INTERNATIONAL FLAVORS & FRAGRANCES INC
Form 10-K
March 02, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-4858
INTERNATIONAL FLAVORS & FRAGRANCES INC.
(Exact name of registrant as specified in its charter)

NEW YORK	13-1432060
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
521 WEST 57TH STREET, NEW YORK, N.Y.	10019
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 765-5500
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value 12 1/2¢ per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ¨

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

For the purpose of reporting the following market value of registrant's outstanding common stock, the term "affiliate" refers to persons, entities or groups which directly or indirectly control, are controlled by, or are under common control with the registrant and does not include individual executive officers, directors or less than 10% shareholders. The aggregate market value of registrant's common stock not held by affiliates as of June 30, 2014 was $8,472,499,224.

As of February 12, 2015, there were 80,742,973 shares of the registrant's common stock, par value 12 1/2¢ per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2015 Annual Meeting of Shareholders (the "IFF 2015 Proxy Statement") are incorporated by reference in Part III of this Form 10-K.

INTERNATIONAL FLAVORS & FRAGRANCES INC.
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PART I

When used in this report, the terms “IFF,” “the Company,” “we,” “us” and “our” mean International Flavors & Fragrances Inc. and its subsidiaries.

ITEM 1. BUSINESS.

We create, manufacture and supply flavors and fragrances for the food, beverage, personal care and household products industries either in the form of compounds or individual ingredients. Our flavors and fragrances compounds combine a large number of ingredients that are blended, mixed or reacted together to produce proprietary formulas created by our perfumers and flavorists. Utilizing our capabilities in consumer insight, research and product development (“R&D”) and creative expertise, we collaborate with our customers to drive consumer preference for our customers’ brands. This collaboration in turn helps bolster our customers’ market share and grow equity in their brand portfolio.

The global market for flavors and fragrances has expanded consistently, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer products containing flavors and fragrances. The flavors and fragrances market is part of a larger market which supplies a variety of ingredients and components that consumer products companies utilize in their products. The broader market includes large multinational companies and smaller regional and local participants which supply products such as seasonings, texturizers, spices, enzymes, certain food related commodities, fortified products and cosmetic ingredients. In 2014, we achieved sales of approximately $3.1 billion, making us one of the top four companies in the global flavors and fragrances sub-segment of the broader ingredients and compounds market. Within the flavors and fragrances sub-segment of this broader market, the top four companies comprise approximately two-thirds of the total estimated sales. We believe that our diversified business platform consisting of expansive geographic coverage, a broad product portfolio and a global and regional customer base, positions us to achieve long-term growth as the flavors and fragrances markets expand.

With operations in 32 different countries worldwide and approximately 6,200 employees, we collaborate with our customers to serve consumers in more than 100 countries. We operate in two business segments, Flavors and Fragrances, with sales to customers in the four regions set forth below:

Region	% of 2014 Sales	
Europe, Africa, Middle East	34	%
Greater Asia	28	%
North America	22	%
Latin America	16	%

We have a strong commitment to emerging markets. We believe that significant future growth potential for the flavors and fragrances industry, and for our business, exists in the emerging markets (all markets except North America, Japan, Australia, and Western, Southern and Northern Europe). Over the past five years our local currency growth rate in emerging markets has significantly outpaced that of developed markets. We expect this trend to continue for the foreseeable future. The emerging market local currency growth rate in 2014 was 6%. We have had operations in some of the largest emerging markets for multiple decades. As a result of these established operations, sales in emerging markets represented 50% of 2014 sales, up from 49% in 2013. As our customers in emerging markets grow their businesses, they will have the ability to leverage our long-standing presence and our extensive market knowledge to help drive their brands.

We believe we have a diversified product and customer portfolio that provides us with greater stability and growth potential across a variety of economic environments. In 2014, our Flavors business represented 47% of our sales, while our Fragrances business represented 53% of sales. During 2014, our 25 largest customers accounted for 53% of our sales. Sales to our largest customer accounted for 12%, 12% and 11% of our sales in 2014, 2013 and 2012, respectively. Such sales were largely in our Fragrances business.

For financial information about our operating segments and the geographic areas in which we do business, please see Note 12 of our Consolidated Financial Statements included in this Form 10-K.

Strategic Priorities

We are focused on generating sustainable profitable growth across our business. We believe that we can continue to deliver returns above cost of capital on a long-term basis and increase shareholder value by leveraging our geographic reach, strengthening our innovation platform and maximizing our portfolio. We are in the process of refreshing the key elements of our strategic priorities, which are the following:

- Leverage geographic reach: Our strong geographic reach allows us to capture the benefits of attractive population growth and wealth creation in emerging markets, representing a key component of our growth plan. In emerging markets, strong GDP growth and a significant expansion of the middle-class consumer are increasing the demand for better-flavored and fragranced consumer products. To support this trend, we have made significant investments in emerging markets. Since 2008, we have opened eight state-of-the-art creative centers in Shanghai, Sao Paulo, Moscow, Singapore, Mumbai, Delhi, Chengdu, and Beijing. We continue to invest in the fast growing region of Greater Asia. In 2013, we opened a new flavors manufacturing facility in Guangzhou, China, which followed the 2012 opening of our new flavor and fragrance facility in Singapore, both of which are part of a more than $100 million investment in Greater Asia. We also announced a $50 million investment to fund our expansion in Indonesia, bringing our total investment in Greater Asia to more than $150 million. We also continued toward the completion of our more than $50 million expansion in Turkey, expected to be completed in 2015. We expect that the emerging markets will represent more than half of our annual sales in 2015, as we estimate that growth potential in these markets will outpace the expected growth in the developed markets.
- Strengthen innovation platform: We continue to focus on creating innovative and distinctive products that meet consumer needs and drive consumer preference for our customers' brands. We have been strengthening our platforms by leveraging our knowledge of consumer trends to direct ten key research platforms that address current and expected future needs of consumers. We in turn use our customer-centric knowledge and research platforms to drive technological development and create a cost-effective product portfolio. We anticipate that this focus on innovation will be instrumental in meeting future consumer needs, thereby driving our customers' growth and in turn market share gains for both IFF and our customers. To capture these opportunities in Flavors, we are focusing on key flavor systems technologies to provide consumers with healthier solutions and an enhanced taste experience. In Fragrances, we are focusing on ingredients, including our naturals portfolio, as well as our delivery systems. In 2014, we acquired Aromor Flavors and Fragrances Ltd. ("Aromor"), a manufacturer and marketer of complex specialty ingredients that are used in fragrances and flavors, to provide us with cost-effective, quality ingredients to use in our compounds creations.
- Maximize portfolio: We believe in a disciplined, analytical approach toward value creation to maximize our portfolio and drive sustained profitable growth. We continuously look for and identify opportunities to strengthen and grow the business through internal improvements, disciplined allocation of resources towards advantaged categories, customers and/or markets, working capital management and return-based capital investments.

Our Product Offerings

Flavors

Flavors are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining consumer preference of the end products in which they are used. While we are a global leader, our Flavors business is regional in nature, with different formulas that reflect local taste and ingredients. As a leading creator of flavor compounds, we help our customers deliver on the promise of delicious and healthy foods and drinks that appeal to consumers. Our Flavors compounds are ultimately used by our customers in four end-use categories: (1) Savory, (2) Beverages, (3) Sweet, pharmaceutical and oral care ("Sweet"), and (4) Dairy. We create our flavors in our regional creative and technical centers that allow us to satisfy local taste preferences, while also helping to ensure regulatory compliance and production standards. We also manufacture a limited amount of flavor ingredients for our use in developing flavor compounds.

- Savory - We produce flavors which are used in soups, sauces, condiments, prepared meals, meat and poultry, and potato chips and other savory snacks.

- Beverages - We create flavors for juice drinks, carbonated beverages, flavored waters and spirits and have creative expertise dedicated to beverage flavor systems.

- Sweet - We create innovative flavor concepts and heat-stable flavors for bakery products, as well as candy, chewing gum and cereal, which each have distinctive sweet tastes. For pharmaceutical and oral care products, we produce flavors for products such as toothpaste and mouthwash.

- Dairy - We offer a complete range of value-added compounded flavors for all dairy applications, including yogurt, ice cream, cheese, cream and butter flavor. We also offer a wide range of quality vanilla extracts and a variety of flavor solutions that build on our understanding of vanilla.

We develop thousands of different flavors and taste offerings for our customers, most of which are tailor-made. We continuously develop new formulas in order to meet changing consumer preferences and customer needs. Consumers, especially those in developed markets such as the United States and Western Europe, are increasingly seeking to focus on products which promote health and wellness. They want food and beverage products that are both good for them and taste good. Our objective is to capture a significant share of this shift in consumer demand by capitalizing on the ability of our naturals and proprietary ingredients and flavor systems technologies to provide consumers with healthier solutions without changing the taste experience of the food or beverage.

Fragrances

We are a global leader in the creation of fragrances. Our fragrances are a key component in the world's finest perfumes and best-known consumer brands, including fabric care, home care, personal wash, hair care and toiletries. Our Fragrances business consists of Fragrance Compounds and Fragrance Ingredients.

- Fragrance Compounds — In 2014, we realigned our creative and commercial teams within Fragrance Compounds into two broad market categories: Fine Fragrances and Consumer Fragrances. Fragrance Compounds refers to our fragrance compounds that are ultimately used by our customers in these two market categories.
Fine Fragrances — We have created some of the industry-leading fine fragrance classics as well as cutting-edge niche fragrances, as evidenced by our number of top sellers and the success of our new launches.
Consumer Fragrances — Our consumer fragrances include five end-use categories of products: (1) Fabric Care, including laundry detergents, fabric softeners and specialty laundry products; (2) Home Care, including household cleaners, dishwashing detergents and air fresheners; (3) Personal Wash, including bar soap and shower gel; (4) Hair Care; and (5) Toiletries.
- Fragrance Ingredients — We create, develop and manufacture a broad portfolio of innovative, high-quality and cost-effective fragrance, and to a much smaller extent flavor, ingredients, for internal use in our compound businesses and for external use in preparation of compounds by our customers and other third parties, including our competitors. With over 1,200 separate fragrance ingredients, we believe that we lead the industry with the breadth of our product portfolio. We manufacture our ingredients through our global network of production facilities and continue to work to optimize our manufacturing processes, as we have done during the year through the closure of our Augusta facility. We believe that this network gives us the flexibility to make products in different locations while maintaining the same high and consistent standards of product quality. We will continue to look for opportunities to strengthen this component of our portfolio, particularly in the specialty chemicals area, as evidenced by our 2014 acquisition of Aromor, while at the same time ensuring we maintain a cost-effective portfolio, particularly in the price sensitive commodities component.

We believe that our in-house naturals operations, led by Laboratoire Monique Rémy ("LMR") in Grasse, France, are industry leading in the processing quality materials and offer decades of experience understanding natural products and perfecting the process of transforming naturals, such as narcissus, jasmine and blackcurrant bud, into pure absolutes that retain the unique fragrance of their origin.

Our perfumers have access to our large portfolio of innovative, high-quality and cost-effective ingredients to support their creativity, which in turn provides our customers with a unique identity for their brands. We also create innovative delivery systems, including (i) our proprietary encapsulation technology, which consists of individual fragrance droplets coated with a protective polymetric shell to deliver superior fragrance performance throughout a product's lifecycle and (ii) our exclusive polymer delivery system, PolyIFF, which is a "solid fragrance" technology that allows us to add scent to functional or molded plastic.

We also collaborate with some of the world's leading art and fashion schools to tap into the creative minds of the future leaders of fashion and design. We collaborate with scientists, writers, artists, musicians and film-makers to expose our perfumers to new and constantly evolving creative territories and approaches.

Core Competencies

We focus on five core competencies that we believe enable us to (i) successfully provide our customers with superior products, (ii) drive productivity and efficiency gains and (iii) improve our margins and our cash flow. In that regard, we strive to:

- Develop a deep understanding of consumers' preferences, values and branding. Through our Consumer Insights program, we have dedicated professionals working to understand consumer trends all around the globe. Our consumer and marketing teams interpret consumer trends, monitor product launches, analyze quantitative market data and conduct several hundred thousand consumer interviews annually. Our sensory experts explore flavor and fragrance performance, the psychophysics of sensory perception (including chemesthetic properties such as warming, cooling and tingling), the genetic basis for flavor and fragrance preference, and the effects of tastes and aromas on mood, performance, health and well-being. Utilizing our proprietary statistical programs, we use this information to enable us to understand the emotional connections between a prospective product and the consumer. The ability to pinpoint the likelihood of a product's success translates into stronger brand equity for our customers' products, a higher likelihood of repeat purchases and market share gains for our customers and us, as well as a more efficient creative process within IFF.

- Develop and utilize technology to create innovative solutions that drive brand success. We spend approximately 8% of our sales on the research, development and implementation of new molecules, compounds and technologies that help our customers respond to changing consumer preference. As a result of this investment, we have been granted 259 patents in the United States since 2000, including 8 in 2014, and we have developed many unique molecules and delivery systems for our customers that are used as the foundations of successful flavors and fragrances around the world.

- Cultivate our creative expertise in collaboration with our customers. We have a network of creative centers around the world where we create or adapt the basic flavors or fragrances that we have developed in the R&D process to commercialize for use in our customers' consumer products. Our global creative teams consist of perfumers, fragrance evaluators and flavorists, as well as marketing, consumer insight and technical application experts, from a wide range of cultures and nationalities. In close partnership with our customers' product development groups, our creative teams create the scents and tastes that our customers are seeking in order to satisfy consumer demands in each of their markets.

- Develop strong customer intimacy. We believe that understanding our customers' brands, technologies; strategies and priorities enable us to provide them with superior products and solutions. This, combined with supply chain excellence and our global regulatory capabilities are key to being selected as a preferred/"core list supplier".

- Drive efficiency in all that we do. We focus on integrating our consumer insight, technology, creative, regulatory and manufacturing expertise in a manner that we believe drives productivity and efficiency to improve profitability on a long-term basis. We believe that discipline in driving efficiencies is a significant factor in our ability to simultaneously enhance margins and cash flows, while continuing to invest in our key growth initiatives.

