Risk Factors Comparison 2024-01-25 to 2023-01-26 Form: 10-K

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The following are certain risk factors that could affect our business, financial condition and results of operations. These risk factors should be considered in connection with evaluating the forward- looking statements contained in this Annual Report on Form 10- K because these factors could cause the actual results and conditions to differ materially from those projected in forward- looking statements. Before you buy our Common Stock or Common Stock Non- Voting, you should know that making such an investment involves risks, including the risks described below. **It is not possible for management to predict all such risks, nor can management assess the impact of all such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward- looking statements.** Additional risks and uncertainties that are not presently known to us or are currently deemed to be immaterial also may materially adversely affect our business, financial condition, or results of operations in the future. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our securities could decline, and you may lose part or all of your investment. Risks Related to Our Company, Business and Operations Deterioration of global economic conditions, an economic recession **or slow growth** , periods of inflation, or economic uncertainty in our key markets may adversely affect customer and consumer spending as well as demand for our products. Global economic conditions can be uncertain and volatile. Our business and results of operations have in the past been, and may continue to be, adversely affected by changes in global economic conditions including inflation, ~~rising~~ **changes in prevailing interest rates, bank failures, the impact of any potential U. S. federal government shutdown, changes in governmental rules and approaches to taxation, fluctuations in foreign currency** interest rates, availability of capital markets, consumer spending rates, energy availability and costs, the negative impacts caused by pandemics and public health crises, ~~such as the COVID- 19 pandemic,~~ as well as the potential impacts of geopolitical uncertainties **and international conflicts** , including the ongoing ~~conflict~~ **conflicts** between Russia and Ukraine **and Israel and Hamas** , and the effect of governmental initiatives to manage economic conditions. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. We are a manufacturer and distributor of flavor products. As such, many of our products are purchased by our customers based on end- user demand from consumers. Some of the factors that may influence consumer spending include general economic conditions, high levels of unemployment, **pandemics and public** health crises ~~(such as the COVID- 19 pandemic)~~ , higher consumer debt levels, reductions in net worth based on market declines and uncertainty, home foreclosures and reductions in home values, fluctuating interest and foreign currency exchange rates and credit availability, fluctuating fuel and other energy costs, fluctuating commodity prices, inflationary pressure, tax rates and general uncertainty regarding the overall future economic environment. Unfavorable economic conditions may lead customers and consumers to delay or reduce purchases of our products. Consumer demand for our products may not reach our targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets. Our sensitivity to economic cycles and any related fluctuation in customer and consumer demand may have a material negative impact on our business, financial conditions or results of operations ~~. A pandemic, including COVID- 19, could have an adverse impact on our business, financial condition, and results of operations. The COVID- 19 pandemic has had, and could continue to have, a negative impact on financial markets, economic conditions, and portions of our industry as a result of changes in consumer behavior, retailer inventory levels, cost inflation, manufacturing and supply chain disruption, and overall macroeconomic conditions. The ongoing implications of the COVID- 19 pandemic could adversely impact our business and results of operations in a number of ways, including but not limited to: • Shifts and volatility in consumer spending and purchasing behaviors; • Continued increase in raw material and commodity costs; • Shutdowns or slowdowns of one or more of our production facilities; • Further disruptions in our supply chain and in our ability to obtain ingredients, packaging, and other sourced materials due to continued labor shortages and / or volatility in the labor market, governmental restrictions, or the failure of our suppliers, distributors, or manufacturers to meet their obligations to us; or • Significant changes in the political conditions in markets in which we manufacture, sell or distribute our products, including quarantines, import / export restrictions, price controls, or governmental or regulatory actions, closures or other restrictions that limit or close our operating and manufacturing facilities, restrict our employees' ability to travel or perform necessary business functions, or otherwise prevent our third- party partners, suppliers, or customers from sufficiently staffing operations, including operations necessary for the production, distribution, sale, and support of our products. The duration and extent of the impact from the COVID- 19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the emergence and spread of variants, infection rates in areas we operate, the extent and effectiveness of containment actions, including the continued availability and effectiveness of vaccines in the markets where we operate, and the impact of these and other factors on our employees, customers, suppliers, distributors, and manufacturers. Should these conditions persist for a prolonged period, including any of the above factors and others that are currently unknown, the COVID- 19 pandemic could have a material adverse effect on our business, financial condition, and results of operations. The impact of the COVID- 19 pandemic may also exacerbate other risks discussed in this Item 1A, Risk Factors, any of which could have a material effect on us~~ . Damage to our reputation or brand name, loss of brand relevance, increase in use of private label or other competitive brands by customers or consumers, or product quality or safety concerns could negatively impact our business, financial condition or results of operations. We have many iconic brands with long- standing consumer recognition. Our success depends on our ability to maintain our brand image for our existing products, extend our brands to new platforms, and expand our brand image with new product offerings. We continually make efforts to maintain and improve relationships with our customers and consumers and to increase awareness and relevance of our brands through effective marketing and other measures. From time to time, our customers reevaluate their mix of product offerings, and consumers have the option to purchase private label or other competitive products instead of our branded products. In the event that we are unable to supply our products to customers in the time frame and quantities that they desire, whether due to increased demand or other factors, our customers may discontinue all or a portion of their purchases from us and source competitive brands. If a significant portion of our branded business was switched to private label or competitive products, it could have a material negative impact on our consumer segment. Our reputation for manufacturing high- quality products is widely recognized. In order to safeguard that reputation, we have adopted rigorous quality assurance and quality control procedures which are designed to ensure the safety of our products. A serious breach of our quality assurance or quality control procedures, deterioration of our quality image, impairment of our customer or consumer relationships or failure to adequately protect the relevance of our brands may lead to litigation, customers purchasing from our competitors or consumers purchasing other brands or private label items that may or may not be manufactured by us, any of which could have a material negative impact on our business, financial condition or results of operations. The food industry generally is subject to risks posed by food spoilage and contamination, product tampering, product recall, import alerts and consumer product liability claims. For instance, we may be required to recall certain of our products should they be mislabeled, contaminated or damaged. Additionally, certain