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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

- 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

(State or other jurisdiction of incorporation or organization)

13-1432060

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

521 WEST 57TH STREET, NEW YORK, N.Y.

(Address of principal executive offices)

10019

(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  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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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  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  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

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.

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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:

<u>Region</u>	<u>% of 2014 Sales</u>
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 polymeric 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](http://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](http://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](http://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 and align 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:

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

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

Quarter	2014		2013	
	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<sup>(1)</sup>  
(Includes reinvestment of dividends)**

**ANNUAL RETURN PERCENTAGE  
Years Ending**

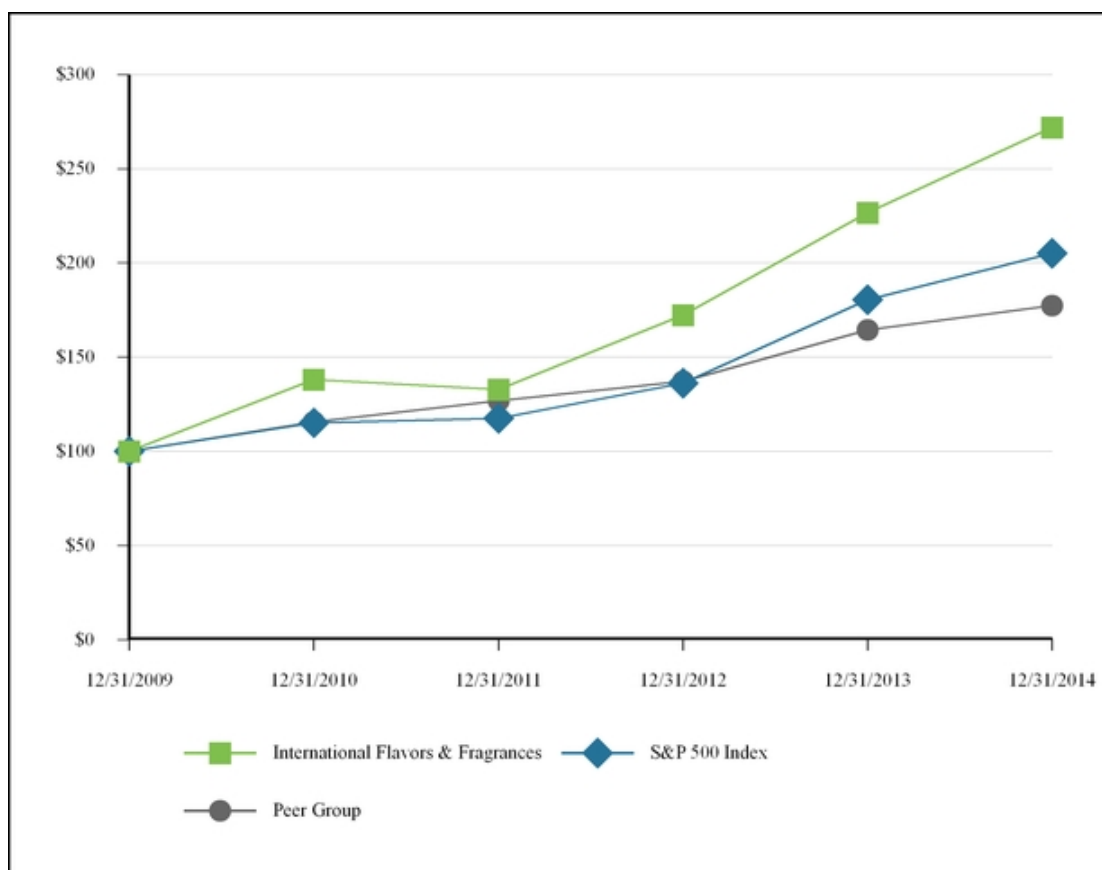
<u>Company Name / Index</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
International Flavors & Fragrances	38.06	(3.81)	29.72	31.59	19.95
S&P 500 Index	15.06	2.11	16.00	32.39	13.69
Peer Group	15.56	9.69	8.21	19.83	7.98

**INDEXED RETURNS  
Years Ending**

<u>Company Name / Index</u>	<u>Base Period 2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
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<sup>(2)</sup>**

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



- (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
<b>Total</b>	<b>376,500</b>	<b>\$ 98.24</b>	<b>376,500</b>	<b>\$ 108,933,649</b>

- (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)

Quarter	Net Sales		Gross Profit <sup>(a)</sup>		Net Income <sup>(b)</sup>		Net Income Per Share <sup>(c)</sup>			
							Basic		Diluted	
	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 <sup>(d)</sup>	756,082	725,169	327,980	313,455	90,136	61,479	1.11	0.75	1.10	0.75
	<u>\$ 3,088,533</u>	<u>\$ 2,952,896</u>	<u>\$ 1,362,150</u>	<u>\$ 1,284,205</u>	<u>\$ 414,543</u>	<u>\$ 353,544</u>	<u>\$ 5.09</u>	<u>\$ 4.32</u>	<u>\$ 5.06</u>	<u>\$ 4.29</u>

(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



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
<b>Consolidated Statement of Income Data</b>					
Net sales	\$ 3,088,533	\$ 2,952,896	\$ 2,821,446	\$ 2,788,018	\$ 2,622,862
Cost of goods sold <sup>(a)</sup>	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 <sup>(b)</sup>	514,891	505,877	453,535	443,974	447,392
Restructuring and other charges, net <sup>(c)</sup>	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 <sup>(d)</sup>	(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 <sup>(e)</sup>	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
<b>Consolidated Balance Sheet Data</b>					
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 <sup>(f)</sup>	1,522,689	1,467,051	1,252,555	1,107,407	1,003,155
<b>Other Data</b>					
Current ratio <sup>(g)</sup>	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		2013		2012	
	\$	Percent of sales	\$	Percent of sales	\$	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	<u>\$ 3,089</u>		<u>\$ 2,953</u>		<u>\$ 2,821</u>	

Sales by End-Use Product Category	Year Ended December 31,		
	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	<u>100%</u>	<u>100%</u>	<u>100%</u>

#### 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

<u>(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)</u>	Year Ended December 31,			Change	
	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 <sup>(1)</sup>	19.5%	18.3%	17.3%	120.0	100.0
Effective tax rate	24.5%	27.1%	42.7%	(260.0)	(1,560.0)
<u>Segment net sales</u>					
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
<b>NOAM</b>	<b>Reported</b>	1 %	8%	-1 %	4%	-1 %	1%
<b>EAME</b>	<b>Reported</b>	4 %	4%	33 %	9%	5 %	7%
	<i>Local Currency<sup>(1)</sup></i>	2 %	3%	32 %	8%	4 %	6%
<b>LA</b>	<b>Reported</b>	-2 %	3%	3 %	2%	12 %	5%
	<i>Local Currency<sup>(1)</sup></i>	1 %	4%	3 %	3%	16 %	7%
<b>GA</b>	<b>Reported</b>	8 %	7%	31 %	10%	0 %	4%
	<i>Local Currency<sup>(1)</sup></i>	9 %	8%	33 %	11%	3 %	6%
<b>Total</b>	<b>Reported</b>	2 %	5%	18 %	7%	2 %	5%
	<i>Local Currency<sup>(1)</sup></i>	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.

<i>(DOLLARS IN THOUSANDS)</i>	For the Year Ended December 31,	
	2014	2013
<b>Segment profit:</b>		
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	<u>\$ 592,321</u>	<u>\$ 516,339</u>
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 <sup>(1)</sup>	11 %	4%	-6 %	4 %	6 %	5 %
LA	Reported	14 %	10%	-5 %	9 %	5 %	8 %
	Local Currency <sup>(1)</sup>	17 %	11%	-5 %	11 %	8 %	10 %
GA	Reported	-2 %	13%	3 %	11 %	4 %	7 %
	Local Currency <sup>(1)</sup>	-2 %	14%	8 %	13 %	7 %	9 %
Total	Reported	8 %	8%	-4 %	6 %	3 %	5 %
	Local Currency <sup>(1)</sup>	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

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,	
	2013	2012
<i>(DOLLARS IN THOUSANDS)</i>		
<b>Segment profit:</b>		
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	<u>\$ 516,339</u>	<u>\$ 486,618</u>
<b>Profit margin</b>		
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

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 Note 9 to the

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 and 2012, respectively. The cash dividend declared per share in 2014, 2013 and 2012 was \$1.72, \$1.46 and \$1.30, respectively.

In December 2012, the Board of Directors authorized a \$250 million share repurchase program, which commenced in the first quarter of 2013 and is expected to be completed by the end of 2014. Based on the total remaining amount of \$109 million available under the repurchase program, approximately 1.1 million shares, or 1.4% of shares outstanding (based on the market price and shares outstanding as of December 31, 2014) could be repurchased under the program as of December 31, 2014. The purchases will be made from time to time on the open market or through private transactions as market and business conditions warrant. Repurchased shares will be placed into treasury stock.

#### ***CAPITAL RESOURCES***

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

## Credit Facility and Senior Notes

We supplement short-term liquidity with access to capital markets, mainly through bank credit facilities and issuance of commercial paper. We did not issue commercial paper during 2014 and 2013.

### Credit Facility

In April 2014, we amended and restated our unsecured revolving credit facility, including to modify the available tranches, reduce the applicable margin on the interest rate on advances under the credit facility and extend the maturity date of the credit facility to April 2019.

There are two tranches under the credit facility. The Tranche A facility is available in U.S. dollars, euros, Swiss francs, Japanese yen and British sterling in an aggregate amount up to an equivalent of \$456.0 million, with a sublimit of \$25.0 million for swing line borrowings. The Tranche B facility is available in euros, Swiss francs, Japanese yen and British sterling in an aggregate amount up to an equivalent of \$494.0 million. The credit facility is available for general corporate purposes and may be extended for up to two additional one-year periods at the Company's request, subject to the agreement of the lenders having commitments representing more than 50% of the aggregate commitments of all lenders under the credit facility. Borrowings under the credit facility bear interest at an annual rate of LIBOR plus a margin, currently 112.5 bps, linked to our credit rating. The interest rate under our credit facility at December 31, 2014 was 1.41%. The credit facility contains various affirmative and negative covenants, including the requirement for us to maintain, at the end of each fiscal quarter, a ratio of net debt for borrowed money to adjusted EBITDA in respect of the previous 12-month period of not more than 3.25 to 1. Based on this ratio, at December 31, 2014 our covenant compliance would provide overall borrowing capacity of \$1,831.8 million.

On April 26, 2013, the Company repaid the full amount outstanding under the credit facility (\$283.1 million). As of December 31, 2014 we had no borrowings under the credit facility. The amount which we are able to draw down on under the credit facility is limited by financial covenants as described in more detail below. Our drawdown capacity on the credit facility was \$940.4 million at December 31, 2014. See Note 8 to the Consolidated Financial Statements for further information on the credit facility.

At December 31, 2014 and 2013 we were in compliance with all financial and other covenants, including the net debt to adjusted EBITDA ratio. At December 31, 2014 our Net Debt/adjusted EBITDA<sup>(1)</sup> ratio was 0.65 to 1 as defined by the credit facility, well below the financial covenants of existing outstanding debt. Failure to comply with the financial and other covenants under our debt agreements would constitute default and would allow the lenders to accelerate the maturity of all indebtedness under the related agreement. If such acceleration were to occur, we would not have sufficient liquidity available to repay the indebtedness. We would likely have to seek amendments under the agreements for relief from the financial covenants or repay the debt with proceeds from the issuance of new debt or equity, and/or asset sales, if necessary. We may be unable to amend the agreements or raise sufficient capital to repay such obligations in the event the maturities are accelerated.

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

	12 Months Ended December 31,	
	2014	2013
<i>(DOLLARS IN MILLIONS)</i>		
<b>Net income</b>	\$ 414.5	\$ 353.5
<b>Interest expense</b>	46.1	46.8
<b>Income taxes</b>	134.5	131.7
<b>Depreciation and amortization</b>	89.4	83.2
<b>Specified items<sup>(1)</sup></b>	1.3	2.2
<b>Non-cash items<sup>(2)</sup></b>	18.9	6.1
<b>Adjusted EBITDA</b>	\$ 704.7	\$ 623.5

(1) Specified items for the 12 months ended December 31, 2014 of \$1.3 million consist of restructuring charges related to the Fragrance Ingredients Rationalization. Specified items for the 12 months ended December 31, 2013 of \$2.2 million consist of restructuring charges related to the 2011 Strategic Initiative.

- (2) Non-cash items, defined as part of Adjusted EBITDA in the terms of the Company's New Facility agreement, represent all other adjustments to reconcile net income to net cash provided by operations as presented on the Statement of Cash Flows, including gain on disposal of assets, stock-based compensation and pension settlement/curtailment.

<i>(DOLLARS IN MILLIONS)</i>	December 31,	
	2014	2013
<i>Total debt</i>	\$ 942.3	\$ 932.8
<i>Adjustments:</i>		
<i>Deferred gain on interest rate swaps</i>	(5.2)	(7.1)
<i>Cash and cash equivalents</i>	(478.6)	(405.5)
<i>Net debt</i>	\$ 458.5	\$ 520.2

#### Senior Notes

Senior Notes - 2013. In April 2013, we issued \$300.0 million face amount of 3.20% Senior Notes ("Senior Notes - 2013") due 2023 at a discount of \$0.3 million, to take advantage of attractive borrowing rates and maintain efficiency and flexibility in our capital structure, and received proceeds of \$297.8 million. The Senior Notes -2013 bear interest at a rate of 3.20% per year, with interest payable on May 1 and November 1 of each year, commencing on November 1, 2013. See Note 8 to the Consolidated Financial Statements for further information on the Senior Notes - 2013.

Senior Notes - 2007. In September 2007, we issued an aggregate of \$500.0 million of senior unsecured notes in four series, with \$250.0 million due in 2017, \$100.0 million due in 2019, \$50 million due in 2022 and \$100.0 million due in 2027. See Note 8 to the Consolidated Financial Statements for further information on the Senior Notes - 2007.

Senior Notes - 2006. In 2006, we issued an aggregate of \$375.0 million of senior unsecured notes in four series, of which \$250.0 million has been repaid, and the remaining \$125.0 million is due in 2016. See Note 8 to the Consolidated Financial Statements for further information on the Senior Notes - 2013.

#### Other Commitments

Compliance with existing governmental requirements regulating the discharge of materials into the environment has not materially affected our operations, earnings or competitive position. In 2014 and 2013, we spent \$4.3 million and \$1.7 million on capital projects and \$19.2 million and \$18.9 million, respectively, in operating expenses and governmental charges for the purpose of complying with such regulations. Expenditures for these purposes will continue for the foreseeable future. In addition, we are party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act or similar state statutes. It is expected that the impact of any judgments in or voluntary settlements of such proceedings will not be material to our financial condition, results of operations or liquidity.

#### CONTRACTUAL OBLIGATIONS

At December 31, 2014, we had contractual payment obligations due within the time periods as specified in the following table:

<i>Contractual Obligations (Dollars In Millions)</i>	Payments Due				
	Total	2015	2016 - 2017	2018 - 2019	2020 and thereafter
Borrowings <sup>(1)</sup>	\$ 925	\$ —	\$ 375	\$ 100	\$ 450
Interest on borrowings <sup>(1)</sup>	275	49	83	50	93
Operating leases <sup>(2)</sup>	249	29	48	38	134
Pension funding obligations <sup>(3)</sup>	60	20	40	—	—
Postretirement obligations <sup>(4)</sup>	114	5	11	12	86
Purchase commitments <sup>(5)</sup>	110	44	63	3	—
<b>Total</b>	<b>\$ 1,733</b>	<b>\$ 147</b>	<b>\$ 620</b>	<b>\$ 203</b>	<b>\$ 763</b>

(1) See Note 8 to the Consolidated Financial Statements for a further discussion of our various borrowing facilities.

(2) Operating leases include facility and other lease commitments executed in the normal course of the business, including sale leaseback obligations included in Note 7 of the Notes to the Consolidated Financial Statements. Further details



concerning worldwide aggregate operating leases are contained in Note 17 of the Notes to the Consolidated Financial Statements.

