sustainable practices throughout the supply chain. We also were recognized by the CDP, earning a perfect score of 100 in disclosure and an A in performance for its strategies and actions to mitigate climate change. Sustainability is foundational to our Vision 2020 business strategy and we are committed to embedding sustainability throughout our business practices and our corporate culture for the years to come. We also won the North American Innovation Award with one of our largest Flavors customers, which recognizes partners for their solid leadership.

In addition, Estee Lauder also presented us with their Suppliers Excellence Award, an achievement designed to acknowledge their top-performing business partners. I'm pleased to also announce that at the 2015 in cosmetics Asia, Lucas Meyer Cosmetics won the Gold Award for the innovation of his own best active ingredients [XOP], a [peditive] ingredient designed to rapidly improve dull skin for healthy-looking complexion in only seven days and also won the Gold Award of Innovation, [lone] best functional ingredient with (inaudible), an ingredient scientifically measured using various techniques developed by specialists in psychology and neuroscience which provides positive emotion upon application.

With a focus on the future and in terms of business participation in the years to come, we also reaffirmed and expanded our [core lists] status with key Flavors customers, two based in North America and one globally, and also a larger Fragrance customer in the third quarter. As you know, core lists are paramount to winning future business within our industry. Being added to a new core list shows that we are able to bring the right R&D capabilities, consumer insights, regulatory requirements, and customer's trust needed to create winning products in the marketplace.

Through the second and third quarter, we completed two acquisitions which focus on strengthening and expanding our portfolio. I'm pleased to report that both acquisitions are performing very well. Ottens Flavors organic sales on standalone basis increased low double-digits, above our North America base business which improved sequentially. Lucas Meyer Cosmetics achieved strong double-digit currency neutral sales force on a standalone base. We believe these results are a good indication that we are putting our capital to work to drive accelerated performance in terms of growth and return.

Following the end of the third quarter, we also announced the partnership with Vapor Communications to pioneer the digital future of scent, combining certain wafer software and hardware [scent] platform with IFF scent technology and expertise. The collaboration is anticipated to bring mobile scent experiences to consumers, and while this is an initial step, we believe the technologies developed by Vapor Communications will play an important role in our larger digital scent journey and Vision 2020.

Now I would like to turn the call over Alison who will take you through the financials in greater detail.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

Thank you, Andreas. Looking at our third quarter results, similar to what I did on our Q2 conference call, I want to continue to lay out a bridge from our adjusted financial results to our adjusted currency neutral results. In the first column, which is inclusive of currency, sales contracted by 1% while adjusted operating profit increased 7% and adjusted EPS grew 5%. Consistent with what we communicated previously, in the third quarter we benefited from euro transactional hedging program which ultimately protected our euro-denominated profits. Including this benefit, our growth rate in terms of adjusted operating profit and adjusted EPS accelerated to 7% and 5% versus the 1% and 4% we reported in the first half respectively. Yet, even with the benefits of hedging, foreign exchange still proves to be a headwind in the third quarter as the US dollar remains strong against many global currencies.

From a sales adjusted operating profit and adjusted EPS perspective, currency represented an 8, 3, and 5 percentage point impact respectively. On a currency neutral basis, we continue to deliver strong results, achieving leverage within our P&L with sales improving 7% and adjusted operating profit growing 10%. The increase in adjusted operating profit was driven by gross margin expansion and cost leverage which led to an approximately 50 basis point improvement in currency neutral adjusted operating profit margin. Currency neutral adjusted EPS also improved by 10% as the year-over-year decrease in our average shares outstanding resulting from our share repurchase program offset a slightly higher effective tax rate and an increase in interest expense relating to both of our acquisitions. The acquisitions we made earlier this year are adding to our performance, evidence that we are investing in strategic value add opportunities that deliver high returns.