Research and Product Development

We consider our R&D development infrastructure to be one of our key competencies and we focus and invest substantial resources in the research and development of new and innovative compounds, formulas and technologies and the application of these to our customers' products. Using the knowledge gained from our Consumer Insights program, we strategically focus our resources around key R&D platforms that address consumer needs or preferences, or anticipate a future preference. By aligning our resources around these platforms, we ensure the proper support and focus for each program so that it can be further developed and eventually be accepted for commercial application.

We maintain six R&D centers around the world, where we employ scientists and application engineers to support (i) the discovery of new materials, (ii) the development of new technologies, such as our delivery systems, (iii) the creation of new compounds and (iv) the enhancement of existing ingredients and compounds. In our 31 creative centers around the world, including our newest facilities in Shanghai, Sao Paulo, Moscow, Singapore, Mumbai, Delhi, Chengdu, and Beijing, teams of flavorists and perfumers work with our customers' product development groups to create the exact scent or taste they are seeking. In 2014, we employed about 1,250 people in research and product development activities. We spent $254 million, $260 million and $234 million, or approximately 8%, 9% and 8% of sales in 2014, 2013 and 2012, respectively, on R&D activities.

Our ingredients research program discovers molecules found in natural substances and creates new molecules that are subsequently tested for their fragrance or flavor value. To broaden our offering of natural, innovative and unique products, we seek collaborations with research institutions and other companies throughout the world. We have created a number of such collaborations, for example, our ongoing relationship with Amyris, which strengthens and broadens the pipeline of new and innovative molecules that we intend to launch in the coming years. To further strengthen and broaden our technology offerings and capabilities, we acquired Aromor in January 2014 to provide us with cost-effective complex specialty ingredients.

The development of new and customized flavor and fragrance compounds is a complex process calling upon the combined knowledge of our scientists, flavorists and perfumers. Scientists from various disciplines work in project teams with the flavorists and perfumers to develop flavor and fragrance compounds with consumer preferred performance characteristics. The development of new flavor and fragrance compounds requires (i) in-depth knowledge of the flavor and fragrance characteristics of the various ingredients we use, (ii) an understanding of how the many ingredients in a consumer product interact and (iii) the creation of controlled release and delivery systems to enhance flavor and fragrance performance. To facilitate this process, we have a scientific advisory board comprised of five leading scientists that provide external perspectives and independent feedback on our R&D initiatives.

Development of new flavors and fragrances is driven by a variety of sources including requests from our customers, who are in need of a specific flavor or fragrance for use in a new or modified consumer product, or as a result of internal initiatives stemming from our Consumer Insights program. Our product development team works in partnership with our scientists and researchers to optimize the consumer appeal of the flavor or fragrance. A collaborative process between our researchers, our product development team and our customers then follows to perfect the flavor or fragrance so that it is ready to be included in the final consumer product.

In addition to creating new flavors and fragrances, our researchers and product development teams advise customers on ways to improve their existing products by adjusting or substituting current ingredients with more readily accessible or less expensive materials or by modifying the current ingredients to produce an enhanced yield. This often results in creating a better value proposition for our customers.

Our flavor and fragrance formulas are treated as trade secrets and remain our proprietary asset. Our business is not materially dependent upon any individual patent, trademark or license.

Supply Chain

We have an integrated supply chain from raw material sourcing through manufacturing, quality assurance, regulatory compliance and distribution, which permits us to provide our customers with consistent quality products on a timely and cost-effective basis.

Procurement. The ingredients that we use in our compounds are both natural and synthetic. We purchase approximately 8,500 different raw materials from about 2,300 domestic and international suppliers. Approximately half of the materials we purchase are naturals or crop related items and the other half are synthetics and chemicals. Natural ingredients are derived from flowers, fruits and other botanical products as well as from animal products. They contain varying numbers of organic chemicals that are responsible for the fragrance or flavor of the natural product. The natural products are purchased in processed or semi-processed form. Some are used in compounds in the state in which they are purchased and others after further processing. Natural products, together with various chemicals, are also used as raw materials for the manufacture of synthetic ingredients by chemical processes. Our flavor products also include extracts and seasonings derived from various fruits, vegetables, nuts, herbs and spices as well as microbiologically-derived ingredients. We manufacture most of our synthetic ingredients for use in our fragrance compounds as well as for sale to others.

While we purchase a diverse portfolio of raw materials, about 80% of our spending is focused on approximately 800 materials, which allows us to leverage our buying power with suppliers. In order to ensure our supply of raw materials, achieve favorable pricing and provide timely transparency regarding inflationary trends to our customers, we continue to be focused on (i) implementing a forward-buy strategy, (ii) entering into supplier relationships to gain access to supplies that we do not have, (iii) implementing indexed pricing, (iv) reducing the complexity of our formulations and (v) evaluating whether it is more profitable to buy or make an ingredient. We are also concentrating on local country sourcing with our own procurement professionals.

Manufacturing and Distribution. We have 29 manufacturing sites around the world that support more than 36,000 products. Our major manufacturing facilities are located in the United States, the Netherlands, Spain, Great Britain, Turkey, Brazil, Mexico, Australia, China, India, and Singapore. Our supply chain initiatives in developing markets are focused on increasing capacity and investments in key technologies, while within our more mature markets, we tend to focus on consolidation and cost optimization as well as implementing new technologies. In addition to our own manufacturing facilities, we develop relationships with third parties that permit us to expand the technologies, capabilities and capacity that we can access to serve our customers.

Based on the regional nature of the Flavors business and the concerns regarding the transportability of raw materials, we have established smaller manufacturing facilities in our local markets that are focused on local needs. Products within the Fragrances business are typically composed of compounds that are more stable and more transportable around the world. Consequently, we have fewer manufacturing facilities within our Fragrances business, which produce compounds and ingredients for global distribution.

In 2014, we continued to invest in our facilities, notably in emerging markets. We opened our new Creative & Applications lab at our existing facility in Jakarta, Indonesia and opened a new sales office and laboratory in Chile. Construction is also ongoing of a new creative center and expansion of our manufacturing facilities in Gebze, Turkey.

Sustainability. As a leading global creator of flavors and fragrances for a wide variety of consumer products, sustainability has been an important part of how we do business. Our sustainability strategy, which is closely aligned with our long-term business strategy, was first formalized in 2011 and consists of four pillars: our products; our impact; our sources; and our people. While the industry and our Company constantly evolves, we are committed to conducting our business in line with our dedication to the environment, to society and to the shareholders, customers and others that have placed their confidence in us. In 2014, we were identified as a leader in Climate Change Reporting and will be included in the Climate Disclosure Leadership Index compiled by the CDP (formerly known as the Carbon Disclosure Project). In addition, during 2014 a third party completed the installation of a solar panel field on IFF property. The solar panel field is the largest in the industry. In addition to the installation of the solar panel field, the agreement we entered into also called for the third party, who is the owner of the solar panels, to operate and maintain the installation for a multi-year period.

Governmental Regulation

We develop, produce and market our products in a number of jurisdictions throughout the world and are subject to federal, regional and local legislation and regulations in each of the various countries. Our flavor and many of our fragrance products are intended for the food, beverage and pharmaceutical industries, which are subject to strict quality and regulatory standards. As a result, we are required to meet these strict standards which, in recent years, have become increasingly stringent.

In addition, we are subject to various rules relating to health, work safety and the environment at the local and international levels in the various countries in which we operate. Our manufacturing facilities throughout the world are subject to environmental standards relating to air emissions, sewage discharges, the use of hazardous materials, waste disposal practices and clean-up of existing environmental contamination. In recent years, there has been a significant increase in the stringency of environmental regulation and enforcement of environmental standards, and the costs of compliance have risen significantly. We expect that the trend of increased regulation and disclosure will continue in the future.

Our products and operations are subject to regulation by governmental agencies in each of the markets in which we operate. These agencies include (1) the Food and Drug Administration and equivalent international agencies that regulate the flavors and other ingredients in consumer products, (2) the Environmental Protection Agency and equivalent international agencies that regulate our fragrance compounds, (3) the Occupational Safety and Health Administration and equivalent international agencies that regulate the working conditions in our manufacturing, research laboratories and creative centers, (4) local and international agencies that regulate trade and customs, (5) the Drug Enforcement Administration and other local or international agencies that regulate controlled chemicals that we use in our operations and (6) the Chemical Registration/Notification authorities that regulate chemicals that we use in, or transport to, the various countries in which we manufacture and/or market our products. We have seen an increase in registration and reporting requirements concerning the use of certain chemicals in a number of countries.

Competition

The flavors and fragrances market is part of a larger market which supplies a variety of ingredients and components that consumer products companies utilize in their products. The broader market includes large multinational companies or smaller regional and local participants which supply products such as seasonings, texturizers, spices, enzymes, certain food related commodities, fortified products and cosmetic ingredients.

The market for flavors and fragrances is highly competitive. Based on annual sales, our main competitors consist of (1) the three other large global flavor and fragrance manufacturers, Givaudan, Firmenich and Symrise, (2) mid-sized companies, (3) numerous small and local manufacturers with more limited research and development capabilities who focus on narrow market segments and local customers and (4) consumer product companies who may develop their own flavors or fragrances. We, together with the other top three companies, represent approximately two-thirds of the total estimated sales in the global flavors and fragrances sub-segment of the broader market.

We believe that our ability to compete successfully in the flavors and fragrances market is based on (1) our understanding of consumers, (2) innovation, arising from the creative skills of our perfumers and flavorists and the technological advances resulting from our research and development activities, (3) our ability to create products which are tailor-made for our customers' needs, (4) developing strong customer intimacy and (5) driving efficiency in all that we do.

Large multinational customers and, increasingly, mid-sized customers, may limit the number of their suppliers, placing some on "core lists," giving them priority for development and production of their new or modified products. To compete more successfully in this environment, we must make continued investments in customer relationships and tailor product research and development in order to anticipate customers' needs, provide effective service and secure and maintain inclusion on certain "core lists."

Employee Relations

At December 31, 2014, we had approximately 6,200 employees worldwide, of whom approximately 1,400 are employed in the United States. We believe that relations with our employees are good.

Availability of Reports

We make available free of charge on or through the Investor Relations link on our website, www.iff.com, all materials that we file electronically with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC. During the period covered by this Form 10-K, we made all such materials available through our website as soon as reasonably practicable after filing such materials with the SEC.

You may also read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, and you may obtain information on the operation of the Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, www.sec.gov, that contains reports, proxy and information statements and other information that we file electronically with the SEC.

A copy of our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Audit Committee, Compensation Committee and Nominating and Governance Committee of the Board of Directors are posted on the Investor Relations section of our website, www.iff.com.

Our principal executive offices are located at 521 West 57th Street, New York, New York 10019 (212-765-5500).

Executive Officers of Registrant

The current executive officers of the Company, as of March 2, 2015, are listed below.

Andreas Fibig	53	Chairman of the Board and Chief Executive Officer
Richard A. O'Leary	54	Interim Chief Financial Officer, Vice President and Controller
Nicolas Mirzayantz	52	Group President, Fragrances

Matthias Haeni	49	Group President, Flavors
Ahmet Baydar	62	Senior Vice President, Research and Development
Angelica T. Cantlon	63	Senior Vice President, Human Resources
Anne Chwat	55	Senior Vice President, General Counsel and Corporate Secretary
Francisco Fortanet	46	Senior Vice President, Operations

Andreas Fibig has served as our Chairman since December 2014 and Chief Executive Officer since September 2014. Mr. Fibig has been a member of our Board of Directors since 2011. Previously, Mr. Fibig served as President and Chairman of the Board of Management of Bayer HealthCare Pharmaceuticals, the pharmaceutical division of Bayer AG, since September 2008. Prior to this position, Mr. Fibig held a number of positions of increasing responsibility at Pfizer Inc., a research-based pharmaceutical company, including as Senior Vice President in the US Pharmaceutical Operations group from 2007 through 2008 and as President, Latin America, Africa and Middle East from 2006 through 2007.

Richard A. O'Leary has served as our Interim Chief Financial Officer since December 2014 and as our Vice President and Controller since June 2009. Mr. O'Leary joined our Company in July 2007, and served as our Vice President, Corporate Development from July 2007 to May 2009, and as our Interim Chief Financial Officer from July 2008 to May 2009. Prior to joining us, Mr. O'Leary served in various positions since 1986 at International Paper Co., a paper and packaging company, including, as Chief Financial Officer of International Paper Company (Brazil) from June 2004 to June 2007.

Nicolas Mirzayantz has served as our Group President, Fragrances since January 2007, and originally joined our Company in 1988. Prior to his appointment as Group President, Fragrances, he served as a member of our Temporary Office of the Chief Executive Officer from October 1, 2009 until February 2010, our Senior Vice President, Fine Fragrance and Beauty Care and Regional Manager North America, from March 2005 to December 2006, our Senior Vice President, Fine Fragrance and Beauty Care from October 2004 to February 2005, and our Vice President Global Fragrance Business Development from February 2002 to September 2004.

Matthias Haeni has served as our Group President, Flavors since April 2014. Mr. Haeni joined us in 2007 in the role of Regional General Manager, Flavors Greater Asia. In 2010, Mr. Haeni transferred to Hilversum, The Netherlands where he served as Regional General Manager for Flavors Europe, Africa, and the Middle East (EAME).

Ahmet Baydar has served as our Senior Vice President, Research and Development since September 2010, and as our Vice President, Global Fragrance Research from February 2009 to August 2010. Prior to joining us, Dr. Baydar served as a Director of Shave Care and Integrated Shaving Systems at The Procter & Gamble Company, a branded consumer packaged goods company, and Vice President of R&D-Personal Care at The Gillette Company, a personal care products company.

Angelica T. Cantlon has served as our Senior Vice President, Human Resources since August 2009. Prior to joining us, Ms. Cantlon served as Senior Vice President-International Chief Administrative Officer of MetLife, Inc., an insurance and financial services company, from June 2005 to August 2009, and Senior Vice President-Human Resources Business Leader, of Metlife from September 1999 to June 2005.