- (3) See Note 13 to the Consolidated Financial Statements for a further discussion of our retirement plans. Anticipated funding obligations are based on current actuarial assumptions. The projected contributions beyond fiscal year 2017 are not currently determinable.
- (4) Amounts represent expected future benefit payments for our postretirement benefit plans.
- (5) Purchase commitments include agreements for raw material procurement and contractual capital expenditures. Amounts for purchase commitments represent only those items which are based on agreements that are enforceable and legally binding.

The table above does not include \$23.1 million of the total unrecognized tax benefits for uncertain tax positions and approximately \$2.2 million of associated accrued interest, of which \$1.2 million is expected to be paid in the next 12 months. Due to the high degree of uncertainty regarding the timing of potential cash flows, the Company is unable to make a reasonable estimate of the amount and period in which the remaining liabilities might be paid.

### **Critical Accounting Policies and Use of Estimates**

Our significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. As disclosed in Note 1, the preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect reported amounts and accompanying disclosures. These estimates are based on management’s best judgment of current events and actions that we may undertake in the future. Actual results may ultimately differ from estimates.

Those areas requiring the greatest degree of management judgment or deemed most critical to our financial reporting involve:

*The periodic assessment of potential impairment of intangible assets acquired in business combinations.* We currently have net intangible assets, including goodwill, of \$752.0 million. In assessing the potential for impairment of goodwill, management uses the most current actual and forecasted operating data available and current market based assumptions in accordance with the criteria in ASC 350. In 2012, the Company re-evaluated its reporting unit structure and identified three reporting units: (1) Flavors, (2) Fragrance Compounds and (3) Fragrance Ingredients. Prior to 2012, the Company had identified two reporting units, Flavors and Fragrances. As a result, in 2012 the Company reallocated the goodwill previously allocated to its Fragrances reporting unit to its Fragrance Compounds and Fragrance Ingredients reporting units.

The Company performed the annual goodwill impairment test, utilizing the two-step approach for the Flavors, Fragrance Compounds and Fragrance Ingredients reporting units, by assessing the fair value of our reporting units based on discounted cash flows. We completed our annual goodwill impairment test as of November 30, 2014, which indicated no impairment of goodwill, as the estimated fair values substantially exceeded the carrying values of each of these reporting units.

*The analysis and evaluation of income taxes.* We account for taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The assessment of the need for a valuation allowance requires management to make estimates and assumptions about future earnings, reversal of existing temporary differences and available tax planning strategies. If actual experience differs from these estimates and assumptions, the recorded deferred tax asset may not be fully realized resulting in an increase to income tax expense in our results of operations.

The Company has not established deferred tax liabilities for undistributed foreign earnings as it has plans to and intends to indefinitely reinvest those earnings to finance foreign activities. The unrecognized deferred tax liability on these undistributed earnings approximates \$219 million.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We first determine whether it is “more likely than not” that we would sustain our tax position if the relevant tax authority were to audit the position with full knowledge of all the relevant facts and other information. For those tax positions that meet this threshold, we measure the amount of tax benefit based on the largest amount of tax benefit that we have a greater than 50% chance of realizing in a final settlement with the relevant authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard. This evaluation is made at the time that we adopt a tax position and whenever there is new information and is based upon management’s evaluation of the facts, circumstances and information available at the reporting date. We maintain a cumulative risk portfolio relating to all of our uncertainties in income taxes in order to perform this analysis, but the evaluation of our tax positions requires significant judgment and estimation in part because, in certain cases, tax law is subject to varied interpretation, and whether a tax position will ultimately be sustained

may be uncertain. 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 results of operations and cash flows.

The evaluation of potential litigation and environmental liabilities, where changing circumstances, rules and regulations require regular reassessment of related practices and anticipated costs. We are subject to certain legal claims regarding products and other matters, as well as environmental-related matters. Significant management judgment is involved in determining when it is probable that a liability has been incurred and the extent to which it can be reasonably estimated.

We regularly assess potential liabilities with respect to all legal claims based on the most recent available information, in consultation with outside counsel we have engaged on our behalf to handle the defense of such matters. To the extent a liability is considered to be probable and reasonably estimable, we recognize a corresponding liability; if the reasonably estimated liability is a range, we recognize that amount considered most likely, or in the absence of such a determination, the minimum reasonably estimated liability. To the extent such claims are covered by various insurance policies, we separately evaluate the right to recovery and estimate the related insurance claim receivable. Management judgments involve determination as to whether a liability has been incurred, the reasonably estimated amount of that liability, and any potential insurance recovery.

We regularly evaluate potential environmental exposure in terms of total estimated cost and the viability of other potentially responsible parties ("PRP's") associated with our exposure. Recorded liabilities are adjusted periodically as remediation efforts progress and additional information becomes available. Critical management assumptions relate to expected total costs to remediate and the financial viability of PRP's to share such costs.

Determination of the various assumptions employed in the valuation of pension and retiree health care expense and associated obligations. Amounts recognized in the Consolidated Financial Statements related to pension and other postretirement benefits are determined from actuarial valuations. Inherent in such valuations are assumptions including expected return on plan assets, discount rates at which the liabilities could be settled, rates of increase in future compensation levels, mortality rates and health care cost trend rates. These assumptions are updated annually and are disclosed in Note 13 to the Consolidated Financial Statements. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense recognized and obligations recorded in future periods.

We consider a number of factors in determining and selecting assumptions for the overall expected long-term rate of return on plan assets. We consider the historical long-term return experience of our assets, the current and expected allocation of our plan assets, and expected long-term rates of return. We derive these expected long-term rates of return with the assistance of our investment advisors. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities, fixed income, real estate, and alternative asset classes.

We consider a variety of factors in determining and selecting our assumptions for the discount rate at December 31. For the U.S. plans, the discount rate was based on the internal rate of return for a portfolio of Moody's Aaa, Aa and Merrill Lynch AAA-AA high quality bonds with maturities that are consistent with the projected future benefit payment obligations of the plan. The rate of compensation increase for all plans and the medical cost trend rate for the applicable U.S. plans are based on plan experience.

With respect to the U.S. plans, the expected rate of return on plan assets was determined based on an asset allocation model using the current target allocation, real rates of return by asset class and an anticipated inflation rate. The target asset allocation consists of approximately: 40% in equity securities and 60% in fixed income securities. The plan has achieved a compounded annual rate of return of 8.0% over the previous 20 years. At December 31, 2014, the actual asset allocation was: 40% in equity securities; 59% in fixed income securities; and 1% in cash equivalents.

The expected rate of return for the non-U.S. plans employs a similar set of criteria adapted for local investments, inflation rates and in certain cases specific government requirements. The target asset allocation, for the non-U.S. plans, consists of approximately: 40% – 60% in fixed income securities; 20% – 40% in equity securities; 5% – 20% in real estate; and 5% – 10% in alternative investments. At December 31, 2014, the actual asset allocation was: 62% in fixed income investments; 26% in equity investments; 7% in real estate investments; 4% in alternative investments and 1% in cash and cash equivalents.

Changes in pension and other post-employment benefits, and associated expenses, may occur in the future due to changes in these assumptions. The impact that a 0.25% decrease in the discount rate or a 1% change in the medical cost trend rate would have on our pension and other post-employment benefit expense, as applicable, is as follows:

**Sensitivity of Disclosures to Changes in Selected Assumptions**

	25 BP Decrease in Discount Rate		25 BP Decrease in Discount Rate	25 BP Decrease in Long-Term Rate of Return
	Change in PBO	Change in ABO	Change in pension expense	Change in pension expense
<i>(DOLLARS IN THOUSANDS)</i>				
U.S. Pension Plans	\$ 19,983	\$ 19,609	\$ 1,304	\$ 1,043
Non-U.S. Pension Plans	\$ 47,377	\$ 45,329	\$ 2,783	\$ 2,115
Postretirement Benefit Plan	N/A	\$ 3,745	\$ 215	N/A

The effect of a 1% increase in the medical cost trend rate would increase the accumulated postretirement benefit obligation and the annual postretirement expense by approximately \$6.9 million and \$0.3 million, respectively; a 1% decrease in the rate would decrease the obligation and expense by approximately \$6.7 million and \$0.3 million, respectively.

*The ongoing assessment of the valuation of inventory, given the large number of natural ingredients employed, the quality of which may be diminished over time.* We hold a majority of our inventory as raw materials, providing the greatest degree of flexibility in manufacture and use. As of December 31, 2014, we maintained 48% of our inventory as raw materials. Materials are evaluated based on shelf life, known uses and anticipated demand based on forecasted customer order activity and changes in product/sales mix. Management policy provides for an ongoing assessment of inventory with adjustments recorded when an item is deemed to be slow moving or obsolete.

We believe that we have considered relevant circumstances that we may be currently subject to, and the financial statements accurately reflect our best estimate of the impact of these items in our results of operations, financial condition and cash flows for the years presented. We have discussed the decision process and selection of these critical accounting policies with the Audit Committee of the Board of Directors.

### **New Accounting Standards**

In March 2013, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance clarifying the accounting for the release of cumulative translation adjustments into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance was effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this statement did not have an impact on our financial position, results of operations or cash flows.

In July 2013, the FASB issued authoritative guidance related to the financial statement presentation of unrecognized tax benefits. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. In such situations, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance was effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this statement did not have a significant impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued authoritative guidance to clarify the principles to be used to recognize revenue. The guidance is applicable to all entities and is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements.

### **Non-GAAP Financial Measures**

The Company uses non-GAAP financial operating measures in this Annual Report, including: (i) local currency sales (which eliminates the effects that result from translating its international sales in U.S. dollars), (ii) like-for-like sales (which eliminated the effects of local currency and the strategic decision to exit certain low margin sales in 2013), (iii) adjusted operating profit and operating profit margin (which excludes the operational improvement initiative and restructuring charges), (iv) adjusted effective tax rate (which excludes the sale of a non-operating assets, tax and litigation settlements, restructuring charges and operational improvement initiative costs) and (v) adjusted cash flows from operations (which excludes the Spanish tax payments made and the year-over-year incremental pension contribution). The Company also provides the non-GAAP measures adjusted EBITDA (which excludes certain specified items and non-cash items as set forth in the Company’s debt

agreements) and net debt (which is adjusted for deferred gain on interest rate swaps and cash and cash equivalents) solely for the purpose of providing information regarding the Company's compliance with debt covenants contained in its debt agreements.

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

International Flavors & Fragrances Inc.  
Like-for-Like Flavors Sales Reconciliation

Twelve Months Ended December 31, 2013

	Reported Sales Growth	Local Currency Sales Growth <sup>(1)</sup>	Exit of Low Margin Sales Activities	Like-for- Like Sales Growth <sup>(2)</sup>
Total Company	5 %	5 %	1%	6%
<u>Flavors</u>				
North America	-2 %	-2 %	5%	3%
EAME	7 %	6 %	1%	7%
Latin America	5 %	8 %	3%	11%
Greater Asia	4 %	7 %	0%	7%
Total	3 %	4 %	2%	6%

- (1) Local currency sales growth is calculated by translating prior year sales at the exchange rates used for the corresponding 2013 period.  
(2) Like-for-like is a non-GAAP metric that excludes the impact of exiting low margin sales activities and foreign exchange.

**Cautionary Statement Under the Private Securities Litigation Reform Act of 1995**

Statements in this Annual Report, which are not historical facts or information, are “forward-looking statements” within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management’s current assumptions, estimates and expectations and include statements concerning (i) our ability to achieve long-term sustainable growth and increase shareholder value, (ii) growth potential in the emerging markets, (iii) our ability to generate returns above cost of capital, (iv) our competitive position in the market and expected financial results in 2015, and (v) expected capital expenditures and cost pressures in 2015. These forward-looking statements should be evaluated with consideration given to the many risks and uncertainties inherent in the Company’s business that could cause actual results and events to differ materially from those in the forward-looking statements. Certain of such forward-looking information may be identified by such terms as “expect”, “anticipate”, “believe”, “outlook”, “may”, “estimate”, “should” and “predict” similar terms or variations thereof. Such forward-looking statements are based on a series of expectations, assumptions, estimates and projections about the Company, are not guarantees of future results or performance, and involve significant risks, uncertainties and other factors, including assumptions and projections, for all forward periods. Actual results of the Company may differ materially from any future results expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- volatility and increases in the price of raw materials, energy and transportation;
- the economic and political risks associated with the Company's international operations;

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

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the Company (such as in our other filings with the Securities and Exchange Commission ("SEC") or in company press releases) for other factors that may cause actual results to differ materially from those projected by the Company. Please refer to Part I. Item 1A., Risk Factors, of this 2014 Form 10-K for additional information regarding factors that could affect the Company's results of operations, financial condition and liquidity.

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

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

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We operate on a global basis and are exposed to currency fluctuation related to the manufacture and sale of our products in currencies other than the U.S. dollar. The major foreign currencies involve the markets in the European Union, Great Britain, Mexico, Brazil, China, India, Indonesia, Australia and Japan, although all regions are subject to foreign currency fluctuations versus the U.S. dollar. We actively monitor our foreign currency exposures in all major markets in which we operate, and employ a variety of techniques to mitigate the impact of exchange rate fluctuations, including foreign currency hedging activities.

We have established a centralized reporting system to evaluate the effects of changes in interest rates, currency exchange rates and other relevant market risks. Our risk management procedures include the monitoring of interest rate and foreign exchange exposures and hedge positions utilizing statistical analyses of cash flows, market value and sensitivity analysis. However, the use of these techniques to quantify the market risk of such instruments should not be construed as an endorsement of their accuracy or the accuracy of the related assumptions. For the year ended December 31, 2014, the Company's exposure to market risk was estimated using sensitivity analyses, which illustrate the change in the fair value of a derivative financial instrument assuming hypothetical changes in foreign exchange rates and interest rates.

We enter into foreign currency forward contracts with the objective of reducing exposure to cash flow volatility associated with foreign currency receivables and payables, and with anticipated purchases of certain raw materials used in operations. These contracts, the counterparties to which are major international financial institutions, generally involve the exchange of one currency for a second currency at a future date, and have maturities not exceeding twelve months. The gain or loss on the hedging instrument and services is recorded in earnings at the same time as the transaction being hedged is recorded in earnings. At December 31, 2014, the Company's foreign currency exposures pertaining to derivative contracts exist with the Euro, Japanese Yen, South African Rand, and Chinese Renminbi. Based on a hypothetical decrease or increase of 10% in the applicable balance sheet exchange rates (primarily against the U.S. dollar), the estimated fair value of the Company's foreign currency forward contracts would increase or decrease by approximately \$25 million. However, any change in the value of the contracts, real or hypothetical, would be significantly offset by a corresponding change in the value of the underlying hedged items.

We have also used non-U.S. dollar borrowings and foreign currency forward contracts, to hedge the foreign currency exposures of our net investment in certain foreign subsidiaries, primarily in the European Union. Based on a hypothetical decrease or increase of 10% in the value of the U.S. dollar against the Euro, the estimated fair value of the Company's foreign currency forward contracts would change by approximately \$4 million. However, any change in the value of the contracts, real or hypothetical, would be significantly offset by a corresponding change in the value of the underlying hedged items.

We use derivative instruments as part of our interest rate risk management strategy. The derivative instruments used are comprised principally of fixed to variable rate interest rate swaps based on the LIBOR plus an interest mark up. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt and the swaps are valued using observable benchmark rates. Based on a hypothetical decrease or increase of one percentage point in LIBOR, the estimated fair value of the Company's interest rate swaps would change by less than \$10 million.

At December 31, 2014, the fair value of our fixed rate debt was \$1 billion. Based on a hypothetical decrease of 10% in interest rates, the estimated fair value of the Company's fixed debt would increase by \$8 million.

We purchase certain commodities, such as natural gas, electricity, petroleum based products and certain crop related items. We generally purchase these commodities based upon market prices that are established with the vendor as part of the purchase process. In general, we do not use commodity financial instruments to hedge commodity prices.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

See index to Consolidated Financial Statements on page 49. See Item 6 on page 24 for supplemental quarterly data.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### ***Evaluation of Disclosure Controls and Procedures and Changes in Internal Control over Financial Reporting.***

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

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

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

### ***Management's Report on Internal Control Over Financial Reporting.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its 2013 *Internal Control — Integrated Framework*.

Based on this assessment, management determined that, as of December 31, 2014, our internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2014 as stated in their report which is included herein.