In the third quarter, the acquisitions of Ottens and Lucas Meyer added approximately 3 points to currency neutral sales growth, about 2 points to currency neutral adjusted operating profit, and 3 points to currency neutral adjusted EPS growth. It should be noted that the amortization of intangibles relating to the Ottens and Lucas Meyer acquisitions represented about $3.5 million in the quarter. If we add this back to understand the cash component of the business, adjusted operating profit and adjusted EPS growth would have improved another 2 percentage points to 12% respectively on a currency neutral basis.

I would like to provide you with some insight into the trends we saw throughout the quarter. In September, while at a sell side investor conference, I made some cautionary comments relating to our organic business. Following the Chinese currency devaluation, we saw several customers take a more cautious approach to managing their inventory which ultimately meant sequential softness as we progressed through the quarter. This perpetuated, particularly in emerging markets which while still positive, up 3% in Q3, was slower than our first half performance of 8% despite relatively strong performance in Latin America.

While we remain fully committed to the long-term growth of these key markets, in the short-term we are working to manage the uncertainty and focusing on the levers we can pull to deliver results and strengthen our business. Fortunately, we experienced strong orders the last week of the quarter, leading to the 4% organic growth rate we reported in Q3, ahead of where we thought we would finish the quarter.

Turning to business unit performance. Flavors posted its 43rd consecutive quarter of growth, increasing 8%, including approximately 4.5 percentage points relating to the acquisition of Ottens Flavors. All categories experienced broad-based growth with the strongest results in beverage and dairy. In our Europe, Africa, and Middle East regions, sales increased 4% led by high single-digit growth in beverage. Western Europe reported the highest growth, improving 9% driven by strong [headwind] performance. North America grew 19%, reflecting additional sales related to the acquisition of Ottens Flavors and high double-digit growth in dairy. If we exclude the benefit of Ottens, organic performance improved sequentially versus Q2, up low single digits. Latin America increased 20% as all categories reported positive growth.

The strong double-digit trend in beverage continues for the eighth consecutive quarter, led by our proprietary delivery system. Savory and dairy also grew double digits as a result of strong new win performance which leverages the proprietary delivery system as well as our modulation portfolio. Greater Asia remained constant as growth in Indonesia, India, Singapore, and Japan was offset by softness in China, which was primarily driven by a challenging economic environment.

Flavors currency-neutral segment of profit improved approximately 9% as gross margin expansion and cost and productivity benefit more than offset the inclusion of amortization of intangibles related to the acquisition of Ottens Flavors. This led to a 10 basis point improvement in operating profit margin despite incremental cost in Q3 relating to the China order issue. If we exclude this impact, our operating margin would have expanded by 80 basis points in the third quarter, or growth would have been 12%. It should be noted, however, that we expect a portion of this expense to continue as we work through this issue. Specifically, in Q4, we would expect a similar impact in terms of expense as we experienced in Q3.

Fragrances currency neutral sales improved 6%, including approximately 2 percentage points associated with the acquisition of Lucas Meyer Cosmetics, with all regions posting growth led by high single-digit growth in Latin America and mid single digit improvement in greater Asia. From a category perspective, Fine Fragrance was up 1% led by Europe, Africa, and the Middle East which improved 5% as a result of very strong pipeline of new wins, including Olympea (inaudible) from Paco Rabanne, (inaudible) Scent by Procter & Gamble, (inaudible) by Lancome from Loreal, and Jimmy Choo (inaudible) by Interparfumes.

In Latin America, economic conditions, particularly in Brazil, continue to have an impact on discretionary spending and ultimately our Fine Fragrance performance. Yet, while sales were down they improved versus the second quarter. And even as the economy is soft, we continue to see our win rate remain high, which we believe will support our market leadership position as the economy stabilizes.

I also want to put our Fine Fragrance results in greater Asia into perspective relative to our global Fragrance business. Proportionately, greater Asia Fine Fragrances represented approximately 2% of our global Fine Fragrance sales, which means quarterly order patterns can have a substantial impact on growth rates as it did in Q1 with Fine Fragrance in greater Asia was up almost 40%. And as the market is relatively small in terms of per capita usage now, we believe it will increase over time as we stated in our Vision 2020 strategy. For the 16th consecutive quarter, Consumer Fragrances continued to grow, up 7% with mid to high single digits in every region in broad-based category growth led by double-digit growth in Fabric Care and high single digit growth in Hair Care.