of our raw materials could be blocked from entering the country if they were subject to government- imposed actions. We have and may continue to become involved in lawsuits and legal proceedings if it is alleged that the consumption of any of our products could cause injury or illness, or that any of our products are mislabeled or fail to meet applicable legal requirements (even if the allegation is untrue). A product recall, import alert or an adverse result in any such litigation, or negative perceptions regarding food products and ingredients, could result in our having to pay fines or damages, incur additional costs or cause customers and consumers in our principal markets to lose confidence in the safety and quality of certain products or ingredients, any of which could have a negative effect on our business or financial results and, depending upon the significance of the affected product, that negative effect could be material to our business or financial results. Negative publicity about these concerns, whether or not valid, may discourage customers and consumers from buying our products or cause disruptions in production or distribution of our products and adversely affect our business, financial condition or results of operations. The rising popularity of social networking and other consumer- oriented technologies has increased the speed and accessibility of information dissemination (whether or not accurate), and, as a result, negative, inaccurate, or misleading posts or comments on websites may generate adverse publicity that could damage our reputation or brands. Customer consolidation, consumer behaviors, and competitive, economic and other pressures facing our customers, may impact our financial condition or results of operations. A number of our customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years and consolidation could continue. Such consolidation could present a challenge to margin growth and profitability in that it has produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories; resisting price increases; demanding lower pricing, increased promotional programs and specifically tailored products; and shifting shelf space currently used for our products to private label and other competitive products. The economic and competitive landscape for our customers is constantly changing, such as the emergence of new sales channels like e- commerce, and our customers' responses to those changes could impact our business. The continued growth of e- commerce and its impact of consumer habits and preferences has accelerated ~~since the onset of the COVID- 19 pandemic~~ in many of the markets we serve and our financial results may be impacted if we are unable to adapt to changing consumer preferences and market dynamics. In addition, our flavor solutions segment may be impacted if the reputation or perception of the customers of our flavor solutions segment declines. These factors could have an adverse impact on our business, financial condition or results of operations. The inability to maintain mutually beneficial relationships with large customers could adversely affect our business, financial condition and results of operations. We have a number of major customers, including two large customers that, in the aggregate, constituted approximately ~~23~~ **25** % of consolidated sales in ~~2022~~ **2023** . The loss of either of these large customers due to events beyond our control, or a material negative change in our relationship with these large customers or other major customers could have an adverse effect on our business, financial condition and results of operations. Issues regarding procurement of raw materials may negatively impact us. Our purchases of raw materials are subject to fluctuations in market price and availability caused by inflationary pressures, weather, growing and harvesting conditions, climate change, market conditions, governmental actions and other factors beyond our control, including **outbreaks of illnesses, pandemics (such as** the COVID- 19 pandemic **) or other local or global health issues** . The most significant raw materials used by us in our business are dairy products, pepper, onion, **garlic,** capsicums (red peppers and paprika), ~~garlic~~ **tomato products** , **salts, and** wheat products ~~, vegetable oils, and vanilla~~ . While future price movements of raw material costs are uncertain, we seek to mitigate the market price risk in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery, customer price adjustments and cost savings from our CCI program. We generally have not used derivatives to manage the volatility related to this risk. To the extent that we have used derivatives for this purpose, it has not been material to our business. Any actions we take in response to market price fluctuations may not effectively limit or eliminate our exposure to changes in raw material prices. Therefore, we cannot provide assurance that future raw material price fluctuations will not have a negative impact on our business, financial condition or operating results. In addition, we may have very little opportunity to mitigate the risk of availability of certain raw materials due to the effect of weather on crop yield, fire, natural disasters, growing and harvesting conditions, government actions, political unrest in producing countries, action or inaction by suppliers in response to laws and regulations, changes in agricultural programs and other factors beyond our control. Therefore, we cannot provide assurance that future raw material availability will not have a negative impact on our business, financial condition or operating results. Political, socio- economic, cultural **,** and geopolitical (including **instability and international conflicts such**

as the ongoing ~~conflict~~ **conflicts** between Russia and Ukraine **and Israel and Hamas**) conditions, as well as disruptions caused by terrorist activities or otherwise, could also create additional risks for regulatory compliance. Although we have adopted rigorous quality assurance and quality control procedures which are designed to ensure the safety of our imported products, we cannot provide assurance that such events will not have a negative impact on our business, financial condition or operating results. Disruption of our supply chain could adversely affect our business. Our ability to make, move, and sell products is critical to our success. Damage or disruption to raw material supplies or our manufacturing or distribution capabilities due to weather, climate change, natural disaster, fire, terrorism, cyber- attack, health epidemics, pandemics ~~(such as the COVID- 19 pandemic)~~ or other contagious outbreaks, governmental restrictions or mandates, strikes, import / export restrictions, or other factors could impair our ability to manufacture or sell our products. Many of our product lines are manufactured at a single location. The failure of third parties on which we rely, including those third parties who supply our ingredients, packaging, capital equipment and other necessary operating materials, contract manufacturers, commercial transport, distributors, contractors, and external business partners, to meet their obligations to us, or significant disruptions in their ability to do so, may negatively impact our operations. Our suppliers' policies and practices can damage our reputation and the quality and safety of our products. Disputes with significant suppliers, including disputes regarding pricing or performance, could adversely affect our ability to supply products to our customers and could materially and adversely affect our sales, financial condition, and results of operations. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is manufactured from a single location, could adversely affect our business and results of operations, as well as require additional resources to restore our supply chain. Moreover, short term or sustained increases in consumer demand at our customers may exceed our production capacity or otherwise strain our supply chain. Our failure to meet the demand for our products could adversely affect our business and results of operations. Our results of operations can be adversely affected by labor shortages, turnover and labor cost increases **or any failure to effectively manage changes in our workforce** . Labor is a primary component of operating our business. A number of factors may adversely affect the labor force available to us or increase labor costs ~~, a~~ **such as the** shift towards **hybrid or** remote work **arrangements** , higher unemployment subsidies, other government regulations and general macroeconomic factors ~~. We also have experienced and may continue to experience additional pressure in our supply chain due to labor shortages, increased turnover rates and absenteeism associated with COVID- 19~~ . A sustained labor shortage or increased turnover rates within our employee base ~~, caused by COVID- 19 or as a result of general macroeconomic factors,~~ could lead to increased costs, such as increased overtime to meet demand and increased wage rates and employee benefits costs to attract and retain employees ~~,~~ and could negatively affect our ability to efficiently operate our manufacturing and distribution facilities and overall business. If we are unable to hire and retain employees capable of performing at a high- level, or if mitigation measures we may take to respond to a decrease in labor availability, such as overtime and third- party outsourcing, have negative effects, our business could be adversely affected. In addition, we distribute our products and receive raw materials primarily by truck. Reduced availability of trucking capacity due to shortages of drivers has caused an increase in the cost of transportation for us and our suppliers. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation ~~, caused by COVID- 19 or as a result of general macroeconomic factors,~~ could have a material adverse impact on our business, financial condition or operating results. We may not be able to increase prices to fully offset inflationary pressures on costs, such as raw and packaging materials, labor and distribution costs, which may impact our financial condition or results of operations. As a manufacturer and distributor of flavor products, we rely on raw materials, packaging materials, plant labor, distribution resources, and transportation providers. During recent years, we have experienced significantly elevated commodity and supply chain costs, including the costs of raw materials, packaging materials, labor, energy, fuel, transportation and other inputs necessary for the production and distribution of our products, and we expect ~~elevated levels of~~ inflation to continue in **2024 but at a more modest rate than experienced in** 2023 **and 2022** . In addition, many of these materials and costs are subject to price fluctuations from a number of factors, including, but not limited to, market conditions, demand for raw materials, weather, growing and harvesting conditions, climate change, energy costs, currency fluctuations, supplier capacities, governmental actions, import and export requirements (including tariffs), armed hostilities (including the ongoing ~~conflict~~ **conflicts** between Russia and Ukraine **and Israel and Hamas**) and other factors beyond our control. Our attempts to offset these cost pressures, such as through increases in the selling prices of some of our products, may not be successful. Higher product prices may result in reductions in sales volume. Consumers may be less willing to pay a price differential for our branded products and may increasingly purchase lower- priced offerings, or may forego some purchases altogether, during an economic downturn or times of increased inflationary pressure. To the extent that price increases or packaging size decreases are not sufficient to offset these increased costs adequately or in a timely manner, and / or if they result in significant decreases in sales volume, our business, financial condition or operating results may be adversely affected. Furthermore, we may not be able to fully offset any cost increases through our productivity or efficiency initiatives. Our profitability may suffer as a result of competition in our markets. The food industry is intensely competitive. Competition in our product categories is based on price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing and promotional activity, and the ability to identify and satisfy consumer preferences. Weak economic conditions, recessions, significant inflation and other factors, such as pandemics, could affect consumer preferences and demand. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures, particularly during periods of economic uncertainty or significant inflation, which may adversely affect our profitability. Such pressures could reduce our ability to take appropriate remedial action to address commodity and other cost increases. ~~The~~ **Ongoing political** ~~conflict~~ **conflicts** ~~between Russia and Ukraine~~ and the related implications may negatively impact our operations. In February 2022, Russia invaded Ukraine. As a result, the U. S. and certain other countries have imposed sanctions on Russia and could impose further sanctions that could damage or disrupt international commerce and the global economy. It is not possible to predict the broader or longer- term consequences of this conflict or the sanctions imposed to date, which could include further sanctions, embargoes, regional instability, geopolitical shifts and adverse effects on macroeconomic conditions, security conditions, energy and fuel prices, currency exchange rates and financial markets. Such geopolitical instability and uncertainty could have a negative impact on our ability to sell to, ship products to, collect payments from, and support customers in certain regions based on trade restrictions, embargoes and export control law restrictions, and logistics restrictions including closures of air space, and could increase the costs, risks and adverse impacts from supply chain and logistics challenges. The potential effects of the ongoing conflict between Russia and Ukraine **, as well as other conflicts, including between Israel and Hamas and in the Red Sea, could** also ~~could~~ impact many of the other risk factors described herein. These potential effects could include, but are not limited to, variations in the level of our profitability, changes in laws and regulations affecting our business, fluctuations in foreign currency markets, the availability of future borrowings, the cost of borrowings, credit risks of our customers and counterparties, and potential impairment of the carrying value of goodwill or other indefinite- lived intangible assets. Given the evolving nature of ~~this~~ **these** ~~conflict~~ **conflicts** , the related sanctions, potential governmental actions and economic impact, such potential impacts remain uncertain. While we expect the impacts of **these** ~~conflict~~ **conflicts** ~~between Russia and Ukraine~~ to continue to have an effect on our business, financial condition and results of operations, we are unable to predict the extent or nature of these impacts at this time. Our operations may be impaired as a result of disasters, business interruptions or similar events. We could have an interruption in our business, loss of inventory or data, or be rendered unable to accept and fulfill customer orders as a result of a natural disaster, catastrophic event, epidemic, computer system failure, or cyber- attack. Natural disasters could include an earthquake, fire, ~~flood~~ **floods** , tornado or severe storm. A catastrophic event could include a terrorist attack. A health epidemic, pandemic, or other contagious outbreak could affect our operations, major facilities or employees' and consumers' health. In addition, some of our inventory and production facilities are located in areas that are susceptible to harsh weather; a major storm **, flood** , wildfires, heavy snowfall or other similar event could prevent us from delivering products in a timely manner **and negatively impact consumer spending and demand in affected areas** . Production of certain of our products is concentrated in a single manufacturing site. We cannot provide assurance that our disaster recovery plan will address all of the issues we may encounter in the event of a disaster or other unanticipated issue, and our business interruption insurance may not adequately compensate us for losses that may occur from any of the foregoing. In the event that a natural disaster, terrorist attack or other catastrophic event were to destroy any part of our facilities or interrupt our operations for any extended period of time, or if harsh weather or health conditions prevent us from delivering products in a timely manner, our business, financial condition or operating results could be adversely affected. We may not be able to successfully consummate and manage ongoing acquisition, joint venture and divestiture activities which could have an impact on our results. From time to time, we may acquire other businesses and, based on an evaluation of our business portfolio, divest existing businesses. These acquisitions, joint ventures and divestitures