Anne Chwat has served as our Senior Vice President, General Counsel and Corporate Secretary since April 2011. Prior to joining us, Ms. Chwat served as Executive Vice President and General Counsel of Burger King Holdings, Inc., a fast food hamburger restaurant company, from September 2004 to April 2011. From September 2000 to September 2004, Ms. Chwat served in various positions at BMG Music (now Sony Music Entertainment), including as Senior Vice President, General Counsel and Chief Ethics and Compliance Officer.

Francisco Fortanet has served as Senior Vice President, Operations since February 27, 2012. Mr. Fortanet joined our Company in 1995, and has served as our Vice President, Global Manufacturing Compounding from January 2007 to February 2012, our Vice President, Global Manufacturing from January 2006 to January 2007, our Regional Director of North America Operations from December 2003 to January 2005, the Project Manager of a Special Project in IFF Ireland from May 2003 to December 2003 and as our Plant Manager in Hazlet, New Jersey from October 1999 to May 2003.

ITEM 1A. RISK FACTORS.

We routinely encounter and address risks in conducting our business. Some of these risks may cause our future results to be different - sometimes materially different - than we presently anticipate. Below are certain important operational and strategic risks that could adversely affect our business. How we react to material future developments, as well as how our competitors react to those developments, could also affect our future results.

Volatility and increases in the price of raw materials, energy and transportation could harm our profits.

We use many different raw materials for our business, including essential oils, extracts and concentrates derived from fruits, vegetables, flowers, woods and other botanicals, animal products, raw fruits, organic chemicals and petroleum-based chemicals. Raw material costs continue to remain at elevated levels. Historically, we have experienced the greatest amount of price volatility in natural products that represent approximately half of our raw material purchases. Availability and pricing of these natural products, such as citrus and vanilla, can be impacted by crop size and quality, weather, alternative land use, and other factors which we cannot control.

If we are unable to increase the prices to our customers of our fragrance or flavor products to cover raw material and other input cost increases, or if we are unable to achieve cost savings to offset such cost increases, we could fail to meet our cost expectations and our profits and operating results could be adversely affected. Increases in prices of our products to customers may lead to declines in volume, and we may not be able to accurately predict the volume impact of price increases, which could adversely affect our financial condition and results of operations.

Similarly, commodities and energy prices are subject to significant volatility caused by market fluctuations, supply and demand, currency fluctuations, production and transportation disruptions, and other world events. As we source many of our raw materials globally to help ensure quality control, if the cost of energy, shipping or transportation increases and we are unable to pass along these costs to our customers, our profit margins would be adversely affected. Furthermore, increasing our prices to our customers could result in long-term sales declines or loss of market share if our customers find alternative suppliers or choose to reformulate their consumer products to use fewer ingredients, which could have an adverse long-term impact on our results of operations.

To mitigate our sourcing risk, we maintain strategic stock levels for critical items. However, if we do not accurately estimate the amount of raw materials that will be used for the geographic region in which we will need these materials, our margins could be adversely affected.

Our international operations are subject to economic, political and other risks that could materially and adversely affect our revenues, cash flows or financial position.

We operate on a global basis, with manufacturing and sales facilities in the United States, Europe, Africa, the Middle East, Latin America, and Greater Asia. During 2014, 79% of our net sales were to customers outside the United States and we intend to continue expansion of our international operations. As a result, our business is increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by market, are described in many of the risk factors in this section and include the following:

- governmental laws, regulations and policies adopted to manage national economic conditions, such as increases in taxes, austerity measures that may impact consumer spending, monetary policies that may impact inflation rates and currency fluctuations;

- changes in environmental, health and safety regulations, such as the continued implementation of the European Union’s REACH regulations, and the burdens and costs of our compliance with such regulations;

- the imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements, which could adversely affect our cost or ability to import raw materials or export our flavors or fragrances to surrounding markets;

- our ability to anticipate and adapt our flavors and fragrances to local preferences;

- risks and costs arising from language and cultural differences;

- changes in the laws and policies that govern foreign investment in the countries in which we operate, including the risk of expropriation or nationalization, and the costs and ability to repatriate the revenue that we generate in these countries;

- the impact of recessionary economic conditions outside of the United States;

-

risks and costs associated with political and economic instability, corruption, and social and ethnic unrest in the countries in which we operate;

- difficulty in recruiting and retaining trained personnel;
- national and regional labor strikes in the countries in which we operate;
- risks and costs associated with health or similar issues, such as a pandemic or epidemic; or

• the risks of operating in developing or emerging markets in which there are significant uncertainties regarding the interpretation, application and enforceability of laws and regulations and the enforceability of contract rights and intellectual property rights.

These factors may increase in importance as we expand our operations in emerging markets as part of our growth strategy, and the occurrence of any one or more of these factors could increase our costs and adversely affect our results of operations.

We have made investments in and are expanding our business into emerging markets and regions, which exposes us to certain risks.

As part of our growth strategy, we have increased our presence in emerging markets by expanding our manufacturing presence, sales organization and product offerings in these markets, and we expect to continue to focus on expanding our business in these markets. In addition to the currency and international operation risks described above, our operations in these markets may be subject to a variety of other risks. These risks include economies that include consumers with limited or fluctuating disposable income and discretionary spending on which the end users of our products depend, weak legal systems which may affect our ability to enforce our intellectual property and contractual rights, exchange controls, unstable governments and privatization or other government actions affecting taxes, subsidies and incentive programs and the flow of goods and currency. In conducting our business, we move products from one country to another and may provide services in one country from a subsidiary located in another country. Accordingly, we are vulnerable to abrupt changes in customs and tax regimes that may have significant negative impacts on our financial condition and operating results.

The increase in demand for consumer products using flavors and fragrances has been driven by factors outside of our control, and if these factors do not persist our future growth could be adversely affected.

Demand for consumer products using flavors and fragrances has been stimulated and broadened by changing social habits and consumer needs, an expanding global middle-class and general economic growth, especially in emerging markets. Approximately 50% of our sales during 2014 were generated in emerging markets and we expect emerging markets to continue to significantly contribute to our future growth. Increasing consumer demand for products using flavors and fragrances is dependent on factors such as increases in personal income, dual-earner households, teenage population, leisure time, consumer health concerns and urbanization and by the continued growth in world’s population, all of which are outside of our control. Changes in any number of external economic factors, or changes in social or consumer preferences, could materially adversely impact our results of operations. Accordingly, our future growth will depend upon the continued economic growth and development of consumer spending on products for which we supply flavors and fragrances in these global markets.

Our results of operations may be negatively affected by the impact of currency fluctuation or devaluation in the international markets in which we operate.

We have significant operations outside the U.S., the results of which are reported in the local currency and then translated into U.S. dollars at applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between these currencies and the U.S. dollar have fluctuated and will continue to do so in the future. Changes in exchange rates between these local currencies and the U.S. dollar will affect the recorded levels of sales, profitability, assets and/or liabilities. Additionally, volatility in currency exchange rates may adversely impact our financial condition, cash flows or liquidity. Although we employ a variety of techniques to mitigate the impact of exchange rate fluctuations, including sourcing strategies and a limited number of foreign currency hedging activities, we cannot guarantee that such hedging and risk management strategies will be effective, and our results of operations could be adversely affected.

Volatility in the global economy may adversely affect consumer spending and may negatively impact our business and operating results.

Our flavors and fragrances are components of a wide assortment of global consumer products throughout the world. Since mid-2008, the global economy has experienced significant recessionary pressures and declines in consumer confidence and economic growth. While some segments of the global economy appear to be recovering, the ongoing global recessionary economic environment in Europe has, and may in the near future, increase unemployment and underemployment, decrease salaries and wage rates, increase inflation or result in other market-wide cost pressures that will adversely affect demand for consumer products in both developed and emerging markets. In addition, growth rates in the emerging markets have moderated from previous levels. Reduced consumer spending may cause changes in our customer orders including reduced demand for our flavors and fragrances, increased pressure to reduce the price of our flavors and fragrances or order cancellations. To the extent that the volatility in global economic conditions continues, our sales, profitability and overall operating results could be adversely affected.

We may not successfully develop and introduce new products that appeal to our customers or our customers may not accurately anticipate and respond to global consumer market trends, which may adversely affect our results of operations.

Our growth and performance largely depends on our ability to successfully develop and introduce new products and product improvements that appeal to our customers, and ultimately to global consumer needs. We must continually anticipate and react to, in a timely and cost-efficient manner, changes in consumer preferences and demands. We cannot be certain that we will successfully achieve our innovation goals, such as the development of new molecules, delivery methods and other technologies. We currently spend approximately 8% of our sales on research and development; however, such investments may only generate future revenues to the extent that we are able to successfully develop products that meet our customers' specifications, can be delivered at an acceptable price and are accepted by the targeted consumer market. Furthermore, there may be significant lag times from the time we incur R&D costs to the time that these R&D costs may result in increased revenue. Consequently, even when we "win" a project, our ability to generate revenues as a result of these investments is subject to numerous customer, economic and other risks that are outside of our control, including delays by our customers in the launch of a new product, poor performance of our third-party vendors, reduced or insufficient resources allocated by our customers to promoting the new product, anticipated sales by our customers not being realized or changes in market preferences or demands, or disruptive innovations by our competitors.

If we are unable to maintain the integrity of our raw materials, supply chain and finished goods, it may result in regulatory non-compliance, litigation costs, and harm to our reputation, all of which may adversely impact sales and our results of operations.

The development, manufacture and sale of our products are subject to various regulatory requirements in each of the countries in which our products are developed, manufactured and sold. In addition, we are subject to product safety and compliance requirements established by the industry or similar oversight bodies. We use a variety of strategies, methodologies and tools to (i) identify current product standards, (ii) assess relative risks in our supply chain that can impact product integrity, (iii) monitor internal and external performance and (iv) test raw materials and finished goods to minimize the likelihood of product or process non-compliance.

Gaps in our operational processes could adversely affect the quality of our finished products and result in a regulatory non-compliance event. If a product non-compliance event were to go undetected, it could subject us to customer claims, recalls, penalties, litigation costs and settlements, remediation costs or loss of sales. As our flavors and fragrances are used as ingredients in many products meant for human consumption, these consequences would be exacerbated if our customer did not identify the defect and there was a resulting impact at the consumer level. Such a result could lead to potentially large scale adverse publicity, recalls and potential consumer litigation. Furthermore, adverse publicity about our products, including concerns about product safety or similar issues, whether real or perceived, could harm our reputation and result in an immediate adverse effect on our sales, as well as require us to utilize significant resources to rebuild our reputation.

A disruption in operations or our supply chain could adversely affect our business and financial results.

As a company engaged in development, manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters and other external factors over which we have no control. If any of these events were to occur, it could have an adverse effect on our business and financial results. In addition, while we have manufacturing facilities throughout the world, certain of our facilities are the sole source of a specific ingredient or product. If the manufacture of these ingredients or products was disrupted, the cost of relocating or replacing their production or reformulating them may be substantial, which could result in production delays or otherwise have an adverse effect on our operating results, financial condition or cash flows.

Our performance may be adversely impacted if we are not successful in managing our inventory and/or working capital balances.

We evaluate our inventory balances of materials based on shelf life, expected sourcing levels, known uses and anticipated demand based on forecasted customer order activity and changes in our product/sales mix. Efficient inventory management is a key component of our business success, financial returns profitability. To be successful, we must maintain sufficient inventory levels and an appropriate product/sales mix to meet our customers' demands, without allowing those levels to increase to such an extent that the costs associated with storing and holding other inventory adversely impact our financial results. If our buying decisions do not accurately predict sourcing levels, customer trends or our expectations about customer needs are inaccurate, we may have to take unanticipated markdowns or impairment charges to dispose of the excess or obsolete inventory, which can adversely impact our financial results. Additionally, we believe excess inventory levels of raw materials with a short shelf life in our manufacturing facilities subjects us to the risk of increased inventory shrinkage. If we are not successful in managing our inventory balances and shrinkage, our results from operations and cash flows from operations may be negatively affected.

The Company sells certain accounts receivable on a non-recourse basis to unrelated financial institutions under “factoring” agreements that are sponsored, solely and individually, by certain customers. The cost of participating in these programs was immaterial to our results in all periods. Should we choose not to participate, or if these programs were no longer available, it could reduce our cash from operations in the period in which the arrangement ends.

Our ongoing optimization of our manufacturing facilities may not be as effective as we anticipate, and we may fail to realize the expected cost savings and increased efficiencies.

As part of our strategy, we seek to enhance our manufacturing efficiency and align our geographic manufacturing footprint with our expectations of future growth. To operate more efficiently and control costs, from time to time we execute rationalization activities, which include manufacturing facility consolidations. For example, during 2014, we closed our Augusta, Georgia facility and relocated and consolidated its operations into other facilities and we are in the midst of relocating our Ingredients facility in Hangzhou China. Our ability to realize anticipated cost savings, synergies and revenue enhancements from these activities may be affected by a number of factors and may pose significant risks, including:

- the risk that we may be unable to integrate successfully the relocated manufacturing operations;
- the risk that we may be unable to effectively reduce overhead, coordinate management and integrate and retain employees of the relocated manufacturing operations;
- the risk that we may face difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- potential strains on our personnel, systems and resources and diversion of attention from other priorities; and
- unforeseen or contingent liabilities of the relocated manufacturing operations.

Furthermore, our rationalization and consolidation actions may not be as effective as we anticipate, and we may fail to realize the cost savings we expect from these actions. Actual charges, costs and adjustments due to these activities may vary materially from our estimates, and these activities may require cash and non-cash integration and implementation costs or charges in excess of budgeted amounts, which could offset any such savings and other synergies and therefore could have an adverse effect on our margins.

We may not achieve expected efficiencies related to the proximity of our customers’ production facilities to our manufacturing facilities, or with respect to existing or future production relocation plans.