In Fabric, thanks in large part to our local knowledge of the consumer and our encapsulated technology, growth was the strongest in greater Asia where we are winning with local customers. And in Hair Care, growth was the best in Latin America as we have the ability to offer exceptional Fragrances in nontraditional categories that meet the consumers' desire for lower cost alternatives.

Fragrance ingredient sales were up 6%, driven by the acquisition of Lucas Meyer Cosmetics which closed on July 30. Sales related to cosmetic (inaudible) grew high double digits they Brazil, Japan, Indonesia, and the US, all a result of you new wins. Our base Fragrance ingredients business, which as a reminder are the external sales that we do not use for our internal compounds production, remained soft, reflecting more challenging market conditions including our largest Fragrance ingredients customer rationalizing their portfolio as well as our prioritization of capacity to further strengthen our internal Fragrance compounds business as evidenced by high single-digit internal demand growth.

On a profit perspective, Fragrance currency neutral segment profit improved approximately 15% driven by volume growth and benefits from cost and productivity initiatives. This performance, plus lower incentive compensation expense, led to over 150 basis point improvement in operating profit margin. From a cash flow perspective, our core working capital levels continue to show improvement as a percentage of sales versus the same period in 2014 as our five quarter rolling average figure through the end of the third quarter is down 80 basis points to approximately 28.8% of our trailing 12-month sales.

All of our gains versus the first nine months of 2014 came from lower payables as our days payable outstanding increased 9% versus the same period a year ago. Operating cash flow from operations at the end of the third quarter was $295 million, including an incremental $27 million pension contribution so far this year. Excluding the incremental pension contribution, operating cash flow would have increased $322 million or 40 basis points in terms of adjusted operating cash flow as a percentage of sales, from 13.6% during the first nine months of 2014 to 14% for the equivalent period in 2015.

Looking at our uses of cash. Capital expenditure on a year-to-date basis is $67 million or 2.9% of sales as we continue to make investments to support our growth initiatives, principally as we finish our plants in Turkey and Indonesia. And while we are a little low on a capital spend year-to-date relative to our full year guidance, we expect to finish approximately 4.5%, as spending traditionally flows through during the fourth quarter each year.

For cash returned to shareholders we expect to continue to deliver a total payout ratio in line with our 50% to 60% target, all while maintaining financial flexibility to capitalize upon growth opportunities and value creating M&A. Dividend payments year-to-date have been $114 million, following our 20% increase this past August. Share repurchases at the end of the quarter were $81 million, allowing us to buy back approximately 726,000 shares at an average price of $111.88 per share. Please note that as of Friday we have repurchased approximately $21 million of shares since the end of the quarter, bringing our year-to-date total to $102 million.

From a guidance perspective, we are reconfirming our full-year 2015 guidance despite the challenging year-ago fourth quarter comparison which includes approximately 200 basis points of growth related to the 53rd week as well as continued market uncertainty which is leading to volatility in order patterns from many of our multinational customers. Despite continued growth in Latin America and Europe, Africa, and the Middle East driven by new wins, our core Flavors business is expected to be soft in the fourth quarter. In North America, we expect pressure due to a higher level of volume erosion as businesses we won in previous years are not performing at the same levels as they have historically. We were also seeing general volume weakness in North America with several of our food and beverage customers reporting volume challenges. In greater Asia, we expect similar trends through the third quarter as we believe the economic uncertainty in China will continue to impact our business.

In core Fragrances we expect continued pressure on Fragrance ingredients primarily related to the largest customer continuing its rationalization of their portfolio. In Fragrance compounds we expect that our strong year-ago comparison, the weakness in the Brazilian economy, and our strong year-to-date performance particularly in Consumer Fragrances, will lead to growth moderating in Q4. Fortunately, we expect to benefit from our recent acquisitions which we believe should lead to moderate currency neutral sales growth in the fourth quarter.