may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating or separating personnel and financial and other systems, increased expenses and raw material costs, assumption of unknown liabilities and indemnities, and potential disputes with the buyers or sellers. In addition, we may be required to incur asset impairment charges (including charges related to goodwill and other intangible assets) in connection with acquired businesses, which may reduce our profitability. If we are unable to consummate such transactions, or successfully integrate and grow acquisitions and achieve contemplated revenue synergies and cost savings, our financial results could be adversely affected. Additionally, joint ventures inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, and / or compliance risks. An impairment of the carrying value of goodwill or other indefinite- lived intangible assets could adversely affect our results. As of November 30, ~~2022~~ **2023** , we had approximately $ 5. ~~2~~ **3** billion of goodwill and approximately $ 3. ~~4~~ **0** billion of other indefinite- lived intangible assets. Goodwill and indefinite- lived intangible assets are initially recorded at fair value and not amortized but are tested for impairment at least annually or more frequently if impairment indicators arise. We test goodwill at the reporting unit level by comparing the carrying value of the net assets of the reporting unit, including goodwill, to the unit' s fair value. Similarly, we test indefinite- lived intangible assets by comparing the fair value of those assets to their carrying values. If the carrying values of the reporting unit or indefinite- lived intangible assets exceed their fair value, the goodwill or indefinite- lived intangible assets are considered impaired and reduced to their estimated fair value. Factors that could result in an impairment include a change in revenue growth rates, operating margins, weighted average cost of capital, future economic and market conditions, higher income tax rates, or assumed royalty rates. The impairment of our goodwill or indefinite- lived intangible assets would have a negative impact on our consolidated results of operations. Because indefinite- lived intangible assets are recorded at fair value at the date of acquisition of the related business, indefinite- lived intangible assets associated with recent business acquisitions, particularly those acquired in ~~recent~~ low interest rate environments, such as Cholula and FONA, are more susceptible to impairment in periods of rising interest rates than indefinite- lived intangible assets related to businesses acquired in periods of higher interest rates. Streamlining actions to reduce fixed costs, simplify or improve processes, and improve our competitiveness may have a negative effect on employee relations. We regularly evaluate whether to implement changes to our organization structure to reduce fixed costs, simplify or improve processes, and improve our competitiveness, and we expect to continue to evaluate such actions in the future. From time to time, those changes are of such significance that we may transfer production from one manufacturing facility to another; transfer certain selling and administrative functions from one location to another; eliminate certain manufacturing, selling and administrative positions; and exit certain businesses or lines of business. These actions may result in a deterioration of employee relations at the impacted locations or elsewhere in our business. If we are unable to fully realize the benefits from our CCI program or streamlining actions to reduce fixed costs, simplify or improve our competitiveness, our financial results could be negatively affected. Our future success depends in part on our ability to be an efficient producer in a highly competitive industry, including our plan to eliminate ~~approximately $ 125 million of~~ costs **under** ~~during 2023 and 2024 as part of~~ our **CCI and** Global Operating Effectiveness **(GOE)** ~~Program~~ **programs** ~~, including $ 100~~

~~million of supply costs and $ 25 million of costs across the remainder of the organization~~ . Any failure by us to achieve our planned cost savings and efficiencies under our CCI program, an ongoing initiative to improve productivity and reduce costs throughout the organization, or other similar programs **, including our GOE program** , could have an adverse effect on our business, results of operations and financial position. Fluctuations in foreign currency markets may negatively impact us. We are exposed to fluctuations in foreign currency in the following main areas: cash flows related to raw material purchases; the translation of foreign currency earnings to U. S. dollars; the effects of foreign currency on loans between subsidiaries and unconsolidated affiliates and on cash flows related to repatriation of earnings of unconsolidated affiliates. We have both translation and transaction exposures to the fluctuation of exchange rates. Translation exposures relate to exchange rate impacts of measuring income statements of foreign subsidiaries that do not use the U. S. dollar as their functional currency. Transaction exposures relate to the impact from input costs that are denominated in a currency other than the local reporting currency and the revaluation of transaction- related working capital balances or loans between subsidiaries and unconsolidated affiliates denominated in currencies other than the functional currency. Historically, weakening of certain foreign currencies versus the U. S. dollar have resulted in significant foreign exchange impacts leading to lower net sales, net earnings and cash flows. Primary exposures include the U. S. dollar versus the Euro, British pound sterling, Chinese renminbi, Canadian dollar, Australian dollar, Polish zloty, Singapore dollar, Swiss franc, and Mexican peso, as well as the Euro versus the British pound sterling and Australian dollar, and Polish zloty, and finally the Canadian dollar versus British pound sterling. We routinely enter into foreign currency exchange contracts to facilitate managing certain of these foreign currency risks. However, these contracts may not effectively limit or eliminate our exposure to a decline in operating results due to foreign currency exchange changes. Therefore, we cannot provide assurance that future exchange rate fluctuations will not have a negative impact on our business, financial position or operating results. We face risks associated with certain pension assets and obligations. We hold investments in equity and debt securities in our qualified defined benefit pension plans and in a rabbi trust for our U. S. non- qualified pension plan. Deterioration in the value of plan assets resulting from a general financial downturn or otherwise, or an increase in the actuarial valuation of the plans' liability due to a low interest rate environment, could cause (or increase) an underfunded status of our defined benefit pension plans, thereby increasing our obligation to make contributions to the plans. An obligation to make contributions to pension plans could reduce the cash available for working capital and other corporate uses, and may have an adverse impact on our operations, financial condition and liquidity. Climate change, or legal, regulatory or market measures to address climate change, may negatively affect our business, financial condition and results of operations. Unseasonable or unusual weather or long- term climate changes may negatively impact the price or availability of spices, herbs and other raw materials. Scientific consensus shows that greenhouse gases in the atmosphere have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity or practices, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products. As a result of climate change, we may also be subjected to decreased availability of water, deteriorated quality of water or less favorable pricing for water, which could adversely impact our manufacturing and distribution operations. In addition, such climate change may result in modifications to the eating preferences of the ultimate consumers of certain of our products, which may also unfavorably impact our sales and profitability. **The physical effects and transitional costs of climate change and the legal, regulatory or market initiatives to address climate change could have a negative impact on our business, financial condition, and results of operations.