As part of our strategy, we manage our global manufacturing footprint to enhance manufacturing efficiencies andalign with our expectations of future growth and technology needs. Many of our facilities are located in close proximity to our customers in order to minimize both our customers’ and our own costs. However, we may not have sufficient demand to utilize all of our production capacity and may be required to ship excess products to other regions in which we operate, which will increase our costs and decrease our margins. In addition, our expected growth may not be realized which would result in excess capacity and reduced margins.

We are subject to laws and regulations governing anti-bribery and corruption, and non-compliance with such laws and regulations could have a material adverse impact on our business, financial condition or results of operations.

We are subject to a wide range of laws and regulations to prevent corruption, bribery and other unethical business practices, including the U.S. Foreign Corrupt Practices Act, or FCPA, and similar laws and regulations in other countries. These laws and regulations generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business or other benefits. In addition, we have manufacturing operations in some jurisdictions which pose potentially elevated risks of fraud or corruption or increased risk of internal control issues. As needed, we conduct internal investigations, control testing and compliance reviews to help ensure that we are in compliance with applicable corruption and similar laws and regulations. We could be subject to inquiries or investigations by government and other regulatory bodies. Any determination that our operations or activities are not in compliance with the FCPA or similar international laws and regulations could expose us to significant fines, penalties or other sanctions that may harm our business and reputation.

Our ability to compete effectively depends on our ability to protect our intellectual property rights.

We rely on patents and trade secrets to protect our intellectual property rights. As part of our strategy to protect our intellectual property rights, we often rely on trade secrets to protect our proprietary fragrance and flavor formulations, as this does not require us to publicly file information regarding our intellectual property. From time to time, a third party may claim that we have infringed upon their intellectual property rights, or a third party may infringe upon our intellectual property. As a result of such third party claims, we could incur significant costs in connection with legal actions to assert our intellectual property rights or to defend ourselves from assertions of invalidity, infringement or misappropriation. For those intellectual property rights that are protected by way of trade secrets, this litigation could result in even higher costs, and potentially the loss of certain rights, as we would not have a perfected intellectual property right that precludes others from making, using or selling our products or processes.

For intellectual property rights that we seek to protect through patents, we cannot be certain that these rights, if obtained, will not later be opposed, invalidated, or circumvented. In addition, even if such rights are obtained in the United States, the laws of some of the other countries in which our products are or may be sold do not protect intellectual property rights to the same extent as the laws of the United States. If other parties were to infringe on our intellectual property rights, or if a third party successfully asserted that we had infringed on their intellectual property rights, it could materially and adversely affect our future results of operations by (i) reducing the price that we could obtain in the marketplace for products which are based on such rights, (ii) increasing the royalty or other fees that we may be required to pay in connection with such rights or (iii) limiting the volume, if any, of such products that we can sell.

Our business is highly competitive, and if we are unable to compete effectively our sales and results of operations will suffer.

The market for flavors and fragrances is highly competitive. We face vigorous competition from companies throughout the world, including multinational and specialized flavor and fragrance companies, as well as consumer product companies who may develop their own flavors or fragrances. Some of our competitors specialize in one or more of our product segments, while others participate in many of our product segments. In addition, some of our global competitors may have greater resources than we do or may have proprietary products that could permit them to respond to changing business and economic conditions more effectively than we can. Consolidation of our competitors may exacerbate these risks.

Competition in our business is based on innovation, product quality, regulatory compliance, pricing, quality of our customer service, the support provided by our marketing and application groups, and our understanding of consumers. It is difficult for us to predict the timing and scale of our competitors’ actions in these areas. The discovery and development of new flavor and fragrance materials, protection of the Company’s intellectual property and development and retention of key employees are important issues in our ability to compete in our business. Increased competition by existing or future competitors, including aggressive price competition, could result in the potential loss of substantial sales or create the need for us to reduce prices or increase spending and this could have an adverse impact on sales and profitability.

Large multinational customers, and increasingly, mid-sized customers, may limit the number of their suppliers, giving those that remain on “core lists” priority for new or modified products. To compete more successfully in this environment, we must continue to make investments in customer relationships and tailor product research and development in order to anticipate customers' needs, provide effective service and secure and maintain inclusion on certain "core lists." If we are unable to do so, it could adversely impact our future results of operations.

Our success depends on attracting and retaining talented people within our business. Significant shortfalls in recruitment or retention could adversely affect our ability to compete and achieve our strategic goals.

Attracting, developing, and retaining talented employees, including our perfumers and flavorists, is essential to the successful delivery of our products and success in the marketplace. Competition for these employees can be intense. The ability to attract and retain talented employees is critical in the development of new products and technologies which is an integral component of our growth strategy. However, we may not be able to attract and retain such employees in the future. If we experience significant shortfalls in recruitment or retention, our ability to effectively compete with our competitors and to grow our business could be adversely affected.

Our reliance on a limited base of suppliers may result in a disruption to our business and may adversely affect our financial results.

For certain raw materials, we rely on a limited number of suppliers and we may not have readily available alternatives. If we are unable to maintain our supplier arrangements and relationships and are unable to obtain the quantity, quality and price levels needed for our business, or if any of our key suppliers becomes insolvent or experiences other financial distress, we could experience disruptions in production and our financial results could be adversely affected.

Our results of operations may be negatively impacted by the outcome of uncertainties related to litigation.

We are involved in a number of legal claims and litigation, including claims related to indirect taxes. We cannot predict the ultimate outcome of such litigation. In addition, we cannot provide assurance that future events will not result in an increase in the number of claims or require an increase in the amount accrued for any such claims, or require accrual for one or more claims that has not been previously accrued.

The level of returns on pension and postretirement plan assets and the actuarial assumptions used for valuation purposes could affect our earnings and cash flows in future periods. Changes in government regulations could also affect our pension and postretirement plan expenses and funding requirements.

The funding obligations for our pension plans are impacted by the performance of the financial markets, particularly the equity markets, and interest rates. Funding obligations are determined under government regulations and are measured each year based on the value of assets and liabilities on a specific date. If the financial markets do not provide the long-term returns that are expected under the governmental funding calculations, we could be required to make larger contributions. The equity markets can be very volatile, and therefore our estimate of future contribution requirements can change dramatically in relatively short periods of time. Similarly, changes in interest rates and legislation enacted by governmental authorities can impact the timing and amounts of contribution requirements. An adverse change in the funded status of the plans could significantly increase our required contributions in the future and adversely impact our liquidity.

Assumptions used in determining projected benefit obligations and the fair value of plan assets for our pension and other postretirement benefit plans are determined by us in consultation with outside consultants and advisors. In the event that we determine that changes are warranted in the assumptions used, such as the discount rate, expected long-term rate of return on assets, or expected health care costs, our future pension and postretirement benefit expenses could increase or decrease. Due to changing market conditions or changes in the participant population, the assumptions that we use may differ from actual results, which could have a significant impact on our pension and postretirement liabilities and related costs and funding requirements.

Impairment charges on our long-lived assets could have a material adverse effect on our financial results.

Future events may occur that could adversely affect the reported value of our long-lived assets and require impairment charges. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions, the impact of the economic environment on our sales and our relationship with significant customers or business partners, or a sustained decline in our stock price. We continue to evaluate the impact of economic and other developments on our business to assess whether impairment indicators are present. Accordingly, we may perform impairment tests more frequently than annually required, based on changes in the economic environment and other factors, and these tests could result in impairment charges in the future.

Our financial results may be adversely impacted by the failure to successfully execute acquisitions, collaborations and joint ventures.

From time to time, we may evaluate and enter into acquisitions, collaborations or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable targets or partners, perform effective assessments prior to contract execution, negotiate contract terms, and, if applicable, obtain governmental approvals. For example, in January 2014, we completed the acquisition of Aromor Flavors and Fragrances Ltd., a manufacturer and marketer of complex specialty ingredients. These activities may present certain financial, managerial and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations, including employee integration; and challenges presented by acquisitions, collaborations or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, collaborations or joint ventures are not successfully implemented or completed, there could be a negative impact on our results of operations, financial condition and cash flows.

Changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in the United States and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in liabilities for uncertain tax positions, cost of repatriations or changes in tax laws or their interpretation. In addition, the current administration and Congress have announced proposals for new U.S. tax legislation that, if adopted, could affect our tax rate. Any of these changes could have a material adverse effect on our profitability.

We are also subject to the continual examination of our income tax returns by the Internal Revenue Service and foreign tax authorities in those countries in which we operate.

We have and will continue to implement transfer pricing policies among our various operations located in different countries. These transfer pricing policies are a significant component of the management of our operations across international boundaries and overall financial results. Many countries routinely examine transfer pricing policies of taxpayers subject to their jurisdiction, challenge transfer pricing policies aggressively where there is potential non-compliance and impose significant interest charges and penalties where non-compliance is determined. There can be no assurance that a governmental authority will not challenge these policies more aggressively in the future or, if challenged, that we will prevail. We could suffer significant costs related to one or more challenges to our transfer pricing.

We may be subject to assessments or audits in the future in any of the countries in which we operate. The final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals, and while we do not believe the results that follow would have a material adverse effect on our financial condition, such results could have a material effect on our income tax provision, net income or cash flows in the period or periods in which that determination is made.

Our operations may be affected by greenhouse emissions and climate change and related regulations.

The availability of raw materials and energy supplies fluctuate in markets throughout the world. Climate change may also affect the availability and price of key raw materials, including natural products used in the manufacture of our products. In order to mitigate the risk of price increases and shortages, our purchasers have developed various sourcing strategies, including multiple suppliers, inventory management systems, various geographic suppliers and long-term agreements to mitigate risk.

In addition to market forces, there are various regulatory efforts relating to climate change that may increase the cost of raw materials, particularly energy used to operate our facilities, that could materially impact our financial condition, results of operations and cash flows.

Information technology system failures or disruptions or breaches of our network security may adversely affect our business, interrupt our operations, subject us to increased operating costs and expose us to litigation.

We have information technology systems that support our business processes, including product formulas, product development, sales, order processing, production, distribution, finance and intra-company communications throughout the world. These systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, natural disasters, break-ins and similar events. Effective response to such disruptions will require effort and diligence on the part of our third-party vendors and employees to avoid any adverse impact to our information technology systems. In addition, our systems and proprietary data stored electronically may be vulnerable to computer viruses, cybercrime, computer hacking and similar disruptions from unauthorized tampering. If such unauthorized use of our systems were to occur, data related to our product formulas, product development and other proprietary information could be compromised. The occurrence of any of these events could adversely affect our business, interrupt our operations, subject us to increased operating costs and expose us to litigation.

The potential government regulation of certain of our product development initiatives is uncertain, and we may be subject to adverse consequences if we fail to comply with applicable regulations.

As part of our ingredients research program, we seek to collaborate with research institutions and companies throughout the world, including biotechnology companies. However, it is unclear whether any of our product developments will be classified as genetically modified food products subject to regulation as a biotechnology product. The manufacture of biotechnology products is subject to applicable Current Good Manufacturing Practice (cGMP) regulations as prescribed by the Food and Drug Administration and the applicable standards prescribed by European Commission and the competent authorities of European

Union Member States and to other rules and regulations prescribed by foreign regulatory authorities. Compliance with these regulations can be expensive and time consuming. Such regulation could also subject us to requirements for labeling and traceability, which may cause our customers to avoid our affected products and seek our competitors' products. This may result in our inability to realize any benefit from our investment and have an adverse effect on our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our principal properties are as follows:

Location	Operation
United States	
Carrollton, TX[(1)]	Production of flavor compounds; flavor laboratories.
Hazlet, NJ[(1)]	Production of fragrance compounds; fragrance laboratories.
Jacksonville, FL	Production of fragrance ingredients.
New York, NY[(1)]	Fragrance laboratories; corporate headquarters.
South Brunswick, NJ[(1)]	Production of flavor compounds and ingredients; flavor laboratories.
Union Beach, NJ	Research and development center.
France	
Neuilly[(1)]	Fragrance laboratories.
Grasse	Production of flavor and fragrance ingredients; fragrance laboratories.
Great Britain	
Haverhill	Production of flavor compounds and ingredients, and fragrance ingredients; flavor laboratories.
Netherlands	
Hilversum	Flavor and fragrance laboratories.
Tilburg	Production of flavor compounds and ingredients, and fragrance compounds.
Spain	
Benicarló	Production of fragrance ingredients.
Argentina	
Garin	Production of flavor compounds and ingredients, and fragrance compounds; flavor laboratories.
Brazil	
Rio de Janeiro	Production of fragrance compounds.
São Paulo	Flavor and fragrance laboratories.
Taubate	Production of flavor compounds and ingredients.
Mexico	
Tlalnepantla	Production of flavor and fragrance compounds; flavor and fragrance laboratories.

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Location	Operation
India	
Mumbai[(2)]	Flavor and fragrance laboratories.
Chennai[(2)]	Production of flavor compounds and ingredients, and fragrance compounds; flavor laboratories.
Australia	
Dandenong	Production of flavor compounds and flavor ingredients.
China	
Guangzhou[(3)]	Production of flavor compounds.
Guangzhou[(3)]	Production of fragrance compounds.
Shanghai[(4)]	Flavor and fragrance laboratories.
Xin'anjiang[(5)]	Production of fragrance ingredients.
Zhejiang[(3)]	Production of fragrance ingredients.
Indonesia	
Jakarta	Production of flavor compounds and ingredients; flavor and fragrance laboratories.
Japan	
Gotemba	Production of flavor compounds.
Tokyo	Flavor and fragrance laboratories.
Singapore	
Jurong[(4)]	Production of flavor and fragrance compounds.
Science Park[(1)]	Flavor and fragrance laboratories.
Turkey	
Gebze	Production of flavor compounds.
Israel	
Kibbutz Givat-Oz[(3)]	Flavor and fragrance ingredients manufacturing and laboratories.

(1) Leased.
(2) We have a 93.4% interest in the subsidiary company that owns this facility.
(3) Land is leased and building and machinery and equipment are owned.
(4) Building is leased and machinery and equipment are owned.
(5) We have a 90% interest in the subsidiary company that leases the land and owns the buildings and machinery.