In terms of profitability, on a full-year basis we continue to believe we can achieve approximately 9% growth on a currency neutral basis. The drivers for profitability performance include top-line growth, benefits of productivity initiatives, lower incentive compensation expense, and the inclusion of acquisitions. Bridging our performance to include the impact of currency, the strengthening US dollar versus many global currencies will have an impact. The weakening euro versus the US dollar, which represents our large currency exposure at about 40% of operating profit, is expected to have the greatest impact. In addition, several other currencies, while small in terms of profitability exposure, have all weakened considerably versus the US dollar and are collectively pressuring profitability.

Mitigating this exposure, we expect approximately a 3 percentage point gain from our transactional euro hedging program. Incorporating the foreign exchange impact on our full-year guidance, we would expect reported sales to be down approximately 1%, including approximately a 7 percentage point impact from currency as we do not hedge our translational exposure. From an adjusted operating profit perspective, we expect about a 4% increase despite an approximately 5 percentage point headwind of currency. With that, I would like to turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Thank you, Alison. I briefly want to reiterate that despite ongoing volatility in several key markets around the world, we were able to deliver strong financial results in the third quarter, thanks in large part to the diversity of our business, as well as the benefits associated with our recent acquisitions. Also, based on our strong year-to-date results and our outlook for the fourth quarter, we continue to believe we can deliver 6% currency neutral sales growth and approximately 9% adjusted operating profit growth both on a currency neutral basis. Going forward, continuing our execution of Vision 2020 is a top priority for us. Vision 2020 is focused on increasing differentiation, accelerating profitable growth, and creating shareholder value, all three of which we believe are achievable in the years to come.

With that, I would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Mark Astrachan with Stifel Nicolaus.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks. Good morning everybody. Wanted to get some clarity on the fourth quarter expectations from a revenue standpoint. So if you back out the benefit of acquisitions, are you talking about flattish organic like for like, however you want to think about it, sales growth? And then sort of more broadly elaborating on sales growth, I know it's early but how do you think about be 2016 just broadly given continued pressure from customer volumes as well as the tough first quarter comparisons?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

From a Q4 perspective, we expect to be flat to slightly positive. We have our first month of orders in which are positive, and although one month doesn't make the quarter, it reflects positive results there. If we look into 2016, specifically Q1, while we're still in our budget process, remember in Q1 of 2016 we're facing our toughest comps year-over-year in terms of growth comparison, specifically in Flavors where we grew 9% in Q1 of 2015. So at this point in time as we enter the year we're facing our toughest comp, and so we expect Q1 to be challenging, but as we traditionally do expect to share more in our February call regarding our 2016 full-year guidance.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Okay. Just elaborating on that though, again preliminary as it is, do you expect long-term targets to be attainable given what's going on from a customer standpoint?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

At this point, as I mentioned, we're still in our budget process and we really don't want to comment further on 2016.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Okay. Fair enough. Quickly on gross margin. So ex the edge gain this year, will gross margin -- would it still be positive in 2015 and then how do you think about expansion on a longer term basis if you normalize for that and say on a longer term basis how should we think about gross margin?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

So Mark, let me talk first about -- so in Q3 our adjusted gross profit margin expanded 170 basis points and this was driven by our currency hedging benefits, as we hedge our raw material purchases to protect our transactional exposure as well as our cost and productivity savings, volume growth, and mix improvement. In Q3 there was rough lay $9.5 million benefit from our hedge which was included in our gross profit. This accounted for the majority of the expansion, but there was also benefit, as I mentioned, from cost and productivity savings, volume growth and mix improvement.

As we move into Q4, we expect our currency hedging benefit to be a little less than half of the expansion in Q4 with the other half coming from cost and productivity savings initiatives, modest volume growth, and M&A. We believe that there is sustainability of gross margin expansion, excluding FX hedge as we enter into Q4. As we look into 2016, from a raw materials perspective, based on what we've seen so far it's similar to 2015 where we've seen naturals are up, synthetics are slightly down and, if anything, we're probably flat to slightly up.