** There is an increased focus by foreign, federal, state and local regulatory and legislative bodies regarding environmental policies relating to climate change, regulating greenhouse gas emissions **(including carbon pricing, cap and trade systems, or carbon taxes)** , energy policies, and sustainability. Increased compliance costs and expenses due to the impacts of climate change and additional legal or regulatory requirements regarding climate change ~~or~~ **that are** designed to reduce or mitigate the effects of carbon dioxide and other greenhouse gas emissions on the environment may cause disruptions in, or an increase in the costs associated with, the running of our manufacturing facilities and our business, as well as increase distribution and supply chain costs. Moreover, compliance with any such legal or regulatory requirements may require us to make significant changes in our business operations and strategy, which will likely require us to devote substantial time and attention to these matters and cause us to incur additional costs. Even if we make changes to align ourselves with such legal or regulatory requirements, we may still be subject to significant penalties or potential litigation if such laws and regulations are interpreted and applied in a manner inconsistent with our practices. The effects of climate change and legal or regulatory initiatives to address climate change could have a long- term adverse impact on our business and results of operations. Additionally, we might fail to effectively address increased attention from the media, stockholders, activists and other stakeholders on climate change and related environmental sustainability matters. Such failure, or the perception that we have failed to act responsibly regarding climate change, whether or not valid, could result in adverse publicity and negatively affect our business and reputation. Moreover, from time to time we establish and publicly announce goals and commitments, including to reduce our impact on the environment. For example, we established science- based target 2025 – 2030 goals for Scope 1, 2 and 3 greenhouse gas emissions. Our ability to achieve any stated goal, target or objective is subject to numerous factors and conditions, many of which are outside of our control. Examples of such factors include evolving regulatory requirements affecting sustainability standards or disclosures or imposing different requirements, the pace of changes in technology, the availability of requisite financing and the availability of suppliers that can meet our sustainability and other standards **and changing business dynamics including acquisitions. Furthermore, standards for tracking and reporting such matters continue to evolve. Our selection of voluntary disclosure frameworks and standards, and the interpretation or application of those frameworks and standards, may change from time to time or differ from those of others. Methodologies for reporting these data may be updated and previously reported data may be adjusted to reflect improvement in availability and quality of third- party data, changing assumptions, changes in the nature and scope of our operations (including from acquisitions and divestitures), and other changes in circumstances,**

which could result in significant revisions to our current goals, reported progress in achieving such goals, or ability to achieve such goals in the future. If we fail to achieve, or are perceived to have failed or been delayed in achieving, or improperly report our progress toward achieving these goals and commitments, it could negatively affect consumer **or customer** preference for our products or investor confidence in our stock, as well as expose us to enforcement actions and litigation **. In addition, we could be criticized by ESG detractors for the scope or nature of our ESG initiatives or goals or for any revisions to these goals. We could also be subjected to negative responses by governmental actors (such as anti- ESG legislation or retaliatory legislative treatment) or consumers (such as boycotts or negative publicity campaigns) that could adversely affect our reputation, business, financial performance and growth.** ESG issues, including those related to climate change and sustainability, may have an adverse effect on our business, financial condition and results of operations and damage our reputation. Companies across all industries are facing increasing scrutiny relating to their ESG policies. If we are unable to meet our ESG goals or evolving investor, industry or stakeholder expectations and standards, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, customers and consumers may choose to stop purchasing our products or purchase products from another company or a competitor, and our reputation, business or financial condition may be adversely affected. Increased focus and activism on ESG topics may hinder our access to capital, as investors may reconsider their capital investment as a result of their assessment of our ESG practices. In particular, these constituencies are increasingly focusing on environmental issues, including climate change, water use, deforestation, plastic waste, and other sustainability concerns. Changing consumer preferences may result in increased demands regarding plastics and packaging materials, including single- use and non- recyclable plastic packaging, and other components of our products and their environmental impact on sustainability; a growing demand for natural or organic products and ingredients; or increased consumer concerns or perceptions (whether accurate or inaccurate) regarding the effects of ingredients or substances present in certain consumer products. These demands could impact the profitability of some of our products or cause us to incur additional costs, to make changes to our operations to make additional commitments, set targets or establish additional goals and take actions to meet them, which could expose us to market, operational and execution costs or risk. In addition to environmental issues these constituencies are also focused on social and other governance issues, including matters such as, but not limited to, human capital and social issues. We ~~also~~ have established diversity, equity and inclusion goals as part of our ESG initiative. Our initiatives ~~also~~ extend from individuals to entire communities, including those we serve and, just as importantly, those from which we source **. Failure to attract, hire, develop, motivate and retain highly qualified and diverse employee talent, especially in light of changing worker expectations and talent marketplace variability regarding flexible and hybrid work models, to meet our goals relating to fostering a diverse and inclusive culture or to adequately address potential increased scrutiny of our diversity, equity and inclusion initiatives could impact our ability to achieve our business objectives and adversely affect our future success**. Concern over climate change, including plastics and packaging materials, in particular, may result in new or increased legal and regulatory requirements. Increased regulatory requirements related to environmental causes, and related ESG disclosure rules, including the SEC' s recent disclosure proposal on climate change, may result in increased compliance costs or increased costs of energy, raw materials or compliance with emissions standards, which may cause disruptions in the manufacture of our products or an increase in operating costs. Any failure to achieve our ESG goals or a perception (whether or not valid) of our failure to act responsibly with respect to the environmental, human capital, or social issues, or to effectively respond to new, or changes in, legal or regulatory requirements concerning environmental or other ESG matters, or increased operating or manufacturing costs due to increased regulation or environmental causes could adversely affect our business and reputation and increase risk of litigation. Risks Relating to Credit and Capital Markets, Our Credit Rating, Borrowings and Dividends Increases in interest rates or changes in our credit ratings may negatively impact us. On November 30, ~~2022~~ **2023**, we had total outstanding variable rate debt of approximately $ **320** ~~1, 295~~ million, including $ **272** ~~1, 237~~ million of short- term borrowings, at a weighted- average interest rate of approximately ~~4~~ **5**. ~~2~~ **5** %. The interest rates under our revolving credit facilities can vary based on our credit ratings. We also regularly access the commercial paper markets for ongoing funding requirements. A downgrade in our credit ratings would increase our borrowing costs and could affect our ability to issue commercial paper. Additionally, disruptions in the commercial paper market or other effects of volatile economic conditions on the credit markets could also reduce the amount of commercial