Our principal executive offices and New York laboratory facilities are located at 521 West 57th Street, New York City.

ITEM 3. LEGAL PROCEEDINGS.

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

Tax Claims

We are currently involved in administrative and legal proceedings with the Spanish tax authorities that challenge tax deductions taken in our Spanish subsidiaries' tax returns and allege claims of tax avoidance.

In 2012, we reached an overall settlement with the Spanish tax authorities regarding income tax deductions taken by our Spanish subsidiaries for the 2004-2010 fiscal years and entered into a multi-year agreement with the Spanish tax authorities that established the tax basis for our activities in Spain for 2012 through 2014 consistent with the key principles preliminarily agreed upon as part of the overall settlement. The settlement agreement did not address the assessments for the 2002-2003 fiscal years, as these were further along in the Spanish judicial process, and did not address the 2011 fiscal year. During 2013, we reached a settlement with the Spanish tax authorities related to the 2011 fiscal year, on a basis consistent with the overall settlement reached for the 2004-2010 fiscal years.

With respect to the audits of 2002-2003 fiscal years, the Spanish tax authorities imposed assessments aggregating Euro 22.4 million ($28.6 million), including aggregate estimated interest. The Company appealed these assessments, however, in

February 2013, the Appellate Court upheld the administrative ruling with respect to the 2003 tax assessment and the related tax avoidance claims. The Company decided not to pursue the appeals process with respect to the 2003 tax assessment and paid Euro 20.8 million ($27.3 million based on the exchange rate at the respective payment dates) in connection with the 2003 tax assessment in 2013. In June 2013, the Appellate Court ruled against us on our appeal of the 2002 income tax assessment and related claims, which the Company also decided not to appeal. However, this case did not have a related tax exposure associated with it. In an unrelated matter, there was a remaining aggregate assessment related to the 2002 fiscal year of Euro 1.9 million ($2.3 million) as of December 31, 2014. To proceed with its appeal of the tax assessment for the 2002 fiscal year, the Company was required to post bank guarantees. As of December 31, 2014, the Company had remaining posted bank guarantees of Euro 1.9 million ($2.3 million) associated with the 2002 appeal. On February 11, 2015, the Company received a favorable ruling on this appeal.

In addition to the above, the Company has also been a party to four dividend withholding tax controversies in Spain in which the Spanish tax authorities alleged that the Company’s Spanish subsidiaries underpaid withholding taxes during the 1995-2001 fiscal years. The Company had previously appealed each of these controversies. During 2012, the Company received unfavorable decisions on the first three cases. At December 31, 2014, the Company had Euro 4.7 million ($5.6 million) reflected in income taxes payable in connection with these three cases and had posted bank guarantees of Euro 4.7 million ($5.6 million) in order to proceed with the appeals in these three cases. The fourth case was heard by the Spanish National High Court in October, 2014 and we received a favorable ruling. Accordingly, during the fourth quarter of 2014, we reversed the total reserve related to the 2001 fiscal year (with a value of Euro 3.6 million of $4.3 million).

The Spanish tax authorities also alleged claims related to capital tax positions arising from the business structure adopted by our Spanish subsidiaries. The aggregate amount of these claims was Euro 9.6 million ($13.2 million), including aggregate estimated interest through December 31, 2014. Our previous settlement in 2012 with the Spanish tax authorities addressed only the income tax assessments and did not address the capital tax positions. In connection with their ruling on our 2002 income tax assessment, the Appellate Court rejected one of the two bases upon which we based our capital tax position. During 2013, the Company was notified that the Spanish High Court of Justice ruled against us in regards to the 2002 capital tax case. As a result, the Company recorded a charge of Euro 9.6 million ($13.0 million or $9.1 million, after tax), included in selling and administrative expenses for the year ended December 31, 2013. On January 22, 2014, we filed an appeal. In order to avoid future interest costs in the event our appeal is unsuccessful, we paid $11.2 million (representing the principal amount) during the first quarter of 2014. Such amount will be refundable if we prevail in our appeal.

We do not currently believe that any of our pending tax assessments, even if ultimately resolved against us, would have a material impact on our financial condition.

Environmental

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

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

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

Other

In March 2012, ZoomEssence, Inc. filed a complaint against the Company in the U.S. District Court of New Jersey alleging trade secret misappropriation, breach of contract and unjust enrichment in connection with certain spray dry technology disclosed to the Company. In connection with the claims, ZoomEssence is seeking an injunction and monetary damages. ZoomEssence initially sought a temporary restraining order and preliminary injunction, but the Court denied these applications in an order entered on September 27, 2013, finding that ZoomEssence had not demonstrated a likelihood of success on the merits of its claims. The Court subsequently referred the matter to mediation, however the private mediation session did not result in a resolution of the dispute. On November 3, 2014, ZoomEssence amended its complaint against the Company to include allegations of breach of the duty of good faith and fair dealing, fraud in the inducement, and misappropriation of confidential and proprietary information. On November 13, 2014, the Company filed a counterclaim against ZoomEssence alleging trade secret misappropriation, breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, misappropriation of confidential and proprietary information, common law unfair competition, tortious interference with contractual relations, and conversion. The case is currently proceeding through discovery with a trial on the merits anticipated in late 2015. The Company denies the allegations and will vigorously defend and pursue its position in Court. At this stage of the litigation, based on the information currently available to the Company, management does not believe that this matter represents a material loss contingency.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information.

Our common stock is traded principally on the New York Stock Exchange. The high and low stock prices for each quarter during the last two years were:

	2014		2013	
Quarter	High	Low	High	Low
First	$97.91	$82.91	$77.40	$65.74
Second	105.61	91.31	82.80	73.02
Third	105.84	95.51	84.99	75.86
Fourth	104.00	91.64	90.30	79.59

Approximate Number of Equity Security Holders.

Title of Class	Number of shareholders of record as of February 12, 2015
Common stock, par value 12 $^{1}/_{2}$¢ per share	2,026

Dividends.

Cash dividends declared per share for each quarter during the two most recent fiscal years were as follows:

Quarter	2014	2013
First	$0.39	$0.34
Second	0.39	0.34
Third	0.47	0.39
Fourth	0.47	0.39

Our current intention is to pay dividends approximating 30%-35% of yearly earnings; however, the payment of dividends is determined by our Board of Directors (“Board”) at its discretion based on various factors, and no assurance can be provided as to future dividends.

Performance Graph.
Total Return To Shareholders[1]
(Includes reinvestment of dividends)

	ANNUAL RETURN PERCENTAGE Years Ending				
Company Name / Index	2010	2011	2012	2013	2014
International Flavors & Fragrances	38.06	(3.81)	29.72	31.59	19.95
S&P 500 Index	15.06	2.11	16.00	32.39	13.69
Peer Group	15.56	9.69	8.21	19.83	7.98

	INDEXED RETURNS Years Ending					
Company Name / Index	Base Period 2009	2010	2011	2012	2013	2014
International Flavors & Fragrances	$100	$138.06	$132.81	$172.28	$226.70	$271.92
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
Peer Group	100	115.56	126.76	137.16	164.36	177.48

Peer Group Companies[2]

Alberto Culver Company
Avon Products
Campbell Soup Co.
Church & Dwight Co. Inc.
Clorox Company
Coca-Cola Company
Colgate-Palmolive Co.
ConAgra Foods, Inc.
General Mills Inc.
H.J. Heinz Co.
Hershey Company
Hillshire Brands Co.
Hormel Foods Corp.
Kellogg Co.
Estee Lauder Companies, Inc.
McCormick & Company, Inc.
McDonald's Corp.
Nestle SA
Pepsico Inc.
Procter & Gamble Co.
Revlon Inc.
Sensient Technologies Corp.
Unilever NV
YUM Brands, Inc.

(1) The Cumulative Shareholder Return assumes that the value of an investment in our Common Stock and each index was $100 on December 31, 2008, and that all dividends were reinvested.

(2) Due to the international scope and breadth of our business, we believe that a Peer Group comprising international public companies, which are representative of the customer group to which we sell our products, is the most appropriate group against which to compare shareholder returns. Alberto Culver Company ceased trading on May 9, 2011 and has only been included through that date. In July 2012, Sara Lee Corp. spun off certain of its businesses and changed its name to Hillshire Brands Co. H.J. Heinz Co was acquired by Hawk Acquisition Holding Corp on June 7, 2013 and has only been included through that date. Hillshire Brands Co was acquired by Tyson Foods on August 28, 2014 and has only been included through that date.

Issuer Purchases of Equity Securities.

The table below reflects shares of common stock we repurchased during the fourth quarter of 2014.

Period	Total Number of Shares Repurchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program
October 1 - 31, 2014	170,968	$95.06	170,968	$ 129,431,594
November 1 - 30, 2014	108,310	98.11	108,310	118,805,466
December 1 - 31, 2014	97,222	101.54	97,222	108,933,649
Total	376,500	$98.24	376,500	$ 108,933,649

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

ITEM 6. SELECTED FINANCIAL DATA.

INTERNATIONAL FLAVORS & FRAGRANCES INC.

QUARTERLY FINANCIAL DATA (UNAUDITED)

The following selected consolidated financial data is derived from our Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

(DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	Net Sales		Gross Profit(a)		Net Income(b)		Net Income Per Share(c)			
							Basic		Diluted	
Quarter	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
First	$770,224	$727,836	$341,412	$311,360	$106,707	$90,697	$1.31	$1.11	$1.30	$1.10
Second	788,414	757,635	352,647	333,986	110,285	102,322	1.35	1.25	1.35	1.24
Third	773,813	742,256	340,111	325,404	107,415	99,046	1.32	1.21	1.31	1.20
Fourth(d)	756,082	725,169	327,980	313,455	90,136	61,479	1.11	0.75	1.10	0.75
	$3,088,533	$2,952,896	$1,362,150	$1,284,205	$414,543	$353,544	$5.09	$4.32	$5.06	$4.29

(a) Q1-2014 includes $2.2 million of non-cash charges related to accelerated depreciation associated with the Fragrance Ingredients Rationalization and $0.4 million of operational improvement initiative costs associated with a plant closing, partial closings, and other organizational realignments, principally in Europe and Asia. Q2-2014 includes $2.9 million of non-cash charges related to accelerated depreciation and $0.3 million related to operational improvement initiative costs. Q3-2014 includes $0.3 million of operational improvement initiative costs. Q4-2014 includes $1.6 million of operational improvement initiative costs.

Q1-2013 includes $1.2 million of operational improvement initiative costs associated with the plant closings in Europe and partial closing in Asia. Q2-2013 includes $0.8 million of restructuring-related costs associated with the Fragrance Ingredients Rationalization and $0.2 million of operational improvement initiative costs associated with the plant closings in Europe and Asia. Q3-2013 includes $2.2 million of restructuring-related costs associated with the Fragrance Ingredients Rationalization and $0.4 million of operational improvement initiative costs associated with the plant closings in Europe and Asia. Q4-2013 includes $2.3 million of restructuring-related costs associated with the Fragrance Ingredients Rationalization and $1.8 million of operational improvement initiative costs associated with the plant closings in Europe and several locations in Asia.

(b) Q1-2014 includes $1.5 million of restructuring-related costs associated with the Fragrance Ingredients Rationalization, net of tax, and $0.3 million, net of tax, of operational improvement initiative costs as discussed above. Q2-2014 includes $2.0 million, net of tax, of restructuring-related costs and $0.2 million, net of tax, of operational improvement initiative costs. Q3-2014 includes $0.4 million, net of tax, of restructuring-related costs and $0.2 million, net of tax, of operational improvement initiative costs. Q4-2014 includes $0.3 million, net of tax, of restructuring-related costs, $1.2 million, net of tax, of operational improvement initiative costs, a $3.8 million tax benefit associated with the favorable ruling of the 2011 Spanish dividend withholding case (as discussed in Note 9 of the Consolidated Financial Statements) and a $0.5 million net gain related to the sale of a non-operating asset.

Q1-2013 includes a $6.2 million Spanish tax charge related to the 2002-2003 ruling and $0.9 million of operational improvement initiative costs, net of tax, associated with the plant closings in Europe and Asia. Q2-2013 includes $1.9 million of restructuring-related costs, net of tax, associated with the Fragrance Ingredients Rationalization, $0.1 million of operational improvement initiative costs, net of tax, associated with the plant closings in Europe and Asia, and a $10.5 million net gain related to the sale of a non-operating asset. Q3-2013 includes $1.4 million of restructuring-related costs, net of tax, associated with the Fragrance Ingredients Rationalization and $0.3 million of operational improvement initiative costs, net of tax, associated with the plant closings in Europe and Asia as discussed above. Q4-2013 includes $1.5 million, net of tax, associated with the Fragrance Ingredients Rationalization, $1.4

million of operational improvement initiative costs, net of tax, associated with the plant closings in Europe and several locations in Asia, a $9.1 million charge related to the Spanish capital tax case, net of tax, and a $1.9 million loss related to the sale of a non-operating asset.

(c) Q1-2014 and Q2-2014 both include $0.02 per diluted share related to restructuring-related charges. Q3-2014 includes $0.1 per diluted share related to restructuring-related charges. Q4-2014 includes $0.01 per diluted share related to

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operational improvement initiative costs and a loss of $0.05 per diluted share related to the favorable ruling of the 2001 Spanish dividend withholding case.

Q1-2013 includes tax charges of $0.08 per diluted share related to the 2002-2003 ruling and $0.01 per diluted share related to operational improvement initiative costs. Q2-2013 includes a gain of $0.13 per diluted share related to the sale of a non-operating asset and restructuring charges of $0.02 per diluted share. Q3-2013 includes restructuring charges of $0.02 per diluted share. Q4-2013 includes charges of $0.11 per diluted share related to the Spanish capital tax case, restructuring charges of $0.02 per diluted share, operational improvement initiative costs of $0.02 per diluted share and a loss of $0.02 per diluted share related to the sale of a non-operating asset.

(d) Q4-2014 includes the impact of an extra week in 2014 (as discussed in Note 1 of the Consolidated Financial Statements). This impact was not material to our results of operations for the year ended December 31, 2014.