Operator

Your next question comes from Laura Lieberman with Barclays Capital.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks, good morning.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Good morning.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

Good morning. Just following on that question. In the Q there was a mention of some derivative gains that are going to be reclassified as income next year. So does that also flow through gross margin, so maybe kind of takes the place of these raw material hedging gains? So, Lauren, let me talk a bit about that. We indicated at our Investor Day that we intended to finance our M&A activity through balance sheet leverage. And so between Ottens and Lucas Meyer positions we executed about $500 million in acquisitions. Initially these are paid for using our existing credit facility and on-hand cash, and now we're looking at longer term financing opportunities to better align our maturities with the nature of those acquisitions.

So in September we entered into interswaps in anticipation of a long-term debt financing and the deferred charges in that table and our 10-Q are being accounted for right now as a hedging instrument as they're related to these swaps. We still are in the process of evaluating our options for financing and at this point he with haven't finalized the timing or nature of the financing and we expect to have more clarity on that in Q1 of next year.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. That's great. But is that also -- does that conversation cover, I think there was like $8.7 million that was in comprehensive income that was called out as being reclassified over the next 12 months. Are those the swaps?

Michael DeVeau - *International Flavors & Fragrances Incorporated - VP of Global Corporate Communications & IR*

Lauren, it's Mike. Maybe just as I go through the Q, maybe we can touch base offline on that. I'm not sure.

Lauren Lieberman - *Barclays Capital - Analyst*

Absolutely. Okay. And then just on Asia Flavors, so I was surprised that flat just felt very strong to me given the commentary at our conference in September and I know we talked about strong orders the last week of the quarter. Was that comment specific to Asia Flavors and what have you seen from those customers in the first month? You said overall orders were up, but I just wondered about the volatility or choppiness of orders from that particular customer base you've been concerned about.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

So, Lauren, we did experience softness in China, so if you looked at China by itself as a subset of greater Asia in Flavors, it was negative growth. Why it looks flat is because there was offsetting growth in Indonesia, India, Singapore, and Japan. That's really why it looks flat. I'll ask Matthias to comment on what we've seen so far in October in terms of the customer makeup.

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

Lauren, good morning. We have seen very similar pattern also in the first month of the quarter. I think we made good in-roads with new business in all the markets Alison just referred to, yet we see also continued challenges in China. We expect that these challenges will continue throughout the quarter, and we are working very diligently with the team and our customers to strengthen our business in China and we feel good and confident that we will see a reverse situation in the quarters to come.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. Great. And then just finally on Fine Fragrance, you called out some of the strength, some of the pipeline on great new wins in Europe. So does the outlook sort of assume that all the sell-in is kind of done that would cover holiday sell-through of those wins?

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Nicolas.

Nicolas Mirzayantz - *International Flavors & Fragrances Incorporated - Group President of Fragrances*

Hi, Lauren. It's Nicholas. You're right, very strong pipeline of new wins and as you pointed out it's really to cover the period of Christmas. So according to the way the sales progress at the retail level, we will see what will be the (inaudible) from our customers.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from Mike Sison of KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Good morning. Nice quarter.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Good morning.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

Thank you.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Just trying to getting a feel for the tempo of demand. You sort of noted fourth-quarter currency adjusted sales growth will be slower. So what are your customers telling you? Are things actually slowing or stable? Just trying to get an understanding in both Flavors and Fragrances where the tempo of demand is headed.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Mike, this is Andreas. I'm taking that. What we see is for some of our -- particularly our global customers the volumes are slowing, but it's actually not a one-fits-all answer to the question. We see in some areas like still Latin America on the Flavors side we see strong growth as in the third quarter which is really double digit. We see countries in Asia with strong growth for businesses, and we see Europe at least for our business recovering as well. So at the end of the day, it's a very mixed picture region by region. The only thing which is probably universal is that the volume for some of the global customers is really challenged.