paper that we could issue and raise our borrowing costs. Our policy is to manage our interest rate risk by entering into both fixed and variable rate debt arrangements. We also use interest rate swaps to minimize worldwide financing cost and to achieve a desired mix of fixed and variable rate debt. On November 30, ~~2022~~ **2023**, we had total outstanding fixed to variable interest rate swaps with a notional value of $ 600 million. We utilize derivative financial instruments to enhance our ability to manage risk, including interest rate exposures that exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments. Our use of derivative financial instruments is monitored through regular communication with senior management and the utilization of written guidelines. However, our use of these instruments may not effectively limit or eliminate our exposure to changes in interest rates. Therefore, we cannot provide assurance that future credit rating or interest rate changes will not have a material negative impact on our business, financial position or operating results. Our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our credit ratings reflect each rating organization' s opinion of our financial strength, operating performance and ability to meet our debt obligations. Any reduction in our credit ratings may limit our ability to borrow as well as the interest rates that are associated with any such borrowing. If our credit ratings are downgraded or put on watch for a potential downgrade, we may not be able to sell additional debt securities or borrow money in the amounts, at the times or interest rates, or upon the more favorable terms and conditions that might be available if our current credit ratings were maintained. We may incur additional indebtedness to finance our acquisitions that may limit our ability to, among other matters, issue additional indebtedness, meet our debt service requirements, react to rising interest rates, comply with certain covenants and compete with less highly leveraged competitors.

We have a significant amount of indebtedness outstanding. As of November 30, ~~2022~~ **2023** , our indebtedness of McCormick and its subsidiaries is approximately $ ~~5~~ **4** . ~~1~~ **4** billion. This substantial level of indebtedness could have important consequences to our business, including, but not limited to: • increasing our debt service obligations, making it more difficult for us to satisfy our obligations; • limiting our ability to borrow additional funds; • increasing our exposure to negative fluctuations in interest rates; • subjecting us to financial and other restrictive covenants, the non- compliance with which could result in an event of default; • increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions; • limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and • placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged. The deterioration of credit and capital markets may adversely affect our access to sources of funding. We rely on our revolving credit facilities, or borrowings backed by these facilities, to fund a portion of our working capital needs and other general corporate purposes, including funding of acquisitions. If any of the banks in the syndicates backing these facilities were unable to perform on its commitments, our liquidity could be impacted, which could adversely affect funding of seasonal working capital requirements. We engage in regular communication with all of the banks participating in our revolving credit facilities. During these communications, none of the banks have indicated that they may be unable to perform on their commitments. In addition, we periodically review our banking and financing relationships, considering the stability of the institutions, pricing we receive on services and other aspects of the relationships. Based on these communications and our monitoring activities, we believe the likelihood of one of our banks not performing on its commitment is remote. In addition, global capital markets have experienced volatility in the past, including related to recession, financial instability or inflation, that has tightened access to capital markets and other sources of funding, and such volatility and tightened access could reoccur in the future. In the event that we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time period. Our inability to obtain financing on acceptable terms or within an acceptable time period could have an adverse impact on our operations, financial condition and liquidity. Uncertain global economic conditions expose us to credit risks from customers and counterparties. Consolidations in some of the industries in which our customers operate have created larger customers, some of which are highly leveraged. In addition, competition has increased with the growth in alternative channels through our customer base. These factors have caused some customers to be less profitable and increased our exposure to credit risk. Current credit markets are volatile, and some of our customers and counterparties are highly leveraged. A significant adverse change in the financial and / or credit position of a customer or counterparty could require us to assume greater credit risk relating to that customer or counterparty and could limit our ability to collect receivables. This could have an adverse impact on our financial condition and liquidity. The ~~uncertainty regarding the planned phase- out of LIBOR may negatively impact our operating results. The phase out of LIBOR reference rates began on January 1, 2022 and will occur at different dates. After December 31, 2021, all sterling, euro, Swiss franc and Japanese yen settings, and the 1- week and 2- month U. S. dollar settings were phased out. We have revised certain of our agreements to include the new reference rates. However, LIBOR is the interest rate benchmark used as a reference rate on our revolving credit facility expiring in July 2026, interest rate swaps expiring in November 2025 and August 2027, and cross currency interest rate swaps expiring in August 2027. Certain of these agreements include fallback language, or the contractual provisions that lay out the process through which a replacement rate can be identified if the previously identified benchmark is not available, that will facilitate the transition to a new reference rate. We anticipate that all of our affected contractual reference rates will be revised by the second quarter of 2023, in advance of the June 30, 2023 phase out of all of our remaining U. S. dollar LIBOR settings. There continue to be many uncertainties regarding a transition from LIBOR, including but not limited to the need to amend all contracts with LIBOR as the referenced rate and how this will impact our cost of variable rate debt and certain derivative financial instruments. The consequences of these developments with respect to LIBOR cannot be entirely predicted but could result in an increase in the cost of our variable rate debt or derivative financial instruments which may be detrimental to our financial position or operating results. The~~ declaration, payment and amount of dividends is made at the discretion of our board of directors and depends on a number of factors. The declaration, payment and amount of any dividends is made pursuant to our dividend policy and is subject to final determination each quarter by our board of directors in its discretion based on a number of factors that it deems relevant, including our financial position, results of operations, available cash resources, cash requirements and alternative uses of cash that our board of directors may conclude would be in the best interest of the company and our ~~shareholders~~ **stockholders** . Our dividend payments are subject to solvency conditions established by the Maryland General Corporation Law. Accordingly, there can be no assurance that any future dividends will be equal or similar in amount to any dividends previously paid or that our board of directors will not decide to reduce, suspend or discontinue the payment of dividends at any time in the future. Risks Related to Intellectual Property, Information Technology, and Cyber- Security Our intellectual property rights, and those of our customers, could be infringed, challenged or impaired, and reduce the value of our products and brands or our business with customers. We possess intellectual property rights that are important to our business, and we are provided access by certain customers to particular intellectual property rights belonging to such customers. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets which are important to our business and relate to some of our products, our packaging, the processes for their production, and the design and operation of equipment used in our businesses. We protect our intellectual property rights, and those of certain customers, globally through a variety of means, including trademarks, copyrights, patents and trade secrets, third- party assignments and nondisclosure agreements, and monitoring of third- party misuses of intellectual property **in traditional retail and digital environments** . If we fail to obtain or adequately protect our intellectual property (and the intellectual property of customers to which we have been given access), the value of our products and brands could be reduced and there could be an adverse impact on our business, financial condition and results of operations. Our operations and reputation may be impaired if our information technology systems fail to perform adequately or if we are the subject of a data breach or cyber- attack. Our information technology systems are critically important to operating our business. We rely on our information technology systems, some of which are or may be managed or hosted by or outsourced to third party service providers, to manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. If we do not allocate and effectively manage the resources necessary to build, sustain, and protect appropriate information technology systems and infrastructure, or we do not effectively implement system upgrades or oversee third party service providers, our business or financial results could be negatively impacted. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction or reporting errors, processing inefficiencies and the loss of sales and customers, causing our business and results of operations to suffer. Furthermore, our information technology systems, and the systems of our customers, vendors, suppliers, and other third- party service providers, are subject to cyber- attacks or other security incidents including computer viruses or other malicious codes, phishing attacks, unauthorized access attempts, cyber extortion, business email compromise, **deepfake or** social engineering **schemes** , denial of service attacks, hacking, ransomware, or other cyberattacks attempting to exploit vulnerabilities. **Cybercriminals have increasingly demonstrated advanced capabilities, such as use of zero- day vulnerabilities, and rapid integration of new technology such as generative artificial intelligence.** Continued geographical turmoil, including the ongoing ~~conflict~~ **conflicts** between Russia and Ukraine **and Israel and Hamas** , has heightened the risk of cyberattack. Such incidents could result in unauthorized access to information including customer, consumer or other company confidential data as well as disruptions to operations. We, and the third- parties we do business with, have experienced in the past, and expect to continue to experience, cybersecurity threats and attacks, although to date none ~~has been~~ **had a** material **impact on our operations or business** . To address the risks to our information technology systems and data, we maintain an information security program that includes updating technology, developing security policies and procedures, implementing and assessing the effectiveness of controls, monitoring and routine testing of our information systems, conducting risk assessments of third- party service providers and designing business processes to mitigate the risk of such breaches. We believe that these preventative actions provide adequate measures of protection against security breaches and generally reduce our cybersecurity risks. However, cyber- threats are constantly evolving, are becoming more sophisticated and are being made by groups of individuals with a wide range of expertise and motives, which increases the difficulty of detecting and successfully defending against them. There can be no assurance that these measures will prevent or limit the impact of a future incident. Moreover, the development and maintenance of these measures requires continuous monitoring as technologies change and efforts to overcome security measures evolve. Additionally, we rely on services provided by third- party vendors for certain information technology processes and functions, which makes our operations vulnerable to a failure by any one of these vendors to perform adequately or maintain effective internal controls. If we are unable to prevent or adequately respond to and resolve an incident, it may have a material, negative impact on our operations or business reputation, and we may experience other adverse consequences such as loss of assets, remediation costs, litigation, regulatory investigations, and the failure by us to retain or attract customers following such an event. If we are not able to successfully implement our business transformation initiative or utilize information technology systems and networks effectively, our ability to conduct our business may be negatively impacted. We continue to implement our multi- year business transformation initiative to execute significant change to our global processes, capabilities and operating model, including in our Global ~~Enablement~~ **Business Services** (~~GE~~ **GBS**) ~~organization~~ **operating model initiative** , in order to provide a scalable platform for future growth, while reducing costs. As technology provides the backbone for greater process alignment, information sharing and scalability, we are also making investments in our information systems, including the multi- year program to replace our enterprise resource planning (ERP) system currently underway, which includes the transformation of our financial processing systems to enterprise- wide systems solutions. These systems implementations are part of our ongoing business transformation initiative, and we currently plan to implement these systems throughout all parts of our businesses. If we do not allocate and effectively manage the resources necessary to build and sustain the proper information technology infrastructure, or if we fail to achieve the expected benefits from this initiative, it may impact our ability to process transactions accurately and efficiently and remain in step with the changing needs of our business, which could result in the loss of customers and revenue. In addition, failure to either deliver the applications on time ~~(due to operational limitations caused by the COVID- 19 pandemic or otherwise),~~ or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers and revenue. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of business processes and controls, including our internal control over financial reporting processes, to maintain effective controls over our financial reporting. We utilize cloud- based services and systems and networks managed by third- party vendors to process, transmit and store information and to conduct certain of our business activities and transactions with employees, customers, vendors and other third parties. Our utilization of these cloud- based services and systems will increase as we implement our business transformation initiatives. If any of these third- party service providers or vendors do not perform effectively, or if we fail to adequately monitor their performance (including compliance with service- level agreements or regulatory or legal requirements), we may ~~not be able to achieve expected cost savings, we may~~ have to incur additional costs to correct errors made by such service providers, our reputation could be harmed or we could be subject to litigation, claims, legal or regulatory proceedings, inquiries or investigations. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property or sensitive data through security breaches or otherwise, incorrect or adverse effects on financial reporting, litigation or remediation costs, or damage to our reputation, which could have a negative impact on employee morale. In addition, the management of multiple third- party service providers increases operational complexity and decreases our control. Risks Related to Our Global Business, Litigation, Laws and Regulations Laws and regulations could adversely affect our business. Food products are extensively regulated in most of the countries in which we sell our products. We are subject to numerous laws and regulations relating to the growing, sourcing, manufacturing, storage, labeling, marketing, advertising and distribution of food products, as well as laws and regulations relating to financial reporting requirements, the environment, consumer protection, **product design,** competition, anti- corruption, privacy, **machine learning and artificial intelligence,** relations with distributors and retailers, foreign supplier verification, customs and trade laws, including the import and export of products and product ingredients, employment, and health and safety. Enforcement of existing laws and regulations **, including changes in the enforcement priorities of regulators** , changes in legal requirements, and / or evolving interpretations of existing regulatory requirements may result in increased compliance costs and create other obligations, financial or otherwise, that could adversely affect our business, financial condition or operating results. Increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the attributes of food products and ingredients may increase compliance costs and create other obligations that could adversely affect our business, financial condition or operating results. Governments may also impose requirements and restrictions that impact our business, such as labeling disclosures pertaining to ingredients. For example," Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of 1986," in California exposes all food companies to the possibility of having to provide warnings on their products in that state. If we were required to add warning labels to any of our products or place warnings in locations where our products are sold in order to comply with Proposition 65, the sales of those products and other products of our company could suffer, not only in those locations but elsewhere. In addition, there are various compliance obligations for companies that process personal data of certain individuals, including such obligations required by the European Union' s General Data Protection Regulation (GDPR), which affects all member states of the European Economic Area, and the California Consumer Privacy Act (CCPA). These types of data privacy laws create a range of compliance obligations for companies that process personal data of certain individuals and increases financial penalties for non- compliance. Our efforts to comply with these privacy and data protection laws may not be successful, or may be perceived to be unsuccessful, which could adversely affect our business in the United States, the European Union and in other countries. In the United States, for example, the CCPA imposes requirements on companies that do business in California and collect personal information from certain individuals, including notice, consent and service provider requirements. The CCPA also provides for civil penalties for companies that fail to comply with these requirements, as well as a private right of action for data breaches. Further, the California Privacy Rights Act (~~"~~CPRA ~~"~~) went into full effect on January 1, 2023 (with a ' look- back' to January 1, 2022). The CPRA builds on the CCPA and among other things, requires the establishment of a dedicated agency to regulate privacy issues. In 2021, Virginia, Colorado, Connecticut and Utah ~~all have~~ adopted laws which ~~will~~ **have now** ~~take~~ **taken** effect introducing new privacy obligations, which ~~may~~ **have** ~~require~~ **required** us to develop additional compliance mechanisms and processes. Many other states are considering similar legislation. A broad range of legislative measures also have been introduced at the federal level. There also is a wide range of enforcement agencies at both the state and federal levels that can review companies for privacy and data security concerns based on general consumer protection laws. The Federal Trade Commission and state Attorneys General all are aggressive in reviewing privacy and data security protections for consumers. Accordingly, failure to comply with federal and state laws (both those currently in effect and future legislation) regarding privacy and security of personal information could expose us to fines and penalties under such laws. There also is the threat of consumer class actions related to these laws and the overall protection of personal data. Even if we are not determined to have violated these laws, government investigations into these issues typically require the expenditure of significant resources and generate negative publicity, which could harm our reputation and our business. Similarly, outside of the United States, there are various laws and regulations governing the collection, use, disclosure, transfer, or other processing of personal data. For instance, the GDPR, which applies to the processing of personal data of individuals in the European Union, is wide- ranging in scope and imposes numerous requirements on companies that process personal data, including strict rules on the transfer of personal data to countries outside the European Union, including the United States. Beyond GDPR, there are privacy and data security laws in a growing number of countries around the world (including in the United Kingdom as a result of Brexit). While many loosely follow GDPR as a model, other laws contain different or conflicting provisions. These laws may impact our ability to conduct our business activities and the costs associated with these activities. Litigation, legal or administrative proceedings could have an adverse impact on our business and financial condition or damage our reputation. We are party to a variety of legal claims and proceedings in the ordinary course of business. Since litigation is inherently uncertain, there is no guarantee that we will be successful in defending ourselves against such claims or proceedings, or that management' s assessment of the materiality or immateriality of these matters, including any reserves taken in connection with such matters, will be consistent with the ultimate outcome of such claims or proceedings. In the event that management' s assessment of the materiality or immateriality of current claims and proceedings proves inaccurate, or litigation that is material arises in the future, there may be a material adverse effect on our financial condition. Any adverse publicity resulting from allegations made in litigation claims or legal or administrative proceedings (even if untrue) may also adversely affect our reputation. These factors and others could have an adverse impact on our business and financial condition or damage our reputation. Our international and cross- border operations are subject to additional risks. We operate our business and market our products internationally. In fiscal year ~~2022~~ **2023** , approximately ~~38~~ **39** % of our sales were generated in countries other than the U. S. Our international operations are subject to additional risks, including fluctuations in currency values, foreign currency exchange controls, discriminatory fiscal policies, compliance with U. S. and foreign laws, enforcement of remedies in foreign jurisdictions and other economic or political uncertainties. Several countries within the European Union continue to experience sovereign debt and credit issues, which causes more volatility in the economic environment throughout the European Union and the U. K. Additionally, sales in countries other than the U. S., together with finished goods and raw materials imported into the U. S., are subject to risks related to fundamental changes to tax laws as well as the imposition of tariffs, quotas, trade barriers and other similar restrictions. All of these risks could result in increased costs or decreased revenues, which could adversely affect our profitability. The global nature of our business, changes in tax legislation and the resolution of tax uncertainties create volatility in our effective tax rate. As a global business, our tax rate from period to period can be affected by many factors, including changes in tax legislation, our global mix of earnings, the tax characteristics of our income, acquisitions and dispositions, adjustments to our reserves related to uncertain tax positions, changes in valuation allowances and the portion of the income of international subsidiaries that we expect to remit to the U. S. and that will be taxable. In addition, significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish accruals for certain tax contingencies when, despite the belief that our tax return positions are appropriately supported, the positions are uncertain. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. Our effective tax rate includes the impact of tax contingency accruals and changes to those accruals, including related interest and penalties, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to our effective tax rate in the year of resolution. Unfavorable resolution of any particular issue could increase the effective tax rate and may require the use of cash in the year of resolution.