INTERNATIONAL FLAVORS & FRAGRANCES INC.
FIVE-YEAR SUMMARY
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	2014	2013	2012	2011	2010
Consolidated Statement of Income Data					
Net sales	$3,088,533	$2,952,896	$2,821,446	$2,788,018	$2,622,862
Cost of goods sold[a]	1,726,383	1,668,691	1,645,912	1,683,362	1,530,260
Gross profit	1,362,150	1,284,205	1,175,534	1,104,656	1,092,602
Research and development expenses	253,640	259,838	233,713	219,781	218,772
Selling and administrative expenses[b]	514,891	505,877	453,535	443,974	447,392
Restructuring and other charges, net[c]	1,298	2,151	1,668	13,172	10,077
Operating profit	592,321	516,339	486,618	427,729	416,361
Interest expense	46,067	46,767	41,753	44,639	48,709
Other (income) expense, net[d]	(2,807)	(15,638)	1,450	9,544	8,059
Income before taxes	549,061	485,210	443,415	373,546	359,593
Taxes on income[e]	134,518	131,666	189,281	106,680	96,036
Net income	$414,543	$353,544	$254,134	$266,866	$263,557
Percentage of net sales	13.4	12.0	9.0	9.6	10.0
Percentage of average shareholders' equity	27.7	26.0	21.5	25.3	29.7
Net income per share — basic	$5.09	$4.32	$3.11	$3.30	$3.29
Net income per share — diluted	$5.06	$4.29	$3.09	$3.26	$3.26
Average number of diluted shares (thousands)	81,494	81,930	81,833	81,467	80,440
Consolidated Balance Sheet Data					
Cash and cash equivalents	$478,573	$405,505	$324,422	$88,279	$131,332
Receivables, net	493,768	524,493	499,443	472,346	451,804
Inventories	568,729	533,806	540,658	544,439	531,675
Property, plant and equipment, net	720,268	687,215	654,641	608,065	538,118
Goodwill and intangible assets, net	752,041	696,197	702,270	708,345	714,416
Total assets	3,494,621	3,331,731	3,246,192	2,965,581	2,872,455
Bank borrowings, overdrafts and current portion of long-term debt	8,090	149	150,071	116,688	133,899
Long-term debt	934,232	932,665	881,104	778,248	787,668
Total Shareholders' equity[f]	1,522,689	1,467,051	1,252,555	1,107,407	1,003,155
Other Data					
Current ratio[g]	3.3	2.9	2.5	2.3	2.0
Additions to property, plant and equipment	$143,182	$134,157	$126,140	$127,457	$106,301
Depreciation and amortization expense	89,354	83,227	76,667	75,327	79,242
Cash dividends declared per share	$1.72	$1.46	$1.30	$1.16	$1.04
Number of shareholders of record at year-end	2,105	2,255	2,430	2,587	2,758
Number of employees at year-end	6,211	6,000	5,715	5,644	5,514

(a) The 2014 amount includes $7,641 ($5,221 after tax) of accelerated depreciation associated with the Fragrance Ingredients rationalization and operational improvement initiative costs in Europe and Asia. The 2013 amount includes $8,770 ($6,084 after tax) of accelerated depreciation associated with the Fragrance Ingredients rationalization and several locations in Asia.

(b) The 2013 amount includes $13,011 ($9,108 after tax) of expense associated with the Spanish capital tax case and $33,495 ($29,846 after tax) in 2011 of costs associated with the Mane patent litigation settlement.

(c) Restructuring and other charges ($844 after tax) in 2014, ($1,398 after tax) in 2013, ($1,047 after tax) in 2012, ($9,444 after tax) in 2011 and ($8,928 after tax) in 2010 were the result of various restructuring and reorganization programs of the Company.

(d) The 2014 amount includes $723 ($470 after tax) and the 2013 amount includes $14,155 ($8,522 after tax) of net gains related to the sale of non-operating assets.

(e) The 2012 amount includes after tax charges of $72,362 related to the overall Spanish tax settlement.

(f) Includes noncontrolling interest for all periods presented.

(g) Current ratio is equal to current assets divided by current liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

(UNLESS INDICATED OTHERWISE, DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)

Overview

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

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

Our fragrances are a key component in the world's finest perfumes and best-known consumer brands, including beauty care, fabric care, personal wash and home care products. In 2014, we announced that we realigned our creative and commercial teams within our Fragrance Compounds activities resulting in two newly-defined broad market categories, (1) Fine Fragrances and (2) Consumer Fragrances. Consumer Fragrances consists of five end-use categories: Fabric Care, Home Care, Personal Wash, Hair Care and Toiletries. Prior to the realignment, our Fragrance Compounds activities consisted of two broad categories (1) Fine Fragrance and Beauty Care and (2) Functional Fragrances. In addition, Fragrance Ingredients, which are used internally and sold to third parties, including customers and competitors, for use in preparation of compounds, are also included in the Fragrances business unit.

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

Development of new flavors and fragrance compounds is driven by a variety of sources, including requests from our customers, who are in need of a specific flavor or fragrance for use in a new or modified consumer product, or as a result of internal initiatives stemming from our Consumer Insights program. Our product development team works in partnership with our scientists and researchers to optimize the consumer appeal of the flavor or fragrance. It then becomes a collaborative process between our researchers, our product development team and our customers to perfect the flavor or fragrance so that it is ready to be included in the final consumer product.

Our 25 largest customers accounted for 53% of total sales in 2014; this percentage has remained fairly constant for several years. A key factor for commercial success is inclusion on our strategic customers' core supplier lists, which provides opportunities to win new business. We are on the core supplier lists of a large majority of our global and strategic customers within Fragrances and Flavors.

Sales in 2014 grew 5% both on a reported basis and in local currency (LC) terms, with the acquisition of Aromor adding approximately 1% to both reported and local currency basis amounts. Flavors achieved LC growth of 4% and Fragrances achieved LC growth of 7% in 2014. The LC growth reflects new win performance (net of losses) in both Flavors and Fragrance Compounds partially offset by volume erosion on existing business. In addition, Fragrance Ingredients sales were up 18% driven largely by the Aromor acquisition. Overall, our 2014 results continued to be driven by our strong emerging market presence that represented 50% of total sales and experienced 6% LC growth in 2014. From a geographic perspective, all regions delivered LC growth on a consolidated basis in 2014; led by Latin America (LA) with 7% LC sales growth.

The year 2014 included an extra week of activity, due to the timing of our fiscal year-end (as discussed in Note 1 of the Consolidated Financial Statements). The impact of this week was not material to our results of operations for the year ended December 31, 2014.

2014 Sales by Business Unit

Sales by Destination (DOLLARS IN MILLIONS)	2014	Percent of sales		2013	Percent of sales		2012	Percent of sales	
Europe, Africa and Middle East (EAME)	$1,042	34	%	$972	33	%	$913	32	%
Greater Asia (GA)	856	28	%	823	28	%	772	27	%
North America (NOAM)	690	22	%	681	23	%	694	25	%
Latin America (LA)	501	16	%	477	16	%	442	16	%
Total net sales, as reported	$3,089			$2,953			$2,821		

	Year Ended December 31,					
Sales by End-Use Product Category	2014		2013		2012	
Flavor Compounds	47	%	48	%	49	%
Consumer Fragrances	32	%	32	%	31	%
Fine Fragrances	11	%	11	%	11	%
Fragrance Ingredients	10	%	9	%	9	%
Total Net Sales	100	%	100	%	100	%

FINANCIAL PERFORMANCE OVERVIEW

Reported sales for 2014 increased 5% year-over-year (including approximately 1% growth from the acquisition of Aromor). We continue to benefit from our diverse portfolio of end-use product categories and geographies and had growth in all four regions and in Consumer Fragrances, Fragrance Ingredients and Flavor Compounds. Both Flavors and Fragrances benefited from new win performance (net of losses) that was partially offset by volume erosion on existing business. Exchange rate variations were flat in year-over-year sales. The effect of exchange rates can vary by business and region depending upon the mix of sales by country as well as the relative percentage of local sales priced in U.S. dollars versus local currencies. LC sales growth of 5% in 2014 was consistent with our long-term strategic target of 4%-6% LC growth. We saw good LC sales growth during each quarter of 2014, despite the impact of volume erosion on existing business. Regarding our 2015 outlook, we believe that LC sales growth will be in line with our long-term targets, while operating profit growth is expected to be at the low end of the range, in light of a stronger U.S. dollar versus most currencies and higher incentive compensation expense. In addition, we believe EPS growth will be high single-digits, driven by operating profit growth.

On a long-term basis we expect that sales growth for the industry will generally be in line with the underlying assumptions that support our long-term strategic goals, albeit with some risk in the near term given the continuing global economic uncertainty. We believe changing social habits resulting from increased disposable income, improved focus on personal health and wellness awareness should help drive growth of our consumer product customers' businesses.

Gross margins increased 60 basis points (bps) year-over-year, due to solid sales growth, and benefits from cost and productivity initiatives, that more than offset the slightly unfavorable price versus input cost dynamic during 2014. However, the overall raw material cost base remains elevated, including certain categories where prices remain near all time highs. We believe input costs will increase approximately 1% in 2015 as higher prices on certain categories, such as naturals, will more than offset potential benefits associated with oil-based derivatives that are expected to occur later in 2015. We continue to seek improvements in our margins through operational performance and mix enhancement.

Operating profit increased $76.0 million to $592.3 million (19.2% of sales) in 2014 compared to $516.3 million (17.5% of sales) in 2013. Included in 2014 were operational improvement initiative costs of $2.5 million, Restructuring and other charges, net of $1.3 million and $5.1 million of accelerated depreciation included in Cost of goods sold related to the Fragrance Ingredients Rationalization and several locations in Asia. Excluding these charges, adjusted operating profit was $601.3 million (19.5% of sales) for 2014. Included in 2013 were operational improvement initiative costs of $3.7 million primarily related to closing a smaller facility in Europe and certain manufacturing activities in Asia while transferring production to larger facilities in each respective region and accelerated depreciation associated with several locations in Asia, as well as restructuring costs of $7.4 million related to the Fragrance Ingredients Rationalization. In addition, 2013 included a $13.0 million charge related to the Spanish capital tax case. Excluding these charges, adjusted operating profit was $540.4 million (18.3% of sales) for 2013. The year-over-year improvement reflects sales volume growth combined with reduced R&D, selling and administrative expenses as a percentages of sales, all of which were driven largely by favorable year-over-year incentive compensation expenses. The results of Aromor were not significant to the consolidated financial performance of the Company for 2014.

Although we are in the process of refreshing the key elements of our strategic priorities, we continued to execute against the core elements of the strategic priorities identified during our in depth 2010 strategic assessment. In particular, ensuring that we have adequate resources and capabilities in place to support planned growth in emerging markets through investments and installing key technologies globally was the primary driver related to the $143.2 million (4.6% of sales) of capital spending during 2014. We anticipate capital spending in 2015 to be 4-5% of sales, net of potential grants and other reimbursements from government authorities that we expect to receive as we continue to prioritize investments in emerging markets and Flavors.

Cash flows from operations were $518.4 million or 16.8% of sales in 2014 as compared to cash flows from operations of $407.6 million, or 13.8% of sales, during 2013. Excluding an incremental pension contribution of $15 million year-over-year and total Spanish tax payments of $33 million (related to the 2003 and 2011 fiscal years) made during 2013, our adjusted cash flow from operations was $455.6 million in 2013, representing an increase of $62.8 million in 2014 from 2013.

Results of Operations

	Year Ended December 31,			Change	
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Net sales	$3,088,533	$2,952,896	$2,821,446	4.6 %	4.7 %
Cost of goods sold	1,726,383	1,668,691	1,645,912	3.5 %	1.4 %
Gross profit	1,362,150	1,284,205	1,175,534		
Research and development (R&D) expenses	253,640	259,838	233,713	(2.4)%	11.2 %
Selling and administrative (S&A) expenses	514,891	505,877	453,535	1.8 %	11.5 %
Restructuring and other charges, net	1,298	2,151	1,668	-39.7 %	29.0 %
Operating profit	592,321	516,339	486,618		
Interest expense	46,067	46,767	41,753	-1.5 %	12.0 %
Other (income) expense, net	(2,807)	(15,638)	1,450	-82.1 %	(1,178.5)%
Income before taxes	549,061	485,210	443,415		
Taxes on income	134,518	131,666	189,281	2.2 %	(30.4)%
Net income	$414,543	$353,544	$254,134		
Net income per share — diluted	$5.06	$4.29	$3.09	17.9 %	38.8 %
Gross margin	44.1 %	43.5 %	41.7 %	60.0	180.0
R&D as a percentage of sales	8.2 %	8.8 %	8.3 %	(60.0)	50.0
S&A as a percentage of sales	16.7 %	17.1 %	16.1 %	(40.0)	100.0
Operating margin	19.2 %	17.5 %	17.2 %	170.0	30.0
Adjusted operating margin (1)	19.5 %	18.3 %	17.3 %	120.0	100.0
Effective tax rate	24.5 %	27.1 %	42.7 %	(260.0)	(1,560.0)
Segment net sales					
Flavors	$1,457,055	$1,422,739	$1,378,377	2.4 %	3.2 %
Fragrances	1,631,478	1,530,157	1,443,069	6.6 %	6.0 %
Consolidated	$3,088,533	$2,952,896	$2,821,446		

(1) Adjusted operating margin for the twelve months ended December 31, 2014 excludes the operational improvement initiative costs of $2.5 million, Restructuring and other charges, net of $1.3 million and $5.1 million of accelerated depreciation included in Cost of goods sold related to the Fragrance Ingredients Rationalization and several locations in Asia. Adjusted operating margin for the twelve months ended December 31, 2013 excludes the operational improvement initiative costs of $2.3 million, Restructuring and other charges, net of $2.2 million, $6.7 million of accelerated depreciation included in Cost of goods sold related to the Fragrance Ingredients Rationalization and several locations in Asia, and the Spanish capital tax charge of $13.0 million. Adjusted operating margin for the twelve months ended December 31, 2012 excludes Restructuring and other charges, net of $1.7 million.