That's how I would come on that one. It's very different. It depends also on the technology. Let me elaborate on that. If you have a technology which helps the customers to grow the business, like our sweetness modulation, for example, which we are selling very well, or the encapsulation on the Fragrance side, then the wins are strong and even against the market trends make great strides. I know it's probably not in general a satisfying answer but it's a very diverse picture we are dealing with here.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay. I understand. And then your acquisitions have performed really well, it seems. Can you talk about your pipeline given that could be a good use of cash and growth going forward?

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

You mean the pipeline for M&A?

Mike Sison - *KeyBanc Capital Markets - Analyst*

For acquisitions. Are you seeing good opportunities out there?

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

What we do is we look at -- with different lenses at the market, what kind of technology would be valuable for us. Second, where do we need let's say a local or regional strengthening of our presence or with certain customers. And in general, good quality companies like we've done with Ottens and Lucas Meyer. So, we have a good pipeline. I can't comment further on this one but we are further looking.

And the good thing is that the acquisitions are going very well in terms of the integration, so it means after many years with very little M&A activity, I think the organization is doing very well to get these quality assets into our portfolio and they're performing actually very well. Just one remark on the skin care or active cosmetic ingredients side. We're very pleased what we see in this market segment because it's just a higher growth than our core markets. So all in all very positive. We have a pipeline and we will let's say continue our path here.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great. Thank you.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Okay.

Operator

Your next question comes from Jeff Zekauskas with JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks very much. I just want to be sure that I can interpret your results reasonably. So what you said was that your adjusted sales were down 1% and your operating profit was up 7%. I assume that that includes the hedge gains and that if the hedge gains are excluded the operating profit is probably flat to up and in your adjusted currency neutral where you grow sales 7% an your operating profit 10%, I assume that that excludes the hedge gains and other currency gains. Is that correct?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

I'm going to ask Rich O'Leary to answer that.

Rich O'Leary - *International Flavors & Fragrances Incorporated - Interim CFO*

Jeff, it's Rich. I think there's two things to think about. When we talk about the margin evolution because the hedge gains are in there, on a reported basis we'll talk to the year-over-year impact. When we're going to currency neutral, what we basically do is restate last year's to reflect the current year gains. So we're stripping out the year-over-year impact and we're making consistent year-over-year from the cash flow hedging impact.

Jeff Zekauskas - *JPMorgan - Analyst*

So the hedges are -- so again, so the hedges and the currency gains are stripped out of currency neutral but the hedge gains are included in the first presentation, in the sales contracting 1% and operating profit up 7%?

Rich O'Leary - *International Flavors & Fragrances Incorporated - Interim CFO*

Well, on a sales basis we don't hedge the sales line.

Jeff Zekauskas - *JPMorgan - Analyst*

Exactly right. It's really the operating profit that's the issue.

Rich O'Leary - *International Flavors & Fragrances Incorporated - Interim CFO*

Yes. So on an operating profit when we talk reported to reported, it will have the year-over-year impact of the cash flow hedging either gains or losses. In the case of 2015, it's gains. When we go to currency neutral, we just reflect the current year impact of the gains so we're not having a year-over-year impact because last year's cash flow hedging impact is really related to 2013 and so we're stripping that two-year basis out.

Jeff Zekauskas - *JPMorgan - Analyst*

And then in the course of the call you talked about a $9 million benefit but when you go to the Q it looks like it's something more like a $7 million benefit in terms of the cash flow hedging. Why the $9 million instead of the $7 million or what's the extra amount that's added on to the cash flow hedge benefit?

Rich O'Leary - *International Flavors & Fragrances Incorporated - Interim CFO*

Again, that's the difference between -- it's more or less -- it's the difference between when we're trying to reconcile -- when we're trying to talk to the change year-over-year for example in gross margin. Those are reported to reported and that's where you have the year-over-year impact which is the higher number. When we talk to the operating profit impact, we strip out the last year's impact.