## **ITEM 9B. OTHER INFORMATION.**

None.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information relating to directors and nominees of the Company is set forth in the IFF 2015 Proxy Statement and is incorporated by reference herein. The information relating to Section 16(a) beneficial ownership reporting compliance that appears in the IFF 2015 Proxy Statement is also incorporated by reference herein. See Part I, Item 1 of this Form 10-K for information relating to the Company's Executive Officers.

We have adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to all of our employees, including our chief executive officer and our chief financial officer (who is also our principal accounting officer). We have also adopted a Code of Conduct for Directors and a Code of Conduct for Executive Officers (together with the Code of Ethics, the "Codes"). The Codes are available through the Investors — Corporate Governance link on our website [www.iff.com](http://www.iff.com).

Only the Board of Directors or the Audit Committee of the Board may grant a waiver from any provision of our Codes in favor of a director or executive officer, and any such waiver will be publicly disclosed. We will disclose substantive amendments to and any waivers from the Codes provided to our chief executive officer and principal financial officer (principal accounting officer), as well as any other executive officer or director, on the Company's website: [www.iff.com](http://www.iff.com).

The information regarding the Company's Audit Committee and its designated audit committee financial experts is set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein.

The information concerning procedures by which shareholders may recommend director nominees is set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information relating to executive compensation and the Company's policies and practices as they relate to the Company's risk management is set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein; except that the information under the caption "Compensation Committee Report" shall be deemed "furnished" with this report and shall not be deemed "filed" with this report, not deemed incorporated by reference into any filing under the Securities Act of 1933 except only as may be expressly set forth in any such filing by specific reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information relating to security ownership of management, certain beneficial owners and the Company's equity plans is set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information regarding certain relationships and related party transactions and director independence is set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information regarding the independent registered public accounting firm ("independent accountant") fees and services and the Company's pre-approval policies and procedures for audit and non-audit services provided by the Company's independent accountant are set forth in the IFF 2015 Proxy Statement and such information is incorporated by reference herein.



PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) FINANCIAL STATEMENTS: The following consolidated financial statements, related notes, and independent registered public accounting firm's report are included in this report on Form 10-K:

<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">50</a>
<a href="#">Consolidated Statement of Income and Comprehensive Income for the three years ended December 31, 2014, 2013 and 2012</a>	<a href="#">51</a>
<a href="#">Consolidated Balance Sheet as of December 31, 2014 and 2013</a>	<a href="#">52</a>
<a href="#">Consolidated Statement of Cash Flows for the three years ended December 31, 2014, 2013 and 2012</a>	<a href="#">53</a>
<a href="#">Consolidated Statement of Shareholders' Equity</a>	<a href="#">54</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">55</a>

(a)(2) FINANCIAL STATEMENT SCHEDULES

<a href="#">Schedule II — Valuation and Qualifying Accounts and Reserves for the three years ended December 31, 2014, 2013 and 2012</a>	<a href="#">S-1</a>
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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of International Flavors & Fragrances Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under item 15(a)(1) present fairly, in all material respects, the financial position of International Flavors & Fragrances Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *2013 Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting, appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

March 2, 2015

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2014	2013	2012
<i>(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)</i>			
Net sales	\$ 3,088,533	\$ 2,952,896	\$ 2,821,446
Cost of goods sold	1,726,383	1,668,691	1,645,912
Gross profit	1,362,150	1,284,205	1,175,534
Research and development expenses	253,640	259,838	233,713
Selling and administrative expenses	514,891	505,877	453,535
Restructuring and other charges, net	1,298	2,151	1,668
Operating profit	592,321	516,339	486,618
Interest expense	46,067	46,767	41,753
Other (income) expense, net	(2,807)	(15,638)	1,450
Income before taxes	549,061	485,210	443,415
Taxes on income	134,518	131,666	189,281
Net income	414,543	353,544	254,134
Other comprehensive income (loss):			
Foreign currency translation adjustments	(69,064)	(10,556)	17,687
Gains (losses) on derivatives qualifying as hedges	16,383	(3,794)	(4,455)
Pension and postretirement liability adjustment	(95,038)	25,264	(41,548)
Comprehensive income	\$ 266,824	\$ 364,458	\$ 225,818
	2014	2013	2012
Net income per share — basic	\$ 5.09	\$ 4.32	\$ 3.11
Net income per share — diluted	\$ 5.06	\$ 4.29	\$ 3.09

See Notes to Consolidated Financial Statements

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**CONSOLIDATED BALANCE SHEET**

<i>(DOLLARS IN THOUSANDS)</i>	December 31,	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 478,573	\$ 405,505
Receivables:		
Trade	502,915	534,986
Allowance for doubtful accounts	(9,147)	(10,493)
Inventories	568,729	533,806
Deferred income taxes	27,709	40,189
Prepaid expenses and other current assets	141,248	148,910
Total Current Assets	1,710,027	1,652,903
Property, plant and equipment, net	720,268	687,215
Goodwill	675,484	665,582
Other intangible assets, net	76,557	30,615
Deferred income taxes	183,047	154,437
Other assets	129,238	140,979
Total Assets	\$ 3,494,621	\$ 3,331,731
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Bank borrowings, overdrafts and current portion of long-term debt	\$ 8,090	\$ 149
Accounts payable	229,866	226,733
Dividends payable	37,968	31,740
Other current liabilities	242,884	301,744
Total Current Liabilities	518,808	560,366
<b>Other Liabilities:</b>		
Long-term debt	934,232	932,665
Deferred gains	46,535	41,339
Retirement liabilities	354,333	238,225
Other liabilities	118,024	92,085
Total Other Liabilities	1,453,124	1,304,314
<b>Commitments and Contingencies (Note 17)</b>		
<b>Shareholders' Equity:</b>		
Common stock 12 1/2¢ par value; authorized 500,000,000 shares; issued 115,858,190 and 115,761,840 shares as of December 31, 2014 and 2013; and outstanding 80,777,590 and 81,384,246 shares as of December 31, 2014 and 2013	14,470	14,470
Capital in excess of par value	140,008	131,461
Retained earnings	3,350,734	3,075,657
Accumulated other comprehensive loss:		
Cumulative translation adjustments	(173,342)	(104,278)
Accumulated gains (losses) on derivatives qualifying as hedges	12,371	(4,012)
Pension and postretirement liability adjustment	(379,459)	(284,421)
Treasury stock, at cost — 35,080,600 and 34,377,594 shares as of December 31, 2014 and 2013	(1,446,221)	(1,365,805)
Total Shareholders' Equity	1,518,561	1,463,072
Noncontrolling interest	4,128	3,979
Total Shareholders' Equity including noncontrolling interest	1,522,689	1,467,051
Total Liabilities and Shareholders' Equity	\$ 3,494,621	\$ 3,331,731

See Notes to Consolidated Financial Statements

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year Ended December 31,

(DOLLARS IN THOUSANDS)

	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net income	\$ 414,543	\$ 353,544	\$ 254,134
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	89,354	83,227	76,667
Deferred income taxes	23,350	(484)	(15,878)
Gain on disposal of assets	(3,768)	(17,841)	(4,461)
Stock-based compensation	22,648	23,736	19,716
Spanish tax charges	—	—	72,362
Payments pursuant to Spanish tax settlement	—	—	(105,503)
Changes in assets and liabilities, net of Aromor acquisition:			
Trade receivables	(2,635)	(53,156)	(33,056)
Inventories	(40,042)	4,822	4,571
Accounts payable	7,753	10,074	(740)
Accruals for incentive compensation	(30,947)	24,518	34,632
Other current payables and accrued expenses	(19,332)	9,995	29,203
Changes in other assets/liabilities, net	57,466	(30,873)	(7,851)
Net cash provided by operating activities	518,390	407,562	323,796
<b>Cash flows from investing activities:</b>			
Cash paid for acquisition, net of cash received (including \$15 million of contingent consideration)	(102,500)	—	—
Additions to property, plant and equipment	(143,182)	(134,157)	(126,140)
Proceeds from disposal of assets	3,295	27,312	1,763
Maturity of net investment hedges	3,304	646	1,960
Purchase of life insurance contracts	—	—	(1,127)
Proceeds from life insurance contracts	17,750	793	9,283
Net cash used in investing activities	(221,333)	(105,406)	(114,261)
<b>Cash flows from financing activities:</b>			
Cash dividends paid to shareholders	(133,239)	(87,347)	(130,943)
Net change in revolving credit facility borrowings and overdrafts	8,332	(283,225)	138,756
Deferred financing costs	(1,023)	(2,800)	—
Repayments of long-term debt	—	(100,000)	—
Proceeds from long-term debt	3,609	297,786	—
Proceeds from issuance of stock under stock plans	1,864	3,799	9,211
Excess tax benefits on stock-based payments	6,330	6,112	8,380
Purchase of treasury stock	(88,203)	(51,363)	—
Net cash (used in) provided by financing activities	(202,330)	(217,038)	25,404
Effect of exchange rate changes on cash and cash equivalents	(21,659)	(4,035)	1,204
<b>Net change in cash and cash equivalents</b>	<b>73,068</b>	<b>81,083</b>	<b>236,143</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>405,505</b>	<b>324,422</b>	<b>88,279</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 478,573</b>	<b>\$ 405,505</b>	<b>\$ 324,422</b>
<b>Cash paid for:</b>			
Interest, net of amounts capitalized	\$ 46,106	\$ 48,165	\$ 41,315
Income taxes <sup>(1)</sup>	\$ 92,087	\$ 138,940	\$ 184,592
<b>Noncash investing activities:</b>			
Accrued capital expenditures	\$ 14,376	\$ 21,744	\$ 26,565

(1) The 2012 amount includes \$105.5 million pursuant to the Spanish tax settlement (see Note 9).

See Notes to Consolidated Financial Statements

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

<i>(DOLLARS IN THOUSANDS)</i>	Common stock	Capital in excess of par value	Retained earnings	Accum- lated other comprehensive (loss) income	Treasury stock		Noncontrolling interest
					Shares	Cost	
Balance at December 31, 2011	\$ 14,470	\$ 128,631	\$ 2,692,893	\$ (375,309)	(34,840,632)	\$ (1,356,273)	\$ 2,995
Net income			254,134				752
Cumulative translation adjustment				17,687			
Losses on derivatives qualifying as hedges; net of tax \$1,327				(4,455)			
Pension liability and postretirement adjustment; net of tax \$11,696				(41,548)			
Cash dividends declared (\$1.30 per share)			(105,861)				
Stock options/SSARs		4,248			336,296	13,144	
Vested restricted stock units and awards		(23,113)			263,645	10,298	
Stock-based compensation		17,738			105,725	2,124	
Balance at December 31, 2012	\$ 14,470	\$ 127,504	\$ 2,841,166	\$ (403,625)	(34,134,966)	\$ (1,330,707)	\$ 3,747
Net income			353,544				232
Cumulative translation adjustment				(10,556)			
Losses on derivatives qualifying as hedges; net of tax \$429				(3,794)			
Pension liability and postretirement adjustment; net of tax \$22,778				25,264			
Cash dividends declared (\$1.46 per share)			(119,053)				
Stock options		10,395			157,403	6,196	
Treasury share repurchases					(655,907)	(51,363)	
Vested restricted stock units and awards		(26,735)			159,559	6,277	
Stock-based compensation		20,297			96,317	3,792	
Balance at December 31, 2013	\$ 14,470	\$ 131,461	\$ 3,075,657	\$ (392,711)	(34,377,594)	\$ (1,365,805)	\$ 3,979
Net income			414,543				149
Cumulative translation adjustment				(69,064)			
Gains on derivatives qualifying as hedges; net of tax \$(2,526)				16,383			
Pension liability and postretirement adjustment; net of tax \$36,554				(95,038)			
Cash dividends declared (\$1.72 per share)			(139,466)				
Stock options		9,770			87,706	3,590	
Treasury share repurchases					(927,339)	(88,959)	
Vested restricted stock units and awards		(23,871)			136,627	4,953	
Stock-based compensation		22,648					
Balance at December 31, 2014	\$ 14,470	\$ 140,008	\$ 3,350,734	\$ (540,430)	(35,080,600)	\$ (1,446,221)	\$ 4,128

See Notes to Consolidated Financial Statements

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** International Flavors & Fragrances Inc. and its subsidiaries (the “Registrant,” “IFF,” “the Company,” “we,” “us” and “our”) is a leading creator and manufacturer of flavor and fragrance compounds used to impart or improve flavor or fragrance in a wide variety of consumer products. Our products are sold principally to manufacturers of perfumes and cosmetics, hair and other personal care products, soaps and detergents, cleaning products, dairy, meat and other processed foods, beverages, snacks and savory foods, sweet and baked goods, and pharmaceutical and oral care products.

**Fiscal Year End** The Company has historically operated on a 52/53 week fiscal year generally ending on the Friday closest to the last day of the year. For ease of presentation, December 31 is used consistently throughout the financial statements and notes to represent the period-end date. The 2012 and 2013 fiscal years were 52 week periods and the 2014 fiscal year was a 53 week period. For the 2014, 2013 and 2012 fiscal years, the actual closing dates were January 2, December 27 and December 28, respectively.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from estimates.

**Principles of Consolidation** The consolidated financial statements include the accounts of International Flavors & Fragrances Inc. and those of its subsidiaries. Significant intercompany balances and transactions have been eliminated. To the extent a subsidiary is not wholly-owned, any related noncontrolling interest is included as a separate component of Shareholders’ Equity. Any applicable expense (income) attributable to the noncontrolling interest is included in Other expense, net in the accompanying Consolidated Statement of Income and Comprehensive Income due to its immateriality and, as such, is not presented separately.

**Revenue Recognition** The Company recognizes revenue when the earnings process is complete. This generally occurs when (i) title and risk of loss have been transferred to the customer in accordance with the terms of sale and (ii) collection is reasonably assured. Sales are reduced, at the time revenue is recognized, for applicable discounts, rebates and sales allowances based on historical experience. Related accruals are included in Other current liabilities in the accompanying Consolidated Balance Sheet.

**Foreign Currency Translation** The Company translates the assets and liabilities of non-U.S. subsidiaries into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates during the year. Cumulative translation adjustments are shown as a separate component of Shareholders’ Equity.

**Research and Development** Research and development (“R&D”) expenses relate to the development of new and improved flavors or fragrances, technical product support and compliance with governmental regulation. All research and development costs are expensed as incurred.

**Cash Equivalents** Cash equivalents include highly liquid investments with maturities of three months or less at date of purchase.

**Accounts Receivable** The Company sells certain accounts receivable on a non-recourse basis to unrelated financial institutions under “factoring” agreements that are sponsored, solely and individually, by certain customers. The Company accounts for these transactions as sale of receivables, removes the receivables sold from its financial statements, and records cash proceeds when received by the Company. The increase in cash from operations was approximately \$33 million, \$7 million and \$18 million in 2014, 2013 and 2012, respectively, along with approximately \$40 million in periods prior to 2012 in connection with these programs. The cost of participating in these programs was immaterial to our results in all periods.

**Inventories** Inventories are stated at the lower of cost (on a weighted average basis) or market. Our inventories consisted of the following:

	December 31,	
	2014	2013
<i>(DOLLARS IN THOUSANDS)</i>		
Raw materials	\$ 275,161	\$ 252,457
Work in process	17,705	6,658
Finished goods	275,863	274,691
Total	\$ 568,729	\$ 533,806

**Property, Plant and Equipment** Property, plant and equipment are recorded at cost. Depreciation is calculated on a straight-line basis, principally over the following estimated useful lives: buildings and improvements, 10 to 40 years; machinery and equipment, 3 to 20 years; information technology hardware and software, 3 to 7 years; and leasehold improvements which are included in buildings and improvements, the estimated life of the improvements or the remaining term of the lease, whichever is shorter. During 2014, the Company began to use an estimated useful life of 20 years for certain machinery and equipment. The change in useful life, which was adopted prospectively, did not have a material effect on the Company's 2014 financial statements.

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recovered. An estimate of undiscounted future cash flows produced by an asset or group of assets is compared to the carrying value to determine whether impairment exists. If assets are determined to be impaired, the loss is measured based on an estimate of fair value using various valuation techniques, including a discounted estimate of future cash flows.