Cost of goods sold includes the cost of materials and manufacturing expenses; raw materials generally constitute 70% of the total. R&D expenses relate to the development of new and improved molecules and technologies, technical product support and compliance with governmental regulations. S&A expenses include expenses necessary to support our commercial activities and administrative expenses principally associated with staff groups that support our overall operating activities.

2014 IN COMPARISON TO 2013

Sales

Sales for 2014 totaled $3.1 billion, an increase of 5% from the prior year on both a reported and LC basis, with the acquisition of Aromor adding approximately 1% to both reported and LC basis amounts. The LC growth reflects new win performance (net of losses) in both Flavors and Fragrance Compounds partially offset by volume erosion on existing business. In addition, Fragrance Ingredients sales were up 18% (which includes the benefit of the Aromor acquisition). Overall LC growth was driven by 6% growth in emerging markets.

Flavors Business Unit

On a reported basis, Flavors sales increased 2%. Excluding the impact of foreign currency, LC sales for the Flavors business increased 4% versus the prior year period. The overall performance reflects new wins offset by volume erosion on existing business. Overall high single-digit growth in Beverage combined with low single-digit growth in Savory and mid single-digit growth in Dairy was partially offset by low single-digit declines in Sweet. Regionally, the Flavors business delivered LC growth in LA, EAME and GA, led by LA, while sales declined in NOAM. Sales in LA were driven by high double-digit gains in Beverage. Sales in GA were led by mid single-digit gains in Savory and sales in EAME were driven by double-digit gains in Beverage. The declines in NOAM were primarily driven by low single-digit declines in Beverage and Sweet, which were only partially offset by double-digit gains in Dairy. EAME performance continues to be led by our performance in the emerging market countries within the region. Globally, Flavors growth was led by high single-digit growth in emerging markets. Overall, emerging markets represented approximately 52% of total Flavors sales.

Fragrances Business Unit

The Fragrances business was up 7% in both reported and LC terms. Year-over-year, 2014 LC sales performance was led by double-digit growth in Fragrance Ingredients, high single-digit growth in Fabric Care and mid single-digit growth in Hair Care categories, as well as low single-digit growth in Fine Fragrances. LC growth within the regions was led by GA at 11% reflecting double-digit gains in the Fabric Care and Fragrance Ingredients. EAME experienced LC sales growth of 8% reflecting double-digit gains in Fragrance Ingredients and high single-digit gains in Fabric Care. LA had LC sales growth of 3% reflecting double-digit gains in Hair Care and Personal Wash. NOAM LC sales increased 4% reflecting double-digit gains in Home Care and mid to high single-digit gains in Fabric Care and Hair Care categories that more than offset low single-digit declines in Fragrance Ingredients. Overall, emerging markets represented 47% of total Fragrances sales.

Sales Performance by Region and Category

		% Change in Sales — 2014 vs 2013					
		Fine Fragrances	Consumer Fragrances	Ingredients	Total Frag.	Flavors	Total
NOAM	Reported	1 %	8 %	-1 %	4 %	-1 %	1 %
EAME	Reported	4 %	4 %	33 %	9 %	5 %	7 %
	Local Currency(1)	2 %	3 %	32 %	8 %	4 %	6 %
LA	Reported	-2 %	3 %	3 %	2 %	12 %	5 %
	Local Currency(1)	1 %	4 %	3 %	3 %	16 %	7 %
GA	Reported	8 %	7 %	31 %	10 %	0 %	4 %
	Local Currency(1)	9 %	8 %	33 %	11 %	3 %	6 %
Total	Reported	2 %	5 %	18 %	7 %	2 %	5 %
	Local Currency(1)	2 %	5 %	18 %	7 %	4 %	5 %

(1) Local currency sales growth is calculated by translating prior year sales at the exchange rates for the corresponding 2014 period.

- NOAM reported sales growth of 1% reflecting a decline of 1% in Flavors as double-digit growth in Dairy was more than offset by volume declines in Sweet and Beverage, and 4% growth in Fragrances. Consumer Fragrances sales were up 8% versus last year as new wins and volume gains in Home Care and Fabric Care were only partially offset by lower volumes on existing business in Fragrance Ingredients.
- EAME LC growth reflects 4% growth in Flavors primarily resulting from double-digit gains in Beverages. This growth was mainly due to new wins within our emerging markets in the region, as well as volume increases. Total Fragrances growth of 8% was driven by double-digit growth in Fragrance Ingredients as well as high single-digit growth in Fabric Care.
- LA LC sales growth of 7% was driven by double-digit gains in Flavors, driven by Beverage. Total Fragrances growth reflects double-digit gains in Hair Care and mid single-digit gains in Fabric Care.
-

GA delivered LC sales growth of 6%, led by mid single-digit gains in Savory. Both Consumer Fragrances and Fine Fragrances experienced high single-digit growth led by double-digit growth in Fabric Care and high single-digit growth in Fine Fragrances. In addition, GA experienced Fragrance Ingredients LC sales growth of 33%.

Cost of Goods Sold

Cost of goods sold, as a percentage of sales, decreased 60 bps, on both a reported and adjusted basis, to 55.9% in 2014 compared to 56.5% in 2013 (or 55.6% and 56.2% on an adjusted basis in 2014 and 2013, respectively). Included in cost of goods sold was $7.6 million of charges related to restructuring and operational improvement initiative costs in 2014 and $8.8 million of restructuring and operational improvement initiative costs in 2013.

Research and Development (R&D)

R&D expenses decreased approximately $6.2 million versus the prior year. Overall, R&D expenses decreased 60 bps as a percentage of sales from 8.8% in 2013 to 8.2% in 2014. This decrease is primarily driven by lower incentive compensation expense.

Selling and Administrative (S&A)

S&A, as a percentage of sales, decreased 40 bps to 16.7% versus 17.1%. Excluding the $13.0 million Spanish capital tax charge (as discussed in Note 17 to the Consolidated Financial Statements) in 2013, adjusted S&A expenses, as a percentage of sales, were 16.7% in 2013, consistent with the current year.

Restructuring and Other Charges

Restructuring and other charges primarily consist of separation costs for employees, including severance, outplacement and other benefit costs.

	Restructuring Charges (In Thousands)	
	2014	2013
Flavors	$—	$—
Fragrances	1,298	2,151
Global	—	—
Total	$1,298	$2,151

Fragrance Ingredients Rationalization

In 2014, the Company closed its fragrance ingredients manufacturing facility in Augusta, Georgia and consolidated production into other Company facilities. In connection with this closure in 2014, the Company incurred charges of $13.8 million, consisting primarily of $10.3 million in accelerated depreciation of fixed assets, $2.2 million in personnel-related costs and $1.3 million in plant shutdown and other related costs. The Company recorded total charges of $7.4 million during 2013, consisting of $2.2 million of pre-tax charges related to severance included in Restructuring and other charges, net and $5.2 million of non-cash charges related to accelerated depreciation included in Cost of goods sold. During 2014, the Company recorded $1.3 million of plant shutdown and other related costs included in Restructuring and other charges, net as well as an additional $5.1 million of non-cash charges related to accelerated depreciation included in Cost of goods sold. As a result of this closure, 43 positions have been eliminated. The Company estimates that approximately $3 - $4 million of the costs will be or have been cash expenditures.

Other

During 2013, the Company reversed $1.2 million of employee-related liabilities, offset by $0.6 million of additional costs incurred related to the European Rationalization Plan announced in 2009. Additionally, during 2013, the Company recorded a charge of $1.7 million related to the Strategic Initiative, which began in 2011.

Operating Results by Business Unit

We evaluate the performance of business units based on segment profit which is defined as operating profit before Restructuring and certain non-recurring items, Interest expense, Other expense, net and Taxes on income. See Note 12 to our Consolidated Financial Statements for the reconciliation to Income before taxes.

	For the Year Ended December 31,	
(DOLLARS IN THOUSANDS)	2014	2013
Segment profit:		
Flavors	$331,257	$323,562
Fragrances	335,447	283,651
Global Expenses	(65,443)	(66,942)
Restructuring and other charges, net	(1,298)	(2,151)
Spanish capital tax charge	—	(13,011)
Operational improvement initiative costs	(7,642)	(8,770)
Operating Profit	$592,321	$516,339
Profit margin		
Flavors	22.7%	22.7%
Fragrances	20.6%	18.5%
Consolidated	19.2%	17.5%

Flavors Business Unit

Flavors segment profit totaled $331.3 million in 2014 (22.7% of sales) consistent with $323.6 million (22.7% of sales) in the comparable 2013 period. The increase in segment profit was driven by lower incentive compensation expense.

Fragrances Business Unit

Fragrances segment profit totaled $335.4 million in 2014 (20.6% of sales), compared to $283.7 million (18.5% of sales) reported in 2013. The improvement in segment profit and profit margin was primarily due to strong sales growth combined with gross margin expansion, ongoing cost discipline, and lower incentive compensation expense.

Global Expenses

Global expenses represent corporate and headquarter-related expenses which include legal, finance, human resources and R&D and other administrative expenses that are not allocated to an individual business unit. In 2014, Global expenses were $65.4 million compared to $66.9 million during 2013. The decrease is principally driven by lower incentive compensation expense.

Interest Expense

In 2014, interest expense decreased $0.7 million to $46.1 million, as a result of the refinancing of our debt in 2013. Average cost of debt was 4.9% for the 2014 period compared to 4.7% in 2013.

Other (Income) Expense, Net

Other (income) expense, net decreased approximately $12.8 million to $2.8 million of income in 2014 versus $15.6 million of income in 2013. The decrease was largely driven by a $14.2 million gain related to the sale of non-operating assets that occurred during 2013.

Income Taxes

The effective tax rate was 24.5% in 2014 as compared to 27.1% in 2013. Excluding the $2.6 million tax benefit associated with the pretax restructuring charges and operational improvement initiative costs as well as the $3.8 million tax benefit related to the reserve reversal for the 2001 Spanish dividend withholding tax case (as discussed in Note 9 of the Consolidated Financial Statements), the adjusted tax rate for 2014 is 25.3%. Excluding the tax charge of $6.2 million related to the 2002-2003 income tax cases (as discussed in Note 9 of the Consolidated Financial Statements) and net of the $3.9 million tax benefit associated with the pretax Spanish capital tax charge (as discussed in Note 17 of the Consolidated Financial Statements), the adjusted tax rate for 2013 was 25.7%. The year-over-year reduction reflects a benefit from mix of earnings and lower loss provisions partially offset by a higher cost of repatriation.

2013 IN COMPARISON TO 2012

Sales

Sales for 2013 totaled $3.0 billion, an increase of 5% from the prior year. Excluding currency impacts, LC sales grew by 5% (or 6% on a like-for-like basis, excluding the effects of the exit of low margin sales activities in Flavors), driven principally by new wins and the realization of price increases. LC sales growth was largely driven by new customer wins, with price offset by volume reductions on existing business, primarily in Fragrance Ingredients.

Flavors Business Unit

On a reported basis, Flavors sales increased 3%. Excluding the impact of foreign currency, LC sales for the Flavors business increased 4% versus the prior year period. Excluding the impact of a 2% decline in sales associated with the strategic decision to exit certain lower margin sales activities, LC sales increased 6% on a like-for-like basis. The increase was driven by growth from new wins. LC growth was led by double-digit gains in Beverages, mid single-digit gains in Savory and single-digit gains in Sweet, all of which benefited from new wins, supported by our innovative technology. Regionally, the business benefited from mid to high single-digit LC growth in GA, EAME and LA, which was partially offset by low single-digit LC declines in NOAM. On a like-for-like basis, NOAM experienced mid single-digit growth. LC growth in EAME and GA reflect growth in all categories led by double-digit growth in Beverages in EAME and high single-digit gains in Savory and Dairy in GA. LA LC growth reflects double-digit growth in Beverages. Sales in NOAM were led by double-digit gains in Beverages. EAME performance was led by our performance in the emerging market countries within the region. Globally, Flavors growth was led by high single-digit growth in emerging markets. Overall, emerging markets represented approximately 51% of total Flavors sales.

Fragrances Business Unit

The Fragrances business was up 6% in both reported and LC terms compared to flat LC sales in 2012 over 2011. New wins across Fragrance Compounds were partially offset by volume declines in Fragrance Ingredients principally related to the transition of volume to Fragrance Compounds. Year-over-year, 2013 LC sales performance was led by double-digit growth in Fabric Care and high single-digit growth in Fine Fragrances and Hair Care categories along with mid single-digit gains in Toiletries and Home Care. Offsetting these gains was a 4% decline in Fragrance Ingredients. LC growth within the regions was led by GA at 13% reflecting double-digit gains in the Hair Care and Toiletries categories and double-digit gains in Fabric Care and high single-digit growth in Fragrance Ingredients. LA experienced LC sales growth of 11% reflecting double-digit gains in Fine Fragrances and the Fabric Care and Personal Wash categories and EAME had LC sales growth of 4% reflecting double-digit gains in Fine Fragrances and mid to high single-digit gains in Fabric Care, Hair Care and Toiletries categories, with both regions partially offset by mid single-digit declines in Fragrance Ingredients. NOAM LC sales decreased reflecting double-digit gains in Home Care and Hair Care categories that were more than offset by high single-digit declines in Fine Fragrances, Fabric Care and Fragrance Ingredients. Overall, emerging markets represented 47% of total Fragrances sales.

Sales Performance by Region and Category

		% Change in Sales — 2013 vs 2012					
		Fine Fragrances	Consumer Fragrances	Ingredients	Total Frag.	Flavors	Total
NOAM	Reported	-6%	4%	-6%	-2%	-2%	-2%
EAME	Reported	14%	6%	-4%	6%	7%	6%
	Local Currency[(1)]	11%	4%	-6%	4%	6%	5%
LA	Reported	14%	10%	-5%	9%	5%	8%
	Local Currency[(1)]	17%	11%	-5%	11%	8%	10%
GA	Reported	-2%	13%	3%	11%	4%	7%
	Local Currency[(1)]	-2%	14%	8%	13%	7%	9%
Total	Reported	8%	8%	-4%	6%	3%	5%
	Local Currency[(1)]	8%	8%	-4%	6%	4%	5%

(1)

Local currency sales growth is calculated by translating prior year sales at the exchange rates for the corresponding 2013 period.