Jeff Zekauskas - *JPMorgan - Analyst*

Okay. Great. Thank you so much.

Operator

Your next question comes from Faiza Alwy with Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

Good morning.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Good morning.

Faiza Alwy - *Deutsche Bank - Analyst*

So I just had a few clarifying questions first. One, I think at the back-to-school conference you had talked about local currency sales growth of 6% for the year with even contribution from acquisitions and organic growth. So does that still stand or should we expect a larger contribution from organic growth now?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

When I talked about even distribution at the back-to-school conference, some of it was relative to rounding as well. So I would think about it as 3.5% organic, 2.5% acquisition related to get to the 6.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Great. And then I just wanted to talk a little bit more about Latin America, particularly on the Flavors side. Some of your competitors have been talking about a potential pricing benefit in Latin America. I don't know if that's because they're euro denominated and it's different for you. So maybe if you could talk about are you able to take some pricing in certain markets or categories to offset currency?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

So let me start by making a comment in terms of comparison. So when looking company to company, we need to make sure that things are compared on an apples-to-apples basis, organic-to-organic basis in comparable currency related to FX because I think as reflected in reports, taken as written, they're not comparable. So I think you need to make sure before you compare to companies, you make sure that they're comparable. So with that said, let me ask Matthias to talk about Latin America market dynamics.

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

Faiza, we are really traveling well with the many new wins which we had this year. We also feel very confident that we continue to commercialize many of the projects which we have. We have an exciting project pipeline throughout the region. Yes, we face some challenges on (inaudible) volumes. We will offset it, however, with new wins. We feel good about this. We obviously reported that we had very good in-roads in beverages. We are now expanding now also into savory, into the dairy category, and frankly overall we feel pretty good about it also in Q4.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

If I could, just one more comment, just so you know what we do in your apples-to-apples comparison. We fully restate all currency.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. And then could you maybe just tell us what percentage of the Flavors business is Latin or maybe what percentage of the Latin business is Flavors just so we could size it because the growth just seems really strong at 20%, so I'm just wondering is it -- if you could talk about are these local customers, what the size might be, maybe expand a little bit more on that?

Michael DeVeau - *International Flavors & Fragrances Incorporated - VP of Global Corporate Communications & IR*

It's Michael. We traditionally don't disclose from a Flavors standpoint our percentage of business. I think as you think about it, it's probably our smallest region with respect to the other regions that we have globally, but from a business standpoint maybe Matthias if you want to provide additional commentary.

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

Yes, Mike. The smallest region yet from a growth perspective for us very sizable, very impactful. We feel very good about the in-roads we make and I'm confident that we are gaining great market share in Latin America. Again, what we are reporting here is all like for like. This is currency neutral. There is no element of pricing in it, but volume and new wins.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Your next question comes from Jon Feeney with Athlos.

John Feeney - *Athlos Research - Analyst*

Could you give us a sense how large right now the Naturals business is globally for you and what its growth is and what sort of growth rate are you expecting in the Naturals business across categories over the next couple of years?

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

Well, from a flavor perspective, we have more than 50% of all the new which we are working on are calling for natural solutions, natural Flavors. We feel excited about the many requests for natural modulators. I cannot exactly give you an indication of the overall market growth. The underlying market growth of Naturals, we only realized that definitely Naturals are outperforming any other product offerings in the marketplace. It's not only here in North America where more and more consumers they're looking to organic. We see very same trends around the world. In Western Europe, but also in many mature markets in Asia in particular. We have also higher win rate in Naturals. We are well positioned for it and frankly we see all these requests and all these exciting opportunities for us to accelerate growth.

John Feeney - *Athlos Research - Analyst*

I got you. Thank you. Just a couple followups on that, if you don't mind. You said more than 50% of all new [briefs], but on the existing business can you give me a sense of how much revenue right now is going from -- is in products that are already sort of meeting those kinds of natural specifications. And the second question is typically with these new [briefs], does that involve a higher pricing or fully developed margin to IFF in the Flavors business as you reformulate with Naturals?

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

Let me take first the question on the margin profiles. Whenever we are in a position to bring technology into a product offering we typically have a higher margin profile. When it comes to 50% plus all naturals, keep in mind we still have a lot of developing markets where natural is not necessarily be the major call. I'm referring here to many developing markets also in Africa and Middle East and in many other parts of the world. To the question on what the total percentage of the portfolio of natural is all about, we are not sharing this information. We feel good about what we currently have and frankly we make very good in-roads.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

Just to further comment in terms of model, we have a cost plus model relative to Naturals as well.

THOMSON REUTERS

John Feeney - *Athlos Research - Analyst*

Cost plus. So that's actually very helpful, Alison. When you say cost plus, meaning your margin in terms of dollars tends to stay flat and you charge up on that, so you might see higher -- same or higher penny profit but lower percentage margin or do you actually -- when you say cost plus, is it a percentage of cost?

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

So essentially what it means is if costs go up, the price goes up. We maintain the margin.

John Feeney - *Athlos Research - Analyst*

Is that -- I guess that a simple question. Is it a margin expansion opportunity in terms of total dollars coming into IFF when someone replaces, typically speaking, replaces an artificial with a natural product.

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

No, not in and of itself.

Matthias Haeni - *International Flavors & Fragrances Incorporated - Group President of Flavors*

It is more important, John, what kind of category, whether it is beverage or savory that makes a difference in terms of the profitability or margin perspective but not whether it is synthetic or natural.

John Feeney - *Athlos Research - Analyst*

Okay. Thank you very much.

Operator

Your last question comes from John Roberts with UBS.

John Roberts - *UBS - Analyst*

Good morning, can you hear me?

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Yes, good morning, John.

John Roberts - *UBS - Analyst*

Sometimes your incentive compensation accrual in a quarter can be different from the other quarters, but the change in business tone in the fourth quarter, would you expect to under accrue or reverse any incentive compensation in the fourth quarter?

THOMSON REUTERS

Alison Cornell - *International Flavors & Fragrances Incorporated - EVP & CFO*

So we can say this about incentive compensation because we do not disclose our incentive compensation numbers other than calling out a variance, so I can't give you an exact number. I would say it's marginally favorable in Q3 but will be a larger benefit in Q4 based on our projected performance.

John Roberts - *UBS - Analyst*

Okay. And then, secondly, when you talked about your global customers seeing some slowdown, it sounds like in the developed markets you're still seeing the smaller customers outperform the larger customers. I think that's a trend we've seen for several quarters now.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Absolutely, John. That's what we see in many markets at the smaller and regional customers have just good growth rates, and if you're with these customers then you really can do very well, very good business. That was actually one of the reasons we acquired Ottens Flavors here in the US and just participating in that segment of the market a bit better in the US.

John Roberts - *UBS - Analyst*

Thank you.

Operator

Your next question comes from Heidi Vesterinen with Exane. Heidi, your line is open. You may need to unmute on your end.

Heidi Vesterinen - *Exane - Analyst*

I wanted to go back from the to the Naturals question. I heard from some other ingredients companies, slightly different from Flavors but still in Naturals, that a lot of the smaller companies have been faster at reformulating into Naturals and we have seen a lot of reformulation announcements from the globals but they still toned be in the discussion or testing stage and we haven't actually seen the big volumes come through. Would you agree with this or are you already benefiting from this trend?

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

I totally agree and support this. I think we have seen that smaller companies are faster in the implementation and they are also much faster in the replacement of either artificial nature or (inaudible). We see them launching more novelty product solutions, and we expect that the larger accounts that will follow in the quarters to come.

Heidi Vesterinen - *Exane - Analyst*

Thank you.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

You're welcome.

Operator

I would like to turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Incorporated - Chairman and CEO*

Thank you very much. Thank you very much for your time. Good quarter. We are on track for year 2015 and I believe we will have a good trajectory for years to come. Thank you very much.

Operator

Thank you for joining today's conference. You may now disconnect.