**Goodwill and Other Intangible Assets** Goodwill represents the difference between the total purchase price and the fair value of identifiable assets and liabilities acquired in business acquisitions.

In assessing the potential for impairment of goodwill, management uses the most current actual and forecasted operating data available and current market based assumptions in accordance with the criteria in ASC 350. In 2012, the Company re-evaluated its reporting unit structure and identified three reporting units: (1) Flavors, (2) Fragrance Compounds and (3) Fragrance Ingredients. These reporting units were determined based on the level at which the performance is measured and reviewed by segment management.

The Company performed the annual goodwill impairment test utilizing the two-step approach for the Flavors, Fragrance Compounds and Fragrance Ingredients reporting units, by assessing the fair value of our reporting units based on discounted cash flows. We completed our annual goodwill impairment test as of November 30, 2014, which indicated no impairment of goodwill, as the estimated fair values substantially exceeded the carrying values of each of these reporting units.

Other intangible assets include patents, trademarks and other intellectual property valued at acquisition, and amortized on a straight-line basis over periods ranging from 6 to 20 years.

**Income Taxes** The Company accounts for taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes may not be realized.

The Company recognizes uncertain tax positions that it has taken or expects to take on a tax return. Pursuant to accounting requirements, we first determine whether it is "more likely than not" our tax position will be sustained if the relevant tax authority were to audit the position with full knowledge of all the relevant facts and other information. For those tax positions that meet this threshold, we measure the amount of tax benefit based on the largest amount of tax benefit that we have a greater than 50% chance of realizing in a final settlement with the relevant authority. Those tax positions failing to qualify for initial recognition are recognized in the first interim period in which they meet the more likely than not standard. We maintain a cumulative risk portfolio relating to all of our uncertainties in income taxes in order to perform this analysis, but the evaluation of our tax positions requires significant judgment and estimation in part because, in certain cases, tax law is subject to varied interpretation, and whether a tax position will ultimately be sustained may be uncertain.

The Company regularly repatriates a portion of current year earnings from select non-U.S. subsidiaries. No provision has been made for additional taxes on undistributed earnings of subsidiary companies that are intended and planned to be



indefinitely invested in such subsidiaries. We intend to, and have plans to, reinvest these earnings indefinitely in our foreign subsidiaries to fund local operations and/or capital projects.

Interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

**Retirement Benefits** Current service costs of retirement plans and postretirement health care and life insurance benefits are accrued. Prior service costs resulting from plan improvements are amortized over periods ranging from 10 to 20 years.

**Financial Instruments** Derivative financial instruments are used to manage interest and foreign currency exposures. The gain or loss on the hedging instrument is recorded in earnings at the same time as the transaction being hedged is recorded in earnings. The associated asset or liability related to the open hedge instrument is recorded in Prepaid expenses and other current assets or Other current liabilities, as applicable.

The Company records all derivative financial instruments on the balance sheet at fair value. Changes in a derivative's fair value are recognized in earnings unless specific hedge criteria are met. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in Net income. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in Accumulated other comprehensive income ("AOCI") in the accompanying Consolidated Balance Sheet and are subsequently recognized in Net income when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges, if any, are recognized as a charge or credit to earnings.

**Software Costs** The Company capitalizes direct internal and external development costs for certain significant projects associated with internal-use software and amortizes these costs over 7 years. Neither preliminary evaluation costs nor costs associated with the software after implementation are capitalized. Costs related to projects that are not significant are expensed as incurred.

**Shipping and Handling Costs** Net sales include shipping and handling charges billed to customers. Cost of goods sold includes all costs incurred in connection with shipping and handling.

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

<i>(SHARES IN THOUSANDS)</i>	Number of Shares		
	2014	2013	2012
Basic	80,936	81,322	81,108
Assumed dilution under stock plans	558	608	725
Diluted	81,494	81,930	81,833

Stock options and stock settled appreciation rights ("SSARs") to purchase 132,000 shares in the aggregate were outstanding at December 31, 2012, but are not included in the computation of diluted net income per share because to do so would have been anti-dilutive for the periods presented. There were no stock options or SSARs excluded from the computation of diluted net income per share at December 31, 2013 and 2014.

The Company has issued shares of Purchased Restricted Stock ("PRS") which contain nonforfeitable rights to dividends and thus are considered participating securities which are required to be included in the computation of basic and diluted earnings per share pursuant to the two-class method. The two-class method was not presented since the difference between basic and diluted net income per share for both common shareholders and PRS shareholders was approximately \$0.01 per share for each year and the number of PRS outstanding as of December 31, 2014, 2013 and 2012 was immaterial (approximately 0.6% 0.7%, and 0.6%, respectively, of the total number of common shares outstanding). Net income allocated to such PRS during 2014, 2013 and 2012 was approximately \$2.4 million, \$2.3 million and \$1.6 million, respectively.

**Stock-Based Compensation** Compensation cost of all share-based awards is measured at fair value on the date of grant and recognized over the service period for which awards are expected to vest. The cost of such share-based awards is principally recognized on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures.

#### New Accounting Standards

In March 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance clarifying the accounting for the release of cumulative translation adjustments into net income when a parent either sells a part or all of its

investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance was effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this statement did not have an impact on our financial position, results of operations or cash flows.

In July 2013, the FASB issued authoritative guidance related to the financial statement presentation of unrecognized tax benefits. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose. In such situations, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance was effective prospectively for reporting periods beginning after December 15, 2013. The adoption of this statement did not have a significant impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued authoritative guidance to clarify the principles to be used to recognize revenue. The guidance is applicable to all entities and is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact that this new standard will have on its consolidated financial statements.

#### **Reclassifications**

Certain reclassifications have been made to the prior years' financial statements to conform to the 2014 presentation.

#### **NOTE 2. RESTRUCTURING AND OTHER CHARGES**

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

#### **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, 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 that was announced in 2009 and completed in 2011. Additionally, during 2013, the Company recorded a charge of \$1.7 million related to the Strategic Initiative, which began in 2011 and was completed in 2013.

## Reorganization Plan

Movements in related accruals during 2012, 2013 and 2014 are as follows:

<i>(DOLLARS IN THOUSANDS)</i>	Employee- Related	Pension	Asset - Related/and Other	Total
Balance at January 1, 2012	\$ 10,774	\$ —	\$ —	\$ 10,774
Additional charges (reversals), net	1,376	292	—	1,668
Non-cash charges	—	(292)	—	(292)
Payments and other costs	(9,001)	—	—	(9,001)
Balance at December 31, 2012	3,149	—	—	3,149
Additional charges (reversals), net	2,151	—	5,250	7,401
Non-cash charges	—	—	(5,250)	(5,250)
Payments and other costs	(3,184)	—	—	(3,184)
Balance at December 31, 2013	2,116	—	—	2,116
Additional charges (reversals), net	(46)	—	6,444	6,398
Non-cash charges	—	—	(5,100)	(5,100)
Payments and other costs	(1,311)	—	(1,344)	(2,655)
Balance at Balance at December 31, 2014	\$ 759	\$ —	\$ —	\$ 759

## NOTE 3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following amounts:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,	
	2014	2013
<i>Asset Type</i>		
Land	\$ 16,448	\$ 20,723
Buildings and improvements	411,157	432,978
Machinery and equipment	935,340	952,103
Information technology	257,092	254,961
Construction in process	146,709	97,218
	1,766,746	1,757,983
Accumulated depreciation	(1,046,478)	(1,070,768)
	\$ 720,268	\$ 687,215

## NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill by segment is as follows:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,	
	2014	2013
Flavors	\$ 319,479	\$ 319,479
Fragrances	356,005	346,103
Total	\$ 675,484	\$ 665,582

The increase in Fragrances goodwill for the year ended December 31, 2014, relates to the acquisition of Aromor, as discussed below.

Trademark and other intangible assets consist of the following amounts:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,	
	2014	2013
Gross carrying value <sup>(1)</sup>	\$ 218,676	\$ 165,406
Accumulated amortization	(142,119)	(134,791)
Total	\$ 76,557	\$ 30,615

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

*Aromor*

On January 15, 2014, the Company completed the acquisition of 100% of the equity of Aromor Flavors and Fragrances Ltd. ("Aromor"), a privately held manufacturer and marketer of complex specialty ingredients that are used in fragrances and flavors. The acquisition was accounted for under the purchase method. The Company paid \$102.6 million (including \$0.1 million of cash acquired) for this acquisition, which was funded out of existing cash resources. Aromor is part of the IFF Fragrances Ingredients business and was acquired in order to strengthen this business and provide cost-effective quality materials for use in our formula creations. The purchase price exceeded the carrying value of existing net assets by approximately \$56 million. The excess was allocated principally to identifiable intangible assets (approximately \$53 million), goodwill (approximately \$10 million) and approximately \$9 million to deferred tax liabilities. Separately identifiable intangible assets are principally related to technological know-how. The intangible assets are amortized using lives ranging from 13-19 years. Additionally, the consideration included \$15 million related to post-combination contingent consideration, held in escrow. This escrowed amount will be expensed by the Company as it is earned by the selling shareholders over three years based upon the continued participation in the acquired business of certain key personnel. The purchase price allocation was completed during the second quarter. No pro forma financial information for 2013 is presented as the impact of the acquisition is immaterial.

*Amortization*

Amortization expense was \$7.3 million for the year ended December 31, 2014, and \$6.1 million for each year ended December 31, 2013 and 2012. Estimated annual amortization is \$7.2 million for years 2015 through 2018 and \$6.5 million for 2019.

**NOTE 5. OTHER ASSETS**

Other assets consist of the following amounts:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,	
	2014	2013
Overfunded pension plans	\$ 1,338	\$ 14,058
Cash surrender value of life insurance contracts	42,378	56,292
Other	85,522	70,629
Total	\$ 129,238	\$ 140,979

## NOTE 6. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following amounts:

	December 31,	
	2014	2013
<i>(DOLLARS IN THOUSANDS)</i>		
Accrued payrolls and bonuses	\$ 71,264	\$ 105,816
VAT payable	15,125	23,448
Interest payable	12,974	12,709
Current pension and other postretirement benefit obligation	11,902	11,891
Accrued insurance (including workers' compensation)	10,718	9,777
Restructuring and other charges	759	2,116
Other	120,142	135,987
Total	\$ 242,884	\$ 301,744

## NOTE 7. SALE AND LEASEBACK TRANSACTIONS

In connection with the disposition of certain real estate in prior years, we entered into long-term operating leases. The leases are classified as operating leases and the gains realized on these leases have been deferred and are being credited to income over the initial lease term. Such deferred gains totaled \$42 million and \$45 million at December 31, 2014 and 2013, respectively, of which \$39 million and \$41 million, respectively, are reflected in the accompanying Consolidated Balance Sheet under the caption Deferred gains, with the remainder included as a component of Other current liabilities.

## NOTE 8. BORROWINGS

Debt consists of the following at December 31:

<i>(DOLLARS IN THOUSANDS)</i>	Rate	Maturities	2014	2013
Senior notes — 2007	6.40%	2017-27	\$ 500,000	\$ 500,000
Senior notes — 2006	6.14%	2016	125,000	125,000
Senior notes — 2013	3.20%	2023	299,782	299,736
Bank overdrafts and other			12,335	984
Deferred realized gains on interest rate swaps			5,205	7,094
			942,322	932,814
Less: Current portion of long-term debt			(8,090)	(149)
			\$ 934,232	\$ 932,665

### Commercial Paper

Commercial paper issued by the Company generally has terms of 30 days or less. There were no outstanding commercial paper borrowings at December 31, 2014 or 2013.

### Senior Notes - 2013

On April 4, 2013, the Company issued \$300.0 million face amount of 3.20% Senior Notes ("Senior Notes - 2013") due 2023 at a discount of \$0.3 million. The Company received proceeds related to the issuance of these Senior Notes - 2013 of \$297.8 million which was net of the \$0.3 million discount and a \$1.9 million underwriting discount (recorded as deferred financing costs). In addition, the Company incurred \$0.9 million of other deferred financing costs in connection with the debt issuance. The discount and deferred financing costs are being amortized as interest expense over the term of the Senior Notes - 2013. The Senior Notes - 2013 bear interest at a rate of 3.20% per year, with interest payable on May 1 and November 1 of each year, commencing on November 1, 2013. The Senior Notes - 2013 mature on May 1, 2023. Upon 30 days' notice to holders of the Senior Notes - 2013, the Company may redeem the Senior Notes - 2013 for cash in whole, at any time, or in part, from time to time, prior to maturity, at redemption prices that include accrued and unpaid interest and a make-whole premium. However, no make-whole premium will be paid for redemptions of the Senior Notes - 2013 on or after February 1, 2023. The Indenture provides for customary events of default and contains certain negative covenants that limit the ability of the Company and its subsidiaries to grant liens on assets, to enter into sale-leaseback transactions or to consolidate with or merge into any other entity or convey, transfer or lease all or substantially all of the Company's properties and assets. In addition,

subject to certain limitations, in the event of the occurrence of both (1) a change of control of the Company and (2) a downgrade of the Senior Notes - 2013 below investment grade rating by both Moody's Investors Services, Inc. and Standard & Poor's Ratings Services within a specified time period, the Company will be required to make an offer to repurchase the Senior Notes - 2013 at a price equal to 101% of the principal amount of the Senior Notes - 2013, plus accrued and unpaid interest to the date of repurchase.

#### *Senior Notes - 2007*

On September 27, 2007, the Company issued \$500 million of Senior Unsecured Notes ("Senior Notes — 2007") in four series under the Note Purchase Agreement ("NPA"): (i) \$250 million in aggregate principal amount of 6.25% Series A Senior Notes due September 27, 2017, (ii) \$100 million in aggregate principal amount of 6.35% Series B Notes due September 27, 2019, (iii) \$50 million in aggregate principal amount of 6.50% Series C Notes due September 27, 2022, and (iv) \$100 million in aggregate principal amount of 6.79% Series D Notes due September 27, 2027. Proceeds of the offering were used primarily to fund an accelerated repurchase of IFF stock.

#### *Senior Notes - 2006*

In 2006, the Company issued \$375 million of Senior Unsecured Notes ("Senior Notes — 2006") in four series under another NPA: (i) \$50 million in aggregate principal amount of 5.89% Series A Senior Notes due July 12, 2009, (ii) \$100 million in aggregate principal amount of 5.96% Series B Notes due July 12, 2011, (iii) \$100 million in aggregate principal amount of 6.05% Series C Notes due July 12, 2013, and (iv) \$125 million in aggregate principal amount of 6.14% Series D Notes due July 12, 2016. Proceeds of the offering were used primarily to repay commercial paper borrowings used to fund our maturing debt. In 2009, 2011 and 2013, the Company repaid \$50 million, \$100 million and \$100 million, respectively, upon maturity of the first three series of the Senior Notes — 2006.

Maturities on our outstanding Senior Notes - 2006, Senior Notes - 2007 and Senior Notes - 2013 at December 31, 2014 were: 2016, \$125 million; 2017, \$250 million; 2019, \$100 million; 2020 and thereafter, \$450 million. There is no debt maturing in 2015 and 2018.

#### *Credit Facility*

On April 4, 2014, the Company and certain of its subsidiaries amended and restated the Company's existing credit agreement with Citibank, N.A., as administrative agent. The credit agreement, as amended, provides for a revolving loan facility in an aggregate amount up to an equivalent of \$950 million (the "Credit Facility"). Under the Credit Facility, Tranche A is available to borrowers in U.S. dollars, euros, Swiss francs, Japanese yen and British sterling in an aggregate amount up to an equivalent of approximately \$456 million, with a sublimit of \$25 million for swing line borrowings. Tranche B of the Credit Facility is available to borrowers in euros, Swiss francs, Japanese yen and British sterling in an aggregate amount up to an equivalent of approximately \$494 million.

The Credit Facility is available for general corporate purposes of each borrower and its subsidiaries. The obligations under the Credit Facility are unsecured and the Company has guaranteed the obligations of each other borrower under the Credit Facility. The 2014 amendment to the Credit Facility extended the maturity date of the facility to April 4, 2019, which may be extended for up to two additional one-year periods at the Company's request, subject to the agreement of the lenders having commitments representing more than 50% of the aggregate commitments of all lenders under the Credit Facility. Borrowings under the Credit Facility bear interest at an annual rate of LIBOR plus a margin, currently 112.5 bps, linked to our credit rating. The Company pays a commitment fee on the aggregate unused commitments; such fee is not material. The Credit Facility contains various affirmative and negative covenants, including the requirement for the Company to maintain, at the end of each fiscal quarter, a ratio of net debt for borrowed money to adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) in respect of the previous 12-month period of not more than 3.25 to 1. As of December 31, 2014, the Company was in compliance with all covenants under this Credit Facility. The Company had no borrowings outstanding under the Credit Facility as of December 31, 2014, with \$940.4 million still available for additional borrowings. As the Credit Facility is a multi-year revolving credit agreement, the Company classifies as long-term debt the portion that it has the intent and ability to maintain outstanding longer than 12 months.

Credit facility borrowings and bank overdrafts were outstanding in several countries and averaged \$3 million in 2014 and \$72.4 million in 2013. The highest levels were \$8 million in 2014, \$296 million in 2013, and \$297 million in 2012. The 2014 weighted average interest rate of these borrowings, based on balances outstanding at the end of each month, was 4.13%. These rates compare with 0.35% and 1.5%, respectively, in 2013 and 2012.

Other

The estimated fair value at December 31, 2014 of our Senior Notes — 2007, Senior Notes — 2006 and Senior Notes — 2013 was approximately \$588 million, \$133 million and \$296 million, respectively, and is discussed in further detail in Note 14.

During 2013, the Company entered into multiple interest rate swap agreements effectively converting the fixed rate on a portion of our long-term Senior Notes to a variable short-term rate based on the LIBOR plus an interest markup.

In March 2008, the Company realized an \$18 million gain on the termination of an interest rate swap, which has been deferred and is being amortized as a reduction to interest expense over the remaining term of the related debt. The balance of this deferred gain was \$5 million at December 31, 2014.

**NOTE 9. INCOME TAXES**

Earnings before income taxes consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	2012
U.S. income (loss) before taxes	\$ 17,650	\$ (20,727)	\$ (21,308)
Foreign income before taxes	531,411	505,937	464,723
Total income before taxes	<u>\$ 549,061</u>	<u>\$ 485,210</u>	<u>\$ 443,415</u>

The income tax provision consisted of the following:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	2012
<b>Current</b>			
Federal	\$ 1,175	\$ 8,658	\$ 8,280
State and local	264	1,246	(456)
Foreign <sup>(1)</sup>	109,729	122,246	197,335
	<u>111,168</u>	<u>132,150</u>	<u>205,159</u>
<b>Deferred</b>			
Federal	20,795	(4,686)	(4,650)
State and local	113	262	(74)
Foreign <sup>(1)</sup>	2,442	3,940	(11,154)
	<u>23,350</u>	<u>(484)</u>	<u>(15,878)</u>
Total income taxes	<u>\$ 134,518</u>	<u>\$ 131,666</u>	<u>\$ 189,281</u>

(1) For the year ended December 31, 2012, the foreign current income tax provision includes \$72 million of Spanish tax charges and \$12 million of charges related to the Spanish dividend withholding cases. For the year ended December 31, 2012, the foreign deferred income tax provision includes an \$11 million tax benefit from the corporate restructuring of certain foreign subsidiaries.

## Effective Tax Rate Reconciliation

A reconciliation between the U.S. federal statutory income tax rate to our actual effective tax rate is as follows:

	December 31,		
	2014	2013	2012
Statutory tax rate	35.0 %	35.0 %	35.0 %
Difference in effective tax rate on foreign earnings and remittances	(9.9)	(10.2)	(10.6)
Unrecognized tax benefit, net of reversals	0.8	1.0	0.9
Corporate restructuring of certain foreign subsidiaries	—	—	(2.4)
Spanish tax charges	—	1.3	16.3
Spanish dividend withholdings	(0.7)	—	2.6
State and local taxes	0.1	0.2	(0.1)
Other, net	(0.8)	(0.2)	1.0
Effective tax rate	<u>24.5 %</u>	<u>27.1 %</u>	<u>42.7 %</u>

Our effective tax rate reflects the benefit from having significant operations outside the U.S. that are taxed at rates that are lower than the U.S. federal rate of 35%. Included in the 2014 effective tax rate is a \$3.8 million tax benefit related to the reserve reversal for the 2001 Spanish dividend withholding tax case. Included in the 2013 effective tax rate is a \$6.2 million tax charge related to the 2002-2003 Spanish income tax cases as discussed below. Included in the 2012 effective tax rate is \$72.4 million of tax charges pursuant to the Spanish tax settlement. The 2014, 2013 and 2012 effective tax rates were also favorably impacted by the reversals of liabilities for uncertain tax positions of \$2 million, \$5 million and \$1 million, respectively, principally due to statutory expiry and effective settlement.

## Deferred Taxes

The deferred tax assets consist of the following amounts:

	December 31,	
	2014	2013
<i>(DOLLARS IN THOUSANDS)</i>		
Employee and retiree benefits	\$ 164,542	\$ 136,370
Credit and net operating loss carryforwards <sup>(1)</sup>	180,296	311,562
Property, plant and equipment, net	(7,275)	(699)
Trademarks and other	149,695	189,536
Amortizable R&D expenses	48,982	42,303
Other, net	17,320	16,957
Gross deferred tax assets	<u>553,560</u>	<u>696,029</u>
Valuation allowance <sup>(1)</sup>	(355,568)	(503,990)
Total net deferred tax assets	<u>\$ 197,992</u>	<u>\$ 192,039</u>

(1) During 2014 and 2013, the Company decreased its deferred tax assets by \$81 million and \$30 million, respectively, relating to an adjustment to the 2013 and 2012 foreign net operating loss carryforwards, respectively. The entire decreases of \$81 million and \$30 million were offset by corresponding decreases in valuation allowances. These adjustments are not considered material to the previously issued financial statements.

Net operating loss carryforwards were \$141 million and \$264 million at December 31, 2014 and 2013, respectively. If unused, \$5 million will expire between 2015 and 2034. The remainder, totaling \$136 million, may be carried forward indefinitely. Tax credit carryforwards were \$40 million and \$48 million at December 31, 2014 and 2013, respectively. If unused, the credit carryforwards will expire between 2015 and 2034.

The U.S. consolidated group has historically generated taxable income after the inclusion of foreign dividends. As such, the Company is not in a federal net operating loss position. This allows IFF and its U.S. subsidiaries to realize tax benefits from the reversal of temporary differences and the utilization of its federal tax credits before the expiration of the applicable



carryforward periods. The Company has not factored any future trends, other than inflation, in its U.S. taxable income projections. The corresponding U.S. federal taxable income is sufficient to realize \$160.3 million in deferred tax assets as of December 31, 2014.

The majority of states in the U.S. where IFF and its subsidiaries file income tax returns allow a 100% foreign dividend exclusion, effectively converting the domestic companies' reversing temporary differences into net operating losses. As there is significant doubt with respect to realizability of these net operating losses, we have established a full valuation allowance against these deferred tax assets.

Of the \$181 million deferred tax asset for net operating loss carryforwards and credits at December 31, 2014, we consider it unlikely that a portion of the tax benefit will be realized. Accordingly, a valuation allowance of \$138 million of net operating loss carryforwards and \$8 million of tax credits has been established against these deferred tax assets, respectively. In addition, due to realizability concerns, we established a valuation allowance against certain other net deferred tax assets of \$210 million.

#### Uncertain Tax Positions

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31,		
	2014	2013	2012
<i>(DOLLARS IN THOUSANDS)</i>			
Balance of unrecognized tax benefits at beginning of year	\$ 21,553	\$ 41,153	\$ 67,615
Gross amount of increases in unrecognized tax benefits as a result of positions taken during a prior year	1,795	7,364	22,031
Gross amount of decreases in unrecognized tax benefits as a result of positions taken during a prior year	(823)	(993)	(1,853)
Gross amount of increases in unrecognized tax benefits as a result of positions taken during the current year	5,378	4,951	3,854
The amounts of decreases in unrecognized benefits relating to settlements with taxing authorities	—	(26,712)	(48,355)
Reduction in unrecognized tax benefits due to the lapse of applicable statute of limitation	(4,848)	(4,210)	(2,139)
Balance of unrecognized tax benefits at end of year	<u>\$ 23,055</u>	<u>\$ 21,553</u>	<u>\$ 41,153</u>

At December 31, 2014, 2013 and 2012, there are \$22.3 million, \$21.6 million, and \$36.4 million, respectively, of unrecognized tax benefits recorded to Other liabilities and \$0.7 million and \$4.8 million recorded to Other current liabilities for 2014 and 2012, respectively. If these unrecognized tax benefits were recognized, all the benefits and related interest would be recorded as a benefit to income tax expense.

For the year ended December 31, 2014, the Company reduced its liabilities for interest and penalties by \$0.1 million, net, and \$5.2 million, net, and \$5.3 million, net for the years ended 2013 and 2012, respectively, principally due to payments made pursuant to the Spanish tax settlement, as discussed below. At December 31, 2014, 2013 and 2012, we had accrued \$1.7 million, \$2.3 million and \$7.4 million, respectively, of interest and penalties classified as Other liabilities and \$0.5 million in 2014 recorded to Other current liabilities.

As of December 31, 2014, the Company's aggregate provisions for uncertain tax positions, including interest and penalties, was \$25.2 million, which includes \$2.3 million associated with the tax positions taken by our Spanish subsidiaries for the 2002 fiscal year (as discussed below) and the remainder associated with various other tax positions asserted in foreign jurisdictions, none of which is individually material.

#### Other

Tax benefits credited to Shareholders' equity totaled \$0.2 million, \$0.6 million and \$0.4 million for 2014, 2013 and 2012, respectively, associated with stock option exercises and Purchased Restricted Stock ("PRS") dividends.

U.S. income taxes and foreign withholding taxes associated with the repatriation of earnings of its foreign subsidiaries were not provided on a cumulative total of \$1.5 billion of undistributed earnings of foreign subsidiaries. We intend to, and have plans to, reinvest these earnings indefinitely in our foreign subsidiaries to fund local operations and/or capital projects. The unrecognized deferred tax liability on these undistributed earnings approximates \$219 million.

The Company has ongoing income tax audits and legal proceedings which are at various stages of administrative or judicial review, of which the material items are discussed below. In addition, the Company has other ongoing tax audits and legal proceedings that relate to indirect taxes, such as value-added taxes, capital tax, sales and use and property taxes, which are discussed in Note 17.

#### *Spanish Tax Items*

During 2012 the Company and the Spanish tax authorities entered into an overall settlement with respect to assessments imposed in connection with audits for the 2004-2010 fiscal years. In connection with this settlement, the Company paid Euro 84.0 million (\$105.5 million based on exchange rates at the respective payment dates) during 2012 and paid the remainder of Euro 1.5 million (\$1.9 million based on the exchange rate at the payment date) in 2013. This settlement did not address either the 2002-2003 fiscal years or the 2011 fiscal year. Also during 2012, the Company and the Spanish tax authorities finalized a multi-year agreement that established the tax basis for the Company's activities in Spain for 2012 through 2014 consistent with the key principles preliminarily agreed upon as part of the overall settlement.

During 2013, the Company reached a settlement with the Spanish tax authorities related to the 2011 fiscal year audit, on a basis consistent with the overall settlement reached for the 2004-2010 fiscal year audits, and paid Euro 3.9 million (\$5.2 million based on the exchange rate at the payment date).

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. As a result of these rulings, during 2012 the Company (i) recorded charges (including estimated interest) of approximately \$12.0 million after-tax and (ii) made payments of Euro 9.8 million (\$12.8 million based on exchange rate at the respective payment dates). 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. 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). As of December 31, 2014, the Company had posted bank guarantees of Euro 4.7 million (\$5.6 million) in order to proceed with the appeals of the interest portion of these three remaining controversies.

In addition, the Company has several other tax audits in process and has open tax years with various taxing jurisdictions that range primarily from 2004 to 2013. Based on currently available information, we do not believe the ultimate outcome of any of these tax audits and other tax positions related to open tax years, when finalized, will have a material impact on our financial position.

#### **NOTE 10. SHAREHOLDERS' EQUITY**

##### *Dividends*

Cash dividends declared per share were \$1.72, \$1.46 and \$1.30 in 2014, 2013 and 2012, respectively. The Consolidated Balance Sheet reflects \$38.0 million of dividends payable at December 31, 2014. This amount relates to a cash dividend of \$0.47 per share declared in December 2014 and paid in January 2015. Dividends declared, but not paid as of December 31, 2013 were \$31.7 million (\$0.39 per share). There were no dividends payable as of December 31, 2012. The decrease in the dividends paid in 2013 versus 2012 is a result of the accelerated payment in December 2012 of the 2012 fourth quarter dividend.

##### *Share Repurchases*

In December 2012, the Board of Directors authorized a \$250 million share repurchase program, which commenced in the first quarter of 2013 and is expected to be completed by the end of 2016. Based on the total remaining amount of \$109 million available under the repurchase program, approximately 1.1 million shares, or 1.4% of shares outstanding (based on the market price and shares outstanding as of December 31, 2014) could be repurchased under the program as of December 31, 2014. The purchases will be made from time to time on the open market or through private transactions as market and business conditions warrant. Repurchased shares will be placed into treasury stock. The ultimate level of purchases will be a function of the daily purchase limits established in the pre-approved program according to the share price at that time. This plan expires on December 31, 2016.

#### NOTE 11. STOCK COMPENSATION PLANS

We have various equity plans under which our officers, senior management, other key employees and directors may be granted options to purchase IFF common stock or other forms of stock-based awards. Beginning in 2004, we granted Restricted Stock Units (“RSUs”) as the principal element of our equity compensation for all eligible U.S. based employees and a majority of eligible overseas employees. Vesting of the RSUs is solely time based; the vesting period is primarily 3 years from date of grant. For a small group of employees, primarily overseas, we granted stock options prior to 2008.

The cost of all employee stock-based awards are principally recognized on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. Total stock-based compensation expense included in our Consolidated Statement of Income and Comprehensive Income was as follows:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	2012
Equity-based awards	\$ 22,648	\$ 23,736	\$ 19,716
Liability-based awards	4,354	4,042	3,294
Total stock-based compensation	27,002	27,778	23,010
Less tax benefit	(8,018)	(8,456)	(7,228)
Total stock-based compensation, net of tax	<u>\$ 18,984</u>	<u>\$ 19,322</u>	<u>\$ 15,782</u>

The shareholders of the Company approved the Company’s 2010 Stock Award and Incentive Plan (the “2010 Plan”) at the Annual Meeting of Shareholders held on April 27, 2010. The 2010 Plan replaced the Company’s 2000 Stock Award and Incentive Plan and the 2000 Supplemental Stock Award Plan (the “2000 Plans”) and provides the source for future deferrals of cash into deferred stock under the Company’s Deferred Compensation Plan (with the Deferred Compensation Plan being deemed a subplan under the 2010 Plan for the sole purpose of funding deferrals under the IFF Share Fund).

Under the 2010 Plan, a total of 2,749,669 shares are authorized for issuance, including 749,669 shares remaining available under a previous plan that were rolled into the 2010 Plan. At December 31, 2014, 1,206,380 shares were subject to outstanding awards and 1,546,494 shares remained available for future awards under all of the Company’s equity award plans, including the 2010 Plan (excluding shares not yet issued under open cycles of the Company’s Long-Term Incentive Plan).

The Company offers a Long-Term Incentive Plan (“LTIP”) for senior management. The targeted payout is 50% cash and 50% IFF stock at the end of the three-year cycle and provides for segmentation in which one-fourth of the award vests during each twelve-month period, with the final one-fourth segment vesting over the full three-year period. The 2011 grant was earned based on the achievement of defined EPS targets and our performance ranking of total shareholder return as a percentile of the S&P 500. Commencing with the 2012-2014 LTIP cycle, the Company used Economic Profit (“EP”), rather than EPS, as one of the two financial metrics of Company performance. EP measures operating profitability after considering (i) all our operating costs, (ii) income taxes and (iii) a charge for the capital employed in the business. When the award is granted, 50% of the target dollar value of the award is converted to a number of “notional” shares based on the closing price at the beginning of the cycle. For those shares whose payout is based on shareholder return as a percentile of the S&P 500, compensation expense is recognized using a graded-vesting attribution method, while compensation expense for the remainder of the performance shares (e.g., EPS targets) is recognized on a straight-line basis over the vesting period based on the probable outcome of the performance condition.

The 2010-2012 cycle concluded at the end of 2012 and an aggregate 119,561 shares of our common stock were issued in March 2013. The 2011-2013 cycle concluded at the end of 2013 and an aggregate 65,735 shares of our common stock were issued in March 2014. The 2012-2014 cycle concluded at the end of 2014 and an aggregate 90,062 shares of our common stock will be issued in March 2015.

In 2006, our Board approved the Equity Choice Program (the "Program") for senior management. This program continues under the 2010 Plan. Eligible employees can choose from among three equity alternatives and will be granted such equity awards up to certain dollar awards depending on the participant's grade level. A participant may choose among (1) Stock Settled Appreciation Rights ("SSARs"), (2) RSUs or (3) PRS. No stock options were granted in 2014, 2013 or 2012.

### SSARs

SSARs granted become exercisable on the third anniversary of the grant date and have a maximum term of 7 years. No SSARs were granted in 2014 or 2013. We granted 54,307 SSARs during 2012.

We use the Binomial lattice-pricing model as our valuation model for estimating the fair value of SSARs granted. In applying the Binomial model, we utilize historical information to estimate expected term and post-vesting terminations within the model. The expected term of a SSAR is based on historical employee exercise behavior, vesting terms and a contractual life of primarily 7 years. The risk-free interest rate for periods within the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on an average of implied and historical volatility of the price of our common stock over the calculated expected term. We anticipate paying cash dividends in the future and therefore use an expected dividend yield in the valuation model; the cash dividend in effect at the time of grant was employed in this calculation.

Principal assumptions used in applying the Binomial model in 2012 were:

	2012
Weighted average fair value of SSARs granted during the period	\$ 10.39
Assumptions:	
Risk-free interest rate	0.9%
Expected volatility	22.5%
Expected dividend yield	2.1%
Expected life, in years	5
Termination rate	1.05%
Exercise multiple	1.44

SSARs and options activity were as follows:

<i>(SHARE AMOUNTS IN THOUSANDS)</i>	Shares Subject to SSARs/Options	Weighted Average Exercise Price	SSARs/ Options Exercisable
Balance at Balance at December 31, 2013	315	\$ 49.96	183
Exercised	(144)	\$ 50.45	
Cancelled	(20)	\$ 60.39	
Balance at Balance at December 31, 2014	151	\$ 51.13	116

The weighted average exercise price of our SSARs and options exercisable at December 31, 2014, 2013 and 2012 were \$47.92, \$41.70 and \$37.64, respectively. The following tables summarize information concerning currently outstanding and exercisable SSARs and options.

SSARs and options outstanding at December 31, 2014 were as follows:

Price Range	Number Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
\$26 – \$30	1	4.4	\$ 30.48	
\$31 – \$35	18	0.9	\$ 35.03	
\$36 – \$40	6	1.3	\$ 36.00	
\$41 – \$50	39	1.9	\$ 44.56	
\$51 – \$60	59	3.4	\$ 56.68	
\$61 – \$65	28	1.6	\$ 62.13	
	151		\$ 51.13	\$ 7,490

SSARs and options exercisable as of December 31, 2014 were as follows:

Price Range	Number Exercisable (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
\$26 – \$30	1	4.4	\$ 30.48	
\$31 – \$35	18	0.9	\$ 35.03	
\$36 – \$40	6	1.3	\$ 36.00	
\$41 – \$50	39	1.9	\$ 44.56	
\$51 – \$55	25	2.0	\$ 49.58	
\$61 – \$65	27	1.61	\$ 62.13	
	116		\$ 47.92	\$ 6,050

The total intrinsic value of options/SSARs exercised during 2014, 2013 and 2012 totaled \$7 million, \$11 million and \$11 million, respectively.

As of December 31, 2014, there was \$0.1 million of total unrecognized compensation cost related to non-vested SSARs granted; such cost is expected to be recognized over a period of 0.3 years.

#### **Restricted Stock Units**

We have granted RSUs to eligible employees and directors. Such RSUs are subject to forfeiture if certain employment conditions are not met. RSUs principally vest 100% at the end of 3 years and contain no performance criteria provisions. An RSU's fair value is calculated based on the market price of our stock at date of grant, with an adjustment to reflect the fact that such awards do not participate in dividend rights. The aggregate fair value is amortized to expense ratably over the vesting period.

RSU activity was as follows:

<i>(SHARE AMOUNTS IN THOUSANDS)</i>	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2013	558	\$ 64.86
Granted	206	\$ 94.19
Vested	(200)	\$ 59.43
Forfeited	(42)	\$ 82.34
Balance at December 31, 2014	522	\$ 74.83

The total fair value of RSUs which vested during the year ended December 31, 2014 was \$19.5 million.

As of December 31, 2014, there was \$15.6 million of total unrecognized compensation cost related to non-vested RSUs granted under the equity incentive plans; such cost is expected to be recognized over a weighted average period of 1.8 years.

#### **Purchased Restricted Stock**

For awards issued in 2012 and prior, PRS provides for eligible employees to purchase restricted shares of IFF stock at 50% of the fair market value on the grant date of the award. The shares generally vest on the third anniversary of the grant date, are subject to continued employment and other specified conditions and pay dividends if and when paid by us. Holders of PRS have, in most instances, all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares. RSUs provide no such rights. In 2013, the terms of PRS were modified such that, for each share put in escrow by the eligible employee, the Company matches with a grant of a share of restricted stock or, for non-U.S. participants, a restricted stock unit. We issued 99,091 shares of PRS in 2014 for an aggregate purchase price of \$9.7 million covering 49,545 purchased shares, 101,326 shares of PRS in 2013 for \$7.8 million covering 50,633 purchased shares and 228,750 shares in 2012 for \$6.9 million covering 114,375 purchased shares.

PRS activity was as follows:

<i>(SHARE AMOUNTS IN THOUSANDS)</i>	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Balance at Balance at December 31, 2013	476	\$ 60.58
Granted	99	\$ 97.94
Vested	(155)	\$ 62.13
Forfeited	(40)	\$ 57.59
Balance at Balance at December 31, 2014	380	\$ 57.36

The total fair value of PRS which vested during the year ended December 31, 2014 was \$14.9 million.

As of December 31, 2014, there was \$6.8 million of total unrecognized compensation cost related to non-vested PRS granted under the equity incentive plans; such cost is expected to be recognized over a weighted average period of 1.8 years.

#### **Liability Awards**

We have granted Cash RSUs to eligible employees that are paid out 100% in cash upon vesting. Such RSUs are subject to forfeiture if certain employment conditions are not met. Cash RSUs principally vest 100% at the end of three years and contain no performance criteria provisions. A Cash RSU's fair value is calculated based on the market price of our stock at date of our closing period and is accounted for as a liability award. The aggregate fair value is amortized to expense ratably over the vesting period.

Cash RSU activity was as follows:

<i>(SHARE AMOUNTS IN THOUSANDS)</i>	Cash RSUs	Weighted Average Fair Value Per Share
Balance at Balance at December 31, 2013	112	\$ 85.94
Granted	35	\$ 100.85
Vested	(37)	\$ 97.68
Cancelled	(4)	\$ 99.73
Balance at Balance at December 31, 2014	106	\$ 100.85

The total fair value of Cash RSUs which vested during the year ended December 31, 2014 was \$3.7 million.

As of December 31, 2014, there was \$3.7 million of total unrecognized compensation cost related to non-vested Cash RSUs granted under the equity incentive plans; such cost is expected to be recognized over a weighted average period of 1.9 years. The aggregate compensation cost will be adjusted based on changes in the Company's stock price.

#### **NOTE 12. SEGMENT INFORMATION**

We are organized into two operating segments, Flavors and Fragrances; these segments align with the internal structure used to manage these businesses. Flavor compounds are sold to the food and beverage industries for use in consumer products such as prepared foods, beverages, dairy, food and sweet products. Fragrances is comprised of Fragrance Compounds, which are ultimately used by our customers in two broad categories: Fine Fragrances, including perfumes and colognes and Consumer Fragrances, including fragrance compounds for personal care (e.g., soaps), household products (e.g., detergents and cleaning agents) and beauty care, including toiletries; and Fragrance Ingredients, consisting of synthetic and natural ingredients that can be combined with other materials to create unique fine fragrance and consumer compounds. Major fragrance customers include the cosmetics industry, including perfume and toiletries manufacturers, and the household products industry, including manufacturers of soaps, detergents, fabric care, household cleaners and air fresheners.

We evaluate the performance of these operating segments based on segment profit which is defined as operating profit before Restructuring, global expenses (as discussed below) and certain non-recurring items, Interest expense, Other income (expense), net and Taxes on income.

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

individual operating segments. Unallocated assets are principally cash and cash equivalents and other corporate and headquarters-related assets.

Our reportable segment information is as follows:

<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	2012
<b>Net sales</b>			
Flavors	\$ 1,457,055	\$ 1,422,739	\$ 1,378,377
Fragrances	1,631,478	1,530,157	1,443,069
Consolidated	<u>\$ 3,088,533</u>	<u>\$ 2,952,896</u>	<u>\$ 2,821,446</u>
<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	
<b>Segment assets</b>			
Flavors	\$ 1,539,254	\$ 1,573,737	
Fragrances	1,753,477	1,623,033	
Global assets	201,890	134,961	
Consolidated	<u>\$ 3,494,621</u>	<u>\$ 3,331,731</u>	
<i>(DOLLARS IN THOUSANDS)</i>	December 31,		
	2014	2013	2012
<b>Segment profit:</b>			
Flavors	\$ 331,257	\$ 323,562	\$ 298,326
Fragrances	335,447	283,651	238,379
Global expenses	(65,443)	(66,942)	(48,419)
Restructuring and other charges, net	(1,298)	(2,151)	(1,668)
Spanish capital tax charge <sup>(1)</sup>	—	(13,011)	—
Operational improvement initiative costs <sup>(2)</sup>	(7,642)	(8,770)	—
Operating Profit	<u>592,321</u>	<u>516,339</u>	<u>486,618</u>
Interest expense	(46,067)	(46,767)	(41,753)
Other income (expense), net <sup>(3)</sup>	2,807	15,638	(1,450)
Income before taxes	<u>\$ 549,061</u>	<u>\$ 485,210</u>	<u>\$ 443,415</u>
<b>Profit margin</b>			
Flavors	22.7%	22.7%	21.6%
Fragrances	20.6%	18.5%	16.5%
Consolidated	19.2%	17.5%	17.2%

<sup>(1)</sup> The Spanish capital tax charge represents the charge recorded during the year ended December 31, 2013 as a result of the unfavorable ruling of the Spanish capital tax case from 2002.

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

<sup>(3)</sup> Other income (expense), net includes a \$14.2 million gain on the sale of non-operating assets for the year ended December 31, 2013.

We have not disclosed revenues at a lower level than provided herein, such as revenues from external customers by product, as it is impracticable for us to do so.

We had one customer that accounted for more than 10% of our consolidated net sales in each year for all periods presented and related net sales were \$368 million, \$355 million and \$320 million in 2014, 2013 and 2012, respectively. The majority of these sales were in the Fragrances operating segment.

Total long-lived assets consist of net property, plant and equipment and amounted to \$720 million and \$687 million at December 31, 2014 and 2013, respectively. Of this total \$159 million and \$163 million was located in the United States at December 31, 2014 and 2013, respectively, and \$105 million and \$107 million were located in the Netherlands at December 31, 2014 and 2013, respectively.

<i>(DOLLARS IN THOUSANDS)</i>	Capital Expenditures			Depreciation and Amortization		
	2014	2013	2012	2014	2013	2012
Flavors	\$ 91,104	\$ 108,215	\$ 90,309	\$ 36,008	\$ 33,662	\$ 30,816
Fragrances	43,948	17,616	26,069	43,790	39,716	42,987
Unallocated assets	8,130	8,326	9,762	9,556	9,849	2,864
Consolidated	\$ 143,182	\$ 134,157	\$ 126,140	\$ 89,354	\$ 83,227	\$ 76,667

<i>(DOLLARS IN THOUSANDS)</i>	Net Sales by Geographic Area		
	2014	2013	2012
Europe, Africa and Middle East	\$ 1,041,585	\$ 971,921	\$ 912,768
Greater Asia	856,217	823,504	771,877
North America	690,214	680,840	694,430
Latin America	500,517	476,631	442,371
Consolidated	\$ 3,088,533	\$ 2,952,896	\$ 2,821,446

Net sales are attributed to individual regions based upon the destination of product delivery. Net sales related to the U.S. for the years ended December 31, 2014, 2013 and 2012 were \$653 million, \$653 million and \$662 million, respectively. Net sales attributed to all foreign countries in total for the years ended December 31, 2014, 2013 and 2012 were \$2,435 million, \$2,300 million and \$2,159 million, respectively. No non-U.S. country had net sales in any period presented greater than 7.1% of total consolidated net sales.

#### NOTE 13. EMPLOYEE BENEFITS

We have pension and/or other retirement benefit plans covering approximately one-third of active employees. In 2007 the Company amended its U.S. qualified and non-qualified pension plans under which accrual of future benefits was suspended for all participants that did not meet the rule of 70 (age plus years of service equal to at least 70 at December 31, 2007). Pension benefits are generally based on years of service and on compensation during the final years of employment. Plan assets consist primarily of equity securities and corporate and government fixed income securities. Substantially all pension benefit costs are funded as accrued; such funding is limited, where applicable, to amounts deductible for income tax purposes. Certain other retirement benefits are provided by general corporate assets.

We sponsor a qualified defined contribution plan covering substantially all U.S. employees. Under this plan, we match 100% of participants' contributions up to 4% of compensation and 75% of participants' contributions from over 4% to 8%. Employees that are still eligible to accrue benefits under the defined benefit plan are limited to a 50% match up to 6% of the participants' compensation.

In addition to pension benefits, certain health care and life insurance benefits are provided to qualifying United States employees upon retirement from IFF. Such coverage is provided through insurance plans with premiums based on benefits paid. We do not generally provide health care or life insurance coverage for retired employees of foreign subsidiaries; such benefits are provided in most foreign countries by government-sponsored plans, and the cost of these programs is not material to us.

We offer a non-qualified Deferred Compensation Plan (DCP) for certain key employees and non-employee directors. Eligible employees and non-employee directors may elect to defer receipt of salary, incentive payments and Board of Directors' fees into participant directed investments, which are generally invested by the Company in individual variable life insurance contracts we own that are designed to informally fund savings plans of this nature. The cash surrender value of life insurance is based on the net asset values of the underlying funds available to plan participants. At December 31, 2014 and December 31, 2013, the Consolidated Balance Sheet reflects liabilities of \$33.9 million and \$29.7 million, respectively, related to the DCP in Other liabilities and \$19.0 million and \$15.1 million, respectively, included in Capital in excess of par value related to the portion of the DCP that will be paid out in IFF shares.



The total cash surrender value of life insurance contracts the Company owns in relation to the DCP and post-retirement life insurance benefits amounted to \$42.4 million and \$56.3 million at December 31, 2014 and 2013, respectively, and are recorded in Other assets in the Consolidated Balance Sheet.

The plan assets and benefit obligations of our defined benefit pension plans are measured at December 31 of each year.

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans			Non-U.S. Plans		
	2014	2013	2012	2014	2013	2012
<b>Components of net periodic benefit cost</b>						
Service cost for benefits earned	\$ 3,057	\$ 3,644	\$ 3,121	\$ 14,142	\$ 16,423	\$ 12,585
Interest cost on projected benefit obligation	25,090	23,284	24,314	33,360	31,103	30,944
Expected return on plan assets	(27,647)	(26,320)	(24,329)	(49,861)	(47,793)	(43,728)
Net amortization of deferrals	17,656	24,600	20,180	10,584	9,337	6,443
Settlements and curtailments	—	—	—	43	215	873
Net periodic benefit cost	18,156	25,208	23,286	8,268	9,285	7,117
Defined contribution and other retirement plans	7,854	7,326	7,039	6,323	4,094	4,837
Total expense	\$ 26,010	\$ 32,534	\$ 30,325	\$ 14,591	\$ 13,379	\$ 11,954
<b>Changes in plan assets and benefit obligations recognized in OCI</b>						
Net actuarial (gain) loss	\$ 50,918	\$ (39,754)		\$ 138,652	\$ 36,134	
Recognized actuarial loss	(17,345)	(24,296)		(10,874)	(9,536)	
Prior service cost	216	—		(10,814)	(873)	
Recognized prior service cost	(311)	(304)		248	(15)	
Currency translation adjustment	—	—		(30,441)	5,464	
Total recognized in OCI (before tax effects)	\$ 33,478	\$ (64,354)		\$ 86,771	\$ 31,174	

<i>(DOLLARS IN THOUSANDS)</i>	Postretirement Benefits		
	2014	2013	2012
<b>Components of net periodic benefit cost</b>			
Service cost for benefits earned	\$ 1,295	\$ 1,526	\$ 1,357
Interest cost on projected benefit obligation	4,896	4,503	5,656
Net amortization and deferrals	(4,109)	(3,040)	(1,770)
Expense	\$ 2,082	\$ 2,989	\$ 5,243
<b>Changes in plan assets and benefit obligations recognized in OCI</b>			
Net actuarial (gain)	\$ 7,706	\$ (15,524)	
Recognized actuarial loss	(540)	(1,672)	
Recognized prior service credit	4,649	4,712	
Total recognized in OCI (before tax effects)	\$ 11,815	\$ (12,484)	

The amounts expected to be recognized in net periodic cost in 2015 are:

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans	Non-U.S. Plans	Postretirement Benefits
Actuarial loss recognition	\$ 20,627	\$ 15,088	\$ 1,184
Prior service cost (credit) recognition	183	(840)	(4,029)

Weighted-average actuarial assumption used to determine expense	U.S. Plans			Non-U.S. Plans		
	2014	2013	2012	2014	2013	2012
Discount rate	4.70%	4.10%	4.70%	4.18%	4.14%	4.71%
Expected return on plan assets	7.30%	7.30%	7.30%	6.27%	6.26%	6.27%
Rate of compensation increase	3.25%	3.25%	3.25%	2.66%	2.73%	2.88%

Changes in the postretirement benefit obligation and plan assets, as applicable, are detailed in the following table:

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
	2014	2013	2014	2013	2014	2013
Benefit obligation at beginning of year	\$ 544,602	\$ 573,706	\$ 818,578	\$ 780,164	\$ 105,521	\$ 119,308
Service cost for benefits earned	3,057	3,644	14,142	16,423	1,295	1,526
Interest cost on projected benefit obligation	25,090	23,284	33,360	31,103	4,896	4,503
Actuarial (gain) loss	79,855	(29,875)	236,096	2,655	7,706	(15,524)
Plan amendments	216	—	(10,814)	(873)	—	—
Adjustments for expense/tax contained in service cost	—	—	(2,087)	(2,343)	—	—
Plan participants' contributions	—	—	2,096	2,793	1,024	1,022
Benefits paid	(27,341)	(26,157)	(32,134)	(27,571)	(6,945)	(5,314)
Curtailments / settlements	—	—	(9,270)	(768)	—	—
Translation adjustments	—	—	(86,413)	16,995	—	—
Acquisitions/Transferred Liabilities	—	—	1,712	—	—	—
Benefit obligation at end of year	\$ 625,479	\$ 544,602	\$ 965,266	\$ 818,578	\$ 113,497	\$ 105,521
Fair value of plan assets at beginning of year	\$ 448,851	\$ 405,289	\$ 799,670	\$ 776,188		
Actual return on plan assets	56,584	36,199	135,947	11,970		
Employer contributions	23,707	33,520	20,282	19,377		
Participants' contributions	—	—	2,096	2,793		
Benefits paid	(27,341)	(26,157)	(32,134)	(27,571)		
Settlements	—	—	—	(768)		
Translation adjustments	—	—	(74,680)	17,681		
Acquisitions/Transferred Assets	—	—	1,712	—		
Fair value of plan assets at end of year	\$ 501,801	\$ 448,851	\$ 852,893	\$ 799,670		
Funded status at end of year	\$ (123,678)	\$ (95,751)	\$ (112,373)	\$ (18,908)		

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans		Non-U.S. Plans	
	2014	2013	2014	2013
<b>Amounts recognized in the balance sheet:</b>				
Other assets	\$ —	\$ —	\$ 1,338	\$ 14,058
Other current liabilities	(3,887)	(3,819)	(608)	(651)
Retirement liabilities	(119,791)	(91,930)	(113,103)	(32,315)
Net amount recognized	\$ (123,678)	\$ (95,749)	\$ (112,373)	\$ (18,908)

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
	2014	2013	2014	2013	2014	2013
<b>Amounts recognized in AOCI consist of:</b>						
Net actuarial loss	\$ 178,677	\$ 145,105	\$ 360,070	\$ 263,930	\$ 21,057	\$ 13,891
Prior service cost (credit)	387	482	(10,697)	(1,330)	(10,358)	(15,007)
Total AOCI (before tax effects)	\$ 179,064	\$ 145,587	\$ 349,373	\$ 262,600	\$ 10,699	\$ (1,116)

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans		Non-U.S. Plans	
	2014	2013	2014	2013
<b>Accumulated Benefit Obligation — end of year</b>	\$ 616,004	\$ 536,176	\$ 942,103	\$ 777,188

**Information for Pension Plans with an ABO in excess of Plan Assets:**

	U.S. Plans		Non-U.S. Plans	
	2014	2013	2014	2013
Projected benefit obligation	\$ 625,479	\$ 544,602	\$ 695,552	\$ 43,778
Accumulated benefit obligation	616,004	536,176	672,389	41,991
Fair value of plan assets	501,801	448,851	581,841	18,669

**Weighted-average assumptions used to determine obligations at December 31**

	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Discount rate	3.90%	4.70%	2.74%	4.18%
Rate of compensation increase	3.25%	3.25%	2.00%	2.66%

<i>(DOLLARS IN THOUSANDS)</i>	U.S. Plans	Non-U.S. Plans	Postretirement Benefits
<b>Estimated Future Benefit Payments</b>			
2015	30,068	28,045	5,085
2016	31,194	27,710	5,285
2017	32,589	28,893	5,522
2018	34,115	31,459	5,784
2019	35,483	32,259	6,043
2020 - 2024	188,512	169,579	33,627
<b>Contributions</b>			
Required Company Contributions in the Following Year (2015)	\$ 4,156	\$ 16,183	\$ 5,085

We consider a number of factors in determining and selecting assumptions for the overall expected long-term rate of return on plan assets. We consider the historical long-term return experience of our assets, the current and expected allocation of our plan assets and expected long-term rates of return. We derive these expected long-term rates of return with the assistance of our investment advisors. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities, fixed income, real estate and alternative asset classes. The asset allocation is monitored on an ongoing basis.

We consider a variety of factors in determining and selecting our assumptions for the discount rate at December 31. For the U.S. plans, the discount rate was based on the internal rate of return for a portfolio of Moody's Aaa, Aa and Merrill Lynch AAA-AA high quality bonds with maturities that are consistent with the projected future benefit payment obligations of the plan. The rate of compensation increase for all plans and the medical cost trend rate for the applicable U.S. plans are based on plan experience.

	U.S. Plans		Non-U.S. Plans	
	2014	2013	2014	2013
<b>Percentage of assets invested in:</b>				
Cash and cash equivalents	1%	1%	1%	2%
Equities	40%	48%	26%	25%
Fixed income	59%	51%	62%	59%
Property	0%	0%	7%	8%
Alternative and other investments	0%	0%	4%	6%

With respect to the U.S. plans, the expected return on plan assets was determined based on an asset allocation model using the current target allocation, real rates of return by asset class and an anticipated inflation rate. The target investment allocation is 40% equity securities and 60% fixed income securities.

The expected annual rate of return for the non-U.S. plans employs a similar set of criteria adapted for local investments, inflation rates and in certain cases specific government requirements. The target asset allocation, for the non-U.S. plans, consists of approximately: 40% – 60% in fixed income securities; 20% – 40% in equity securities; 5% – 20% in real estate; and 5% – 10% in alternative investments.

The following tables present our plan assets for the U.S. and non-U.S. plans using the fair value hierarchy as of December 31, 2014 and 2013. Our plans' assets were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. For more information on a description of the fair value hierarchy, see Note 14.

	U.S. Plans for the year ended December 31, 2014			
	Level 1	Level 2	Level 3	Total
<i>(DOLLARS IN THOUSANDS)</i>				
<b>Cash Equivalents</b>	\$ —	\$ 3,829	\$ —	\$ 3,829
<b>Equity Securities</b>				
U.S. Common Stock	37,278	—	—	37,278
Non-U.S. Common Stock	1,635	—	—	1,635
Balanced Funds	—	9,270	—	9,270
Pooled Funds	—	154,559	—	154,559
<b>Fixed Income Securities</b>				
Government & Government Agency Bonds	—	10,620	—	10,620
Mutual Funds	—	212,007	—	212,007
Corporate Bonds	—	63,057	—	63,057
Municipal Bonds	—	9,100	—	9,100
<b>Total</b>	\$ 38,913	\$ 462,442	\$ —	\$ 501,355
Receivables				\$ 446
<b>Total</b>				\$ 501,801

**U.S. Plans for the year ended  
December 31, 2013**

*(DOLLARS IN THOUSANDS)*

	Level 1	Level 2	Level 3	Total
<b>Cash Equivalents</b>	\$ —	\$ 5,694	\$ —	\$ 5,694
<b>Equity Securities</b>				
U.S. Common Stock	38,993	—	—	38,993
Non-U.S. Common Stock	343	—	—	343
Balanced Funds	—	8,389	—	8,389
Pooled Funds	—	165,670	—	165,670
<b>Fixed Income Securities</b>				
Government & Government Agency Bonds	—	8,262	—	8,262
Mutual Funds	—	158,646	—	158,646
Corporate Bonds	—	54,699	—	54,699
Municipal Bonds	—	7,440	—	7,440
<b>Total</b>	<u>\$ 39,336</u>	<u>\$ 408,800</u>	<u>\$ —</u>	<u>\$ 448,136</u>
Receivables				\$ 715
<b>Total</b>				<u>\$ 448,851</u>

**Non-U.S. Plans for the year ended  
December 31, 2014**

*(DOLLARS IN THOUSANDS)*

	Level 1	Level 2	Level 3	Total
<b>Cash</b>	\$ 10,792	\$ —	\$ —	\$ 10,792
<b>Equity Securities</b>				
U.S. Large Cap	64,852	8,295	—	73,147
Non-U.S. Large Cap	83,671	5,853	—	89,524
Non-U.S. Mid Cap	145	—	—	145
Non-U.S. Small Cap	33	—	—	33
Emerging Markets	52,664	1,214	—	53,878
<b>Fixed Income Securities</b>				
U.S. Treasuries/Government Bonds	47	—	—	47
Non-U.S. Treasuries/Government Bonds	163,143	100,544	—	263,687
Non-U.S. Corporate Bonds	62,630	186,837	—	249,467
Non-U.S. Asset-Backed Securities	—	16,375	—	16,375
Non-U.S. Other Fixed Income	1,409	—	—	1,409
<b>Alternative Types of Investments</b>				
Insurance Contracts	316	—	—	316
Hedge Funds	—	—	14,775	14,775
Other	904	—	—	904
Absolute Return Funds	—	17,135	—	17,135
Private Equity Funds	—	—	6	6
<b>Real Estate</b>				
Non-U.S. Real Estate	—	56,346	4,907	61,253
<b>Total</b>	<u>\$ 440,606</u>	<u>\$ 392,599</u>	<u>\$ 19,688</u>	<u>\$ 852,893</u>

**Non-U.S. Plans for the year ended  
December 31, 2013**

*(DOLLARS IN THOUSANDS)*

	Level 1	Level 2	Level 3	Total
<b>Cash</b>	\$ 11,956	\$ —	\$ —	\$ 11,956
<b>Equity Securities</b>				
U.S. Large Cap	40,274	—	—	40,274
Non-U.S. Large Cap	92,551	12,783	—	105,334
Non-U.S. Mid Cap	107	—	—	107
Non-U.S. Small Cap	29	—	—	29
Emerging Markets	57,689	—	—	57,689
<b>Fixed Income Securities</b>				
U.S. Treasuries/Government Bonds	328	—	—	328
U.S. Corporate Bonds	—	—	—	—
Non-U.S. Treasuries/Government Bonds	120,651	75,131	—	195,782
Non-U.S. Corporate Bonds	65,443	189,707	—	255,150
Non-U.S. Mortgage-Backed Securities	—	—	—	—
Non-U.S. Asset-Backed Securities	—	17,895	—	17,895
Non-U.S. Other Fixed Income	1,205	—	—	1,205
<b>Alternative Types of Investments</b>				
Insurance Contracts	334	—	—	334
Hedge Funds	—	—	15,280	15,280
Other	928	—	—	928
Absolute Return Funds	—	31,253	—	31,253
Private Equity Funds	—	—	7	7
<b>Real Estate</b>				
Non-U.S. Real Estate	—	58,660	7,459	66,119
<b>Total</b>	<b>\$ 391,495</b>	<b>\$ 385,429</b>	<b>\$ 22,746</b>	<b>\$ 799,670</b>

Cash and cash equivalents are primarily held in registered money market funds which are valued using a market approach based on the quoted market prices of identical instruments. Other cash and cash equivalents are valued daily by the fund using a market approach with inputs that include quoted market prices for similar instruments.

Equity securities are primarily valued using a market approach based on the quoted market prices of identical instruments. Pooled funds are typically common or collective trusts valued at their net asset values (NAVs).

Fixed income securities are primarily valued using a market approach with inputs that include broker quotes and benchmark yields.

Derivative instruments are valued by the custodian using closing market swap curves and market derived inputs.

Real estate values are primarily based on valuation of the underlying investments, which include inputs such as cost, discounted future cash flows, independent appraisals and market comparable data.

Hedge funds are valued based on valuation of the underlying securities and instruments within the funds. Quoted market prices are used when available and NAVs are used for unquoted securities within the funds.

Absolute return funds are actively managed funds mainly invested in debt and equity securities and are valued at their NAVs.

The following table presents a reconciliation of Level 3 non-U.S. plan assets held during the year ended December 31, 2014:

	Non-U.S. Plans			
	Real Estate	Private Equity	Hedge Funds	Total
<i>(DOLLARS IN THOUSANDS)</i>				
Ending balance as of December 31, 2013	\$ 7,459	\$ 7	\$ 15,280	\$ 22,746
Actual return on plan assets	(2,322)	(1)	(505)	(2,828)
Purchases, sales and settlements	(230)	—	—	(230)
Ending balance as of December 31, 2014	\$ 4,907	\$ 6	\$ 14,775	\$ 19,688

The following weighted average assumptions were used to determine our postretirement benefit expense and obligation for the years ended December 31:

	Expense		Liability	
	2014	2013	2014	2013
Discount rate	4.80%	4.00%	3.90%	4.80%
Current medical cost trend rate	6.50%	6.75%	5.80%	6.50%
Ultimate medical cost trend rate	4.75%	4.75%	4.75%	4.75%
Medical cost trend rate decreases to ultimate rate in year	2021	2021	2023	2021

	Sensitivity of Disclosures to Changes in Selected Assumptions			
	25 BP Decrease in Discount Rate		25 BP Decrease in Long-Term Rate of Return	
	Change in PBO	Change in ABO	Change in pension expense	Change in pension expense
<i>(DOLLARS IN THOUSANDS)</i>				
U.S. Pension Plans	\$ 19,983	\$ 19,609	\$ 1,304	\$ 1,043
Non-U.S. Pension Plans	\$ 47,377	\$ 45,329	\$ 2,783	\$ 2,115
Postretirement Benefit Plan	N/A	\$ 3,745	\$ 215	N/A

The effect of a 1% increase in the medical cost trend rate would increase the accumulated postretirement benefit obligation and the annual postretirement expense by approximately \$6.9 million and \$0.3 million, respectively; a 1% decrease in the rate would decrease the obligation and expense by approximately \$6.7 million and \$0.3 million, respectively.

We contributed \$20.0 million and \$20.3 million to our qualified U.S. pension plans and non-U.S. pension plans in 2014, respectively. We made \$3.7 million in benefit payments with respect to our non-qualified U.S. pension plan. In addition, \$6.9 million of payments were made with respect to our other postretirement plans.

#### NOTE 14. FINANCIAL INSTRUMENTS

##### Fair Value

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

- Level 1 — Quoted prices for *identical* instruments in active markets.
- Level 2 — Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. We determine the fair value of structured liabilities (where performance is linked to structured

interest rates, inflation or currency risks) using the London InterBank Offer Rate (“LIBOR”) swap curve and forward interest and exchange rates at period end. Such instruments are classified as Level 2 based on the observability of significant inputs to the model. We do not have any instruments classified as Level 1 or Level 3, other than those included in pension asset trusts included in Note 13.

These valuations take into consideration our credit risk and our counterparties’ credit risk. The estimated change in the fair value of these instruments due to such changes in our own credit risk (or instrument-specific credit risk) was immaterial as of December 31, 2014.

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

<i>(DOLLARS IN THOUSANDS)</i>	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents <sup>(1)</sup>	\$ 478,573	\$ 478,573	\$ 405,505	\$ 405,505
Credit facilities and bank overdrafts <sup>(2)</sup>	12,335	12,335	984	984
Long-term debt: <sup>(3)</sup>				
Senior notes — 2007	500,000	587,650	500,000	590,024
Senior notes — 2006	125,000	133,137	125,000	139,146
Senior notes — 2013	299,782	296,290	299,736	278,770

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

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

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

#### Derivatives

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

In 2003, we executed a 10-year Yen — U.S. dollar currency swap related to the monthly sale and purchase of products between the U.S. and Japan which has been designated as a cash flow hedge. This swap matured in January 2013.

During the years ended December 31, 2014 and 2013, we entered into forward currency contracts which qualified as net investment hedges, in order to mitigate a portion of our net European investments from foreign currency risk. The effective portions of net investment hedges are recorded in other comprehensive income ("OCI") as a component of Foreign currency translation adjustments in the accompanying Consolidated Statement of Income and Comprehensive Income. Realized gains/(losses) are deferred in AOCI where they will remain until the net investments in our European subsidiaries are divested. Six of these forward currency contracts matured during the year ended December 31, 2014. The outstanding forward currency contracts have remaining maturities of less than one year.

During the year ended December 31, 2014 and 2013, we continued to enter into several forward currency contracts which qualified as cash flow hedges. The objective of these hedges is to protect against the currency risk associated with forecasted U.S. dollar (USD) denominated raw material purchases made by Euro (EUR) functional currency entities which result from changes in the EUR/USD exchange rate. The effective portions of cash flow hedges are recorded in OCI as a component of Gains/(Losses) on derivatives qualifying as hedges in the accompanying Consolidated Statement of Income and Comprehensive Income. Realized gains/(losses) in AOCI related to cash flow hedges of raw material purchases are recognized as a component of Cost of goods sold in the accompanying Consolidated Statement of Income and Comprehensive Income in the same period as the related costs are recognized.



During 2014 and 2013, we entered into interest rate swap agreements that effectively converted the fixed rate on a portion of our long-term borrowings to a variable short-term rate based on the LIBOR plus an interest markup. These swaps are designated as fair value hedges. Amounts recognized in Interest expense were immaterial for the year ended December 31, 2014.

During Q1 2013, we entered into three interest rate swaps to hedge the anticipated issuance of fixed-rate debt, which are designated as cash flow hedges. The effective portions of cash flow hedges are recorded in OCI as a component of Losses/gains on derivatives qualifying as hedges in the accompanying Consolidated Statement of Income and Comprehensive Income. During the second quarter of 2013, we terminated these swaps and incurred a loss of \$2.7 million, which we will amortize as Interest expense over the life of the Senior Notes - 2013 (discussed in Note 8).

The following table shows the notional amount of the Company's derivative instruments outstanding as of December 31, 2014 and December 31, 2013:

<i>(DOLLARS IN THOUSANDS)</i>	December 31, 2014	December 31, 2013
Forward currency contracts	\$ 191,150	\$ 255,500
Interest rate swaps	\$ 425,000	\$ 375,000

The following tables show the Company's derivative instruments measured at fair value (Level 2 of the fair value hierarchy) as reflected in the Consolidated Balance Sheets as of December 31, 2014 and December 31, 2013 (in thousands):

	December 31, 2014		
	Fair Value of Derivatives Designated as Hedging Instruments	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
<b>Derivative assets<sup>(a)</sup></b>			
Foreign currency contracts	\$ 16,637	\$ 4,398	\$ 21,035
Interest rate swaps	683	—	683
	\$ 17,320	\$ 4,398	\$ 21,718
<b>Derivative liabilities<sup>(b)</sup></b>			
Foreign currency contracts	\$ 6	\$ 1,055	\$ 1,061
	December 31, 2013		
	Fair Value of Derivatives Designated as Hedging Instruments	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
<b>Derivative assets<sup>(a)</sup></b>			
Foreign currency contracts	\$ 580	\$ 8,896	\$ 9,476
Interest rate swaps	670	—	670
	\$ 1,250	\$ 8,896	\$ 10,146
<b>Derivative liabilities<sup>(b)</sup></b>			
Foreign currency contracts	\$ 6,024	\$ 2,909	\$ 8,933

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

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

The following table shows the effect of the Company's derivative instruments which were not designated as hedging instruments in the Consolidated Statement of Income and Comprehensive Income for the years ended December 31, 2014 and December 31, 2013 (in thousands):

Derivatives Not Designated as Hedging Instruments	Amount of Gain For the years ended December 31,		Location of Gain Recognized in Income on Derivative
	2014	2013	
Foreign currency contract	\$ 25,678	\$ 16,479	Other (income) expense, net

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

The following table shows the effect of the Company's derivative instruments designated as cash flow and net investment hedging instruments in the Consolidated Statement of Income and Comprehensive Income for the years ended December 31, 2014 and December 31, 2013 (in thousands):

Derivatives in Cash Flow Hedging Relationships:	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	For the years ended December 31,			For the years ended December 31,	
	2014	2013		2014	2013
Cross currency swap <sup>(1)</sup>	\$ —	\$ —	Other (income) expense, net	\$ —	\$ (333)
Forward currency contract	16,109	(1,308)	Cost of goods sold	(3,675)	(624)
Interest rate swaps <sup>(2)</sup>	274	(2,530)	Interest expense	(274)	(205)
<b>Derivatives in Net Investment Hedging Relationships:</b>					
Forward currency contract	7,415	(1,330)	N/A	—	—
<b>Total</b>	<b>\$ 23,798</b>	<b>\$ (5,168)</b>		<b>\$ (3,949)</b>	<b>\$ (1,162)</b>

(1) Ten year swap executed in 2003, matured in January 2013.

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

The ineffective portion of the above noted cash flow hedges and net investment hedges was not material for the years ended December 31, 2014 and 2013.

The Company expects approximately \$7.0 million (net of tax), of derivative gains included in AOCI at December 31, 2014, based on current market rates, will be reclassified into earnings within the next twelve months. The majority of this amount will vary due to fluctuations in foreign currency exchange rates.

**NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

	Foreign Currency Translation Adjustments	(Losses) Gains on Derivatives Qualifying as Hedges	Pension and Postretirement Liability Adjustment	Total
<b>(DOLLARS IN THOUSANDS)</b>				
<b>Accumulated other comprehensive loss, net of tax, as of December 31, 2013</b>	\$ (104,278)	\$ (4,012)	\$ (284,421)	\$ (392,711)
OCI before reclassifications	(69,064)	12,434	(111,915)	(168,545)
Amounts reclassified from AOCI	—	3,949	16,877	20,826
<b>Net current period other comprehensive income (loss)</b>	<b>(69,064)</b>	<b>16,383</b>	<b>(95,038)</b>	<b>(147,719)</b>
<b>Accumulated other comprehensive loss, net of tax, as of December 31, 2014</b>	<b>\$ (173,342)</b>	<b>\$ 12,371</b>	<b>\$ (379,459)</b>	<b>\$ (540,430)</b>

	Foreign Currency Translation Adjustments	(Losses) Gains on Derivatives Qualifying as Hedges	Pension and Postretirement Liability Adjustment	Total
<b>(DOLLARS IN THOUSANDS)</b>				
<b>Accumulated other comprehensive (loss) income, net of tax, as of December 31, 2012</b>	\$ (93,722)	\$ (218)	\$ (309,685)	\$ (403,625)
OCI before reclassifications	(10,556)	(4,956)	4,339	(11,173)
Amounts reclassified from AOCI	—	1,162	20,925	22,087
<b>Net current period other comprehensive income (loss)</b>	<b>(10,556)</b>	<b>(3,794)</b>	<b>25,264</b>	<b>10,914</b>
<b>Accumulated other comprehensive loss, net of tax, as of December 31, 2013</b>	<b>\$ (104,278)</b>	<b>\$ (4,012)</b>	<b>\$ (284,421)</b>	<b>\$ (392,711)</b>

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

	December 31, 2014	December 31, 2013	Affected Line Item in the Consolidated Statement of Comprehensive Income
<b>(DOLLARS IN THOUSANDS)</b>			
<b>(Losses) gains on derivatives qualifying as hedges</b>			
Cross currency swap	\$ —	\$ (333)	Other (income) expense, net
Foreign currency contracts	(4,426)	(861)	Cost of goods sold
Interest rate swaps	(274)	(205)	Interest expense
	751	237	Provision for income taxes
	<u>\$ (3,949)</u>	<u>\$ (1,162)</u>	Total, net of income taxes
<b>(Losses) gains on pension and postretirement liability adjustments</b>			
Settlements / Curtailments	\$ (43)	\$ (215)	(a)
Prior service cost	(63)	(319)	(a)
Actuarial losses	(28,219)	(33,618)	(a)
	11,448	13,227	Provision for income taxes
	<u>\$ (16,877)</u>	<u>\$ (20,925)</u>	Total, net of income taxes

(a) The amortization of prior service cost and actuarial loss is included in the computation of net periodic benefit cost. Refer to Note 13 to the Consolidated Financial Statements - Employee Benefits for additional information regarding net periodic benefit cost.

#### **NOTE 16. CONCENTRATIONS OF CREDIT RISK**

The Company does not have significant concentrations of risk in financial instruments. Temporary investments are made in a well-diversified portfolio of high-quality, liquid obligations of government, corporate and financial institutions. There are also limited concentrations of credit risk with respect to trade receivables because the Company has a large number of customers who are spread across many industries and geographic regions. The Company's larger customers are each spread across many sub-categories of its segments and geographical regions. We had one customer that accounted for more than 10% of our consolidated net sales in each year for all periods presented.

#### **NOTE 17. COMMITMENTS AND CONTINGENCIES**

##### **Lease Commitments**

Minimum rental payments under non-cancelable operating leases are \$29.0 million in 2015, \$25.3 million in 2016, \$22.3 million in 2017 and from 2018 and thereafter through 2031, the aggregate lease obligations are \$133.8 million. The corresponding rental expense amounted to \$34.4 million, \$32.4 million and \$31.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. None of our leases contain escalation clauses and they do not require capital improvement funding.

##### **Guarantees and Letters of Credit**

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

At December 31, 2014, we had total bank guarantees and standby letters of credit of approximately \$38.5 million with various financial institutions. Of this amount, Euro 6.5 million (\$7.9 million) in bank guarantees are related to governmental requirements on income tax disputes in Spain, as discussed in further detail in Note 9. Also included in the above aggregate amount is a total of \$19.6 million for certain other assessments in Brazil for other diverse income tax and indirect tax disputes related to fiscal years 1998-2011. There were no material amounts utilized under the standby letters of credit as of December 31, 2014.

In order to challenge the assessments in these cases in Brazil, the Company has been required to and has separately pledged assets, principally property, plant and equipment to cover assessments in the amount of approximately \$18.0 million as of December 31, 2014.

## **Lines of Credit**

The Company has various lines of credit which are available to support its ongoing business operations. December 31, 2014, we had available lines of credit (in addition to the New Facility as discussed in Note 8) of approximately \$78.6 million with various financial institutions. There were no material amounts drawn down pursuant to these lines of credit as of December 31, 2014.

## **Litigation**

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

Periodically, we assess our insurance coverage for all known claims, where applicable, taking into account aggregate coverage by occurrence, limits of coverage, self-insured retentions and deductibles, historical claims experience and claims experience with our insurance carriers. The liabilities are recorded at management's best estimate of the probable outcome of the lawsuits and claims, taking into consideration the facts and circumstances of the individual matters as well as past experience on similar matters. At each balance sheet date, the key issues that management assesses are whether it is probable that a loss as to asserted or unasserted claims has been incurred and if so, whether the amount of loss can be reasonably estimated. We record the expected liability with respect to claims in Other liabilities and expected recoveries from our insurance carriers in Other assets. We recognize a receivable when we believe that realization of the insurance receivable is probable under the terms of the insurance policies and our payment experience to date.

## ***Environmental***

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

We have been identified as a PRP at 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 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 Contingencies**

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

The most significant government-related contingencies exist in Brazil. With regard to the Brazilian matters, we believe we have valid defenses for the underlying positions under dispute; however, in order to pursue these defenses, we are required to, and have provided, bank guarantees and pledged assets in the aggregate amount of \$37.6 million. The Brazilian matters take an extended period of time to proceed through the judicial process and there are a limited number of rulings to date.

In March 2012, ZoomEssence, Inc. filed a complaint against the Company in the U.S. District Court of New Jersey alleging trade secret misappropriation, breach of contract and unjust enrichment in connection with certain spray dry technology disclosed to the Company. In connection with the claims, ZoomEssence is seeking an injunction and monetary

damages. ZoomEssence initially sought a temporary restraining order and preliminary injunction, but the Court denied these applications in an order entered on September 27, 2013, finding that ZoomEssence had not demonstrated a likelihood of success on the merits of its claims. The Court subsequently referred the matter to mediation, however the private mediation session did not result in a resolution of the dispute. On November 3, 2014, ZoomEssence amended its complaint against the Company to include allegations of breach of the duty of good faith and fair dealing, fraud in the inducement, and misappropriation of confidential and proprietary information. On November 13, 2014, the Company filed a counterclaim against ZoomEssence alleging trade secret misappropriation, breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, misappropriation of confidential and proprietary information, common law unfair competition, tortious interference with contractual relations, and conversion. The case is currently proceeding through discovery with a trial on the merits anticipated in 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.

Based on the information available as of December 31, 2014, we estimate a range of reasonably possible loss related to all of the matters above of \$0-\$31 million.

Separately, the Spanish tax authorities are alleging claims for a capital tax in a case arising from similar allegations as the income tax cases (discussed in further detail in Note 9). In connection with the 2002 income tax assessment ruling discussed in Note 9, the Appellate Court rejected one of the two bases upon which we based our capital tax position. However, we believe that we still have a strong basis for our capital tax position and intend to continue to defend these claims. If there is an unfavorable ruling in this case, we estimate the loss would be approximately \$13 million, which was fully reserved as of December 31, 2014. On January 22, 2014, we filed an appeal and 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.

(a)(3) EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3(i)	Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 10(g) to Registrant's Report on Form 10-Q filed on August 12, 2002.
3(ii)	By-laws of the Registrant, effective as of February 6, 2014, incorporated by reference to Exhibit 3(ii) to Registrant's Report on Form 8-K filed on February 7, 2014.
4.1	Note Purchase Agreement, dated as of July 12, 2006, by and among International Flavors & Fragrances Inc. and the various purchasers named therein, incorporated by reference to Exhibit 4.7 to Registrant's Report on Form 8-K filed on July 13, 2006.
4.2	Form of Series A, Series B, Series C and Series D Senior Notes incorporated by reference to Exhibit 4.8 to Registrant's Report on Form 8-K filed on July 13, 2006.
4.3	Note Purchase Agreement, dated as of September 27, 2007, by and among International Flavors & Fragrances Inc. and the various purchasers named therein, incorporated by reference to Exhibit 4.7 to Registrant's Report on Form 8-K filed on October 1, 2007.
4.4	Form of Series A, Series B, Series C and