- NOAM reported sales decline reflects a 2% Flavors decline as double-digit growth in Beverages was more than offset by volume declines in Sweet and Dairy, driven primarily by the exit of low margin sales activities. In Fragrances, Consumer Fragrances sales were up 4% versus last year as new wins and volume gains in Home Care were offset by lower volumes on existing business in Fabric Care. Fine Fragrances sales declined 6% as a result of mid single-digit

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declines in Fine Fragrances. On a like-for-like basis, excluding the effects of the exit of low margin sales activities, NOAM Flavors experienced mid single-digit growth.

- EAME LC growth was led by 6% growth in Flavors resulting from double-digit gains in Beverages along with mid single-digit growth in Savory. This growth was mainly due to new wins within our emerging markets in the region, as well as volume increases. On a like-for-like basis, excluding the effects of the exit of low margin sales activities, EAME Flavors experienced high single-digit growth. Fine Fragrances had LC sales growth of 11% and Consumer Fragrances experienced 4% LC growth driven by high single-digit gains in Fabric Care and mid single-digit growth in Hair Care and Toiletries, which more than offset volume declines in Fragrance Ingredients of 6% year-over-year.
- LA LC sales growth of 10% was driven by double-digit gains in Fragrance Compounds, reflecting double-digit LC sales growth in Fabric Care, Personal Wash and Fine Fragrances, and mid single-digit growth in Hair Care and Toiletries categories, which were only partially offset by mid single-digit volume declines in Fragrance Ingredients. Flavors LC sales growth was 8%, driven by double-digit gains in Beverages and mid single-digit gains in Savory, which were only partially offset by single-digit declines in Sweet (as a result of exiting low margin sales activities). On a like-for-like basis, excluding the effects of the exit of low margin sales activities, LA Flavors experienced double-digit growth.
- GA delivered LC sales growth of 9%, led by high single-digit gains in Savory and Dairy, along with mid single-digit growth in Beverages and Sweet categories. On a like-for-like basis, excluding the effects of the exit of low margin sales activities, GA Flavors experienced high single-digit growth. Consumer Fragrances experienced double-digit growth led by high double-digit growth in Fabric Care, Hair Care and Toiletries. In addition, GA experienced Fragrance Ingredients LC sales growth of 8%.

Cost of Goods Sold

Cost of goods sold, as a percentage of sales, decreased 180 bps to 56.5% in 2013 compared to 58.3% in 2012. The improvement versus prior year was mainly driven by a slightly favorable input cost environment, manufacturing efficiencies, favorable sales mix and price realization. Overall, raw material costs have decreased slightly on a year-over-year basis.

Research and Development (R&D)

R&D expenses increased approximately $26.1 million versus the prior year as a result of additional investments in technology and innovation, consistent with our strategy to accelerate levels of innovation into the marketplace. Our product portfolio is actively managed to support gross margin expansion and be aligned with the strategic priorities identified for each of our operating segments. Overall, R&D expenses increased 50 bps as a percentage of sales from 8.3% in 2012 to 8.8% in 2013.

Selling and Administrative (S&A)

S&A, as a percentage of sales, increased 100 bps to 17.1% versus 16.1%. Excluding the $13.0 million Spanish capital tax charge (as discussed in Note 17 to the Consolidated Financial Statements), adjusted S&A expenses, as a percentage of sales, were 16.7%, an increase of 60 bps from the prior year. The increase in adjusted S&A expenses was driven by higher incentive compensation, planned spend in sales activities (mainly in emerging markets) as well as the mark-to-market costs of our Deferred Compensation Plan awards.

Restructuring and Other Charges

Restructuring and other charges primarily consist of separation costs for employees, including severance, outplacement and other benefit costs.

	Restructuring Charges (In Thousands)	
	2013	2012
Flavors	$—	$(36)
Fragrances	2,151	1,636
Global	—	68
Total	$2,151	$1,668

Fragrance Ingredients Rationalization

During the second quarter of 2013, the Company announced that it intended to close its fragrance ingredients manufacturing facility in Augusta, Georgia by July 2014 and planned to consolidate production into other Company facilities. The Company recorded total charges of $7.4 million during 2013, consisting of $2.2 million of pre-tax charges related to severance included in Restructuring and other charges, net and $5.2 million of non-cash charges related to accelerated depreciation included in Cost of goods sold.

Strategic Initiative

In December 2011, we recorded a charge to cover a restructuring which involved a reduction in workforce as well as a realignment of responsibilities in our Fragrances business unit. This alignment partly addresses issues identified in our 2010 strategic review process towards improving the underperforming areas of our portfolio. It resulted in the redeployment of creative resources in emerging markets and the reorganization from a regional to a global category structure. We implemented a plan to streamline business operations globally which resulted in the elimination of 72 positions, across Fragrances, Flavors and Corporate functions. As a result, we recorded a provision for severance costs of $9.8 million to Restructuring and other charges. We recorded an additional net charge of $1.7 million during the twelve months ended December 31, 2012, principally attributable to adjustments based on the final separation terms with affected employees. We realized pre-tax savings of approximately $8 million in 2012.

European Rationalization Plan

During the second quarter 2011, we executed a partial settlement of our pension obligations with the former employees of the Drogheda, Ireland facility. As a result, we recorded a charge of $3.9 million related to the European rationalization plan to cover settlements and special termination benefits. This settlement was funded primarily through pension plan investment trust assets.

We also reversed $1.2 million of employee-related liabilities in 2011 due to certain employees accepting other roles within the Company, offset by $0.6 million of additional costs incurred.

Based upon the period-end estimates regarding the separation agreements, we increased our provision for severance costs by $4.4 million in 2010. The remaining $5.7 million of the restructuring charges in 2010 was mainly due to accelerated depreciation and other restructuring related costs pertaining to the rationalization of our Fragrances and Ingredients operations in Europe.

In the aggregate, as of December 31, 2013, we have recorded expenses of $34.1 million relating to the European Rationalization Plan and $11.5 million for the Strategic Initiative, of which $41.5 million was recorded to Restructuring and other charges, net and $11.6 million was recorded to Cost of goods sold, R&D and Selling and administrative expenses.

Operating Results by Business Unit

We evaluate the performance of business units based on segment profit which is defined as operating profit before Restructuring and certain non-recurring items, Interest expense, Other expense, net and Taxes on income. See Note 12 to our Consolidated Financial Statements for the reconciliation to Income before taxes.

	For the Year Ended December 31,			
(DOLLARS IN THOUSANDS)	2013		2012	
Segment profit:				
Flavors	$323,562		$298,326	
Fragrances	283,651		238,379	
Global Expenses	(66,942	)	(48,419	)
Restructuring and other charges, net	(2,151	)	(1,668	)
Spanish capital tax charge	(13,011	)	—	
Operational improvement initiative costs	(8,770	)	—	
Operating Profit	$516,339		$486,618	
Profit margin				
Flavors	22.7	%	21.6	%
Fragrances	18.5	%	16.5	%
Consolidated	17.5	%	17.2	%

Flavors Business Unit

Flavors segment profit totaled $323.6 million in 2013 (22.7% of sales) compared to $298.3 million (21.6% of sales) in the comparable 2012 period. The improvement in profitability was mainly driven by strong volume growth, favorable category mix, including the impact of exiting low margin sales activities, and the net impact of price versus input costs, which were

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partially offset by ongoing investments in R&D, higher employee costs and increased incentive compensation related to strong 2013 performance.

Fragrances Business Unit

Fragrances segment profit totaled $283.7 million in 2013 (18.5% of sales), compared to $238.4 million (16.5% of sales) reported in 2012. The increase in profitability was driven by the strong sales growth combined with further gross margin expansion and ongoing cost discipline, which more than offset increased R&D and incentive compensation related to strong 2013 performance.

Global Expenses

Global expenses represent corporate and headquarter-related expenses which include legal, finance, human resources and R&D and other administrative expenses that are not allocated to an individual business unit. In 2013, Global expenses were $66.9 million compared to $48.4 million during 2012. The increase principally includes higher incentive compensation and pension costs.

Interest Expense

In 2013, interest expense increased $5.0 million to $46.8 million. The increase in interest expense principally reflects new long-term borrowings from our senior note offering in the second quarter of 2013. Average cost of debt was 4.7% for the 2013 period compared to 4.6% in 2012.

Other (Income) Expense, Net

Other (income) expense, net increased approximately $17.1 million to $15.6 million of income in 2013 versus $1.5 million of expense in 2012. The increase was largely driven by a $14.2 million gain related to the sale of non-operating assets that occurred during 2013.

Income Taxes

The effective tax rate was 27.1% in 2013 as compared to 42.7% in 2012. Excluding the tax charge of $6.2 million related to the 2002-2003 income tax cases (as discussed in Note 9 of the Consolidated Financial Statements) and net of the $3.9 million tax benefit associated with the pretax Spanish capital tax charge (as discussed in Note 17 of the Consolidated Financial Statements), the adjusted tax rate for 2013 was 25.7%. Included in 2012 results are tax charges of $72.4 million associated with the Spanish tax settlement and pre-tax restructuring charges of $1.7 million ($1.1 million after-tax). Excluding these items, the adjusted effective tax rate for 2012 was 26.4%. The 2012 period also includes a provision of $12.4 million related to the Spanish dividend withholding tax cases, which was partially offset by a $10.6 million benefit due to a corporate restructuring of certain of our foreign subsidiaries, a lower cost of remittances and other reserve adjustments on uncertain tax positions. The year-over-year reduction also reflects the reinstatement of the U.S. federal R&D credit in 2013 partially offset by a higher cost of repatriation.

Liquidity and Capital Resources

CASH AND CASH EQUIVALENTS

We had cash and cash equivalents of $478.6 million at December 31, 2014 compared to $405.5 million at December 31, 2013, of which $249.1 million of the balance at December 31, 2014 was held outside the United States. Cash balances held in foreign jurisdictions are, in most circumstances, available to be repatriated to the United States; however, they would be subject to United States federal income taxes, less applicable foreign tax credits. We have not provided U.S. income tax expense on accumulated earnings of our foreign subsidiaries because we have the ability and plan to reinvest the undistributed earnings indefinitely.

Effective utilization of the cash generated by our international operations is a critical component of our tax strategy. Strategic dividend repatriation from foreign subsidiaries creates U.S. taxable income, which enables us to realize U.S. deferred tax assets. The Company regularly repatriates, in the form of dividends from its non-U.S. subsidiaries, a portion of its current year earnings to fund financial obligations in the U.S. These repatriations of current year earnings totaled $248.0 million, $128.0 million and $97.6 million in 2014, 2013 and 2012, respectively.

CASH FLOWS FROM OPERATING ACTIVITIES

Operating cash flows in 2014 were $518.4 million compared to $407.6 million in 2013, which included $48 million of cash payments related to the Spanish tax cases and incremental U.S. pension contributions, and $323.8 million in 2012, which included an outflow of cash of $105.5 million associated with the Spanish tax settlement (as discussed in

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Consolidated Financial Statements). The cash flow impact associated with core working capital (trade receivables, inventories and accounts payable) improved compared to 2013. Operating cash flows versus the prior year also reflect strong net income growth and improvements in working capital as a percentage of sales. Although we have appealed the lower court ruling on our Spanish capital tax case, we made payment of $11.2 million (representing the principal amount) to the Spanish government relating to the case during the first quarter of 2014, which is refundable if we prevail on our appeal.

Working capital (current assets less current liabilities) totaled $1,191.2 million at year-end 2014 compared to $1,092.5 million at December 31, 2013. This increase in working capital of $98.7 million primarily reflects strong sales growth and inventory increases associated with plant startups. The Company sold certain accounts receivable on a non-recourse basis to unrelated financial institutions under "factoring" agreements that are sponsored, solely and individually, by certain customers. We believe that participating in the factoring programs strengthens our relationships with these customers and provides operational efficiencies. We estimate that, as a result of participating in the programs, there was a beneficial impact to cash inflows from operations of approximately $33 million, $7 million and $18 million in 2014, 2013 and 2012, respectively. The cost of participating in these programs was immaterial to our results in all periods.

CASH FLOWS USED IN INVESTING ACTIVITIES

Net investing activities in 2014 utilized $221.3 million compared to $105.4 million and $114.3 million in 2013 and 2012, respectively. The increase in the investing activities was principally driven by the acquisition of Aromor in the first quarter of 2014.

Additions to property, plant and equipment were $143.2 million, $134.2 million and $126.1 million in 2014, 2013 and 2012, respectively, and are again expected to be 4-5% of sales in 2015, net of potential grants and other reimbursements from government authorities that we expect to receive. Investments were largely focused on emerging markets and new technology consistent with our strategy.

On January 16, 2014, the Company completed the acquisition of Aromor Flavors and Fragrances Ltd., a privately held manufacturer and marketer of complex specialty ingredients that are used in fragrances and flavors. IFF funded the transaction with cash.

CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES

Net financing activities in 2014 had an outflow of $202.3 million compared to an outflow of $217.0 million and an inflow of $25.4 million in 2013 and 2012, respectively. The decrease in outflow of cash used in financing activities in 2014 as compared to 2013 principally reflects higher incremental dividend payments and treasury share repurchases in 2014 which were more than offset by the repayment of long-term debt of $100 million made in July 2013. The outflow of cash used in financing activities in 2013 compared to the inflow of cash in 2012 principally reflects the repayment of long-term debt of $100 million made in 2013 and changes in the revolving credit facility borrowings in 2013 compared to 2012.

At December 31, 2014, we had $942.3 million of debt outstanding compared to $932.8 million outstanding at December 31, 2013.

We paid dividends totaling $133.2 million, $87.3 million and $130.9 million in 2014, 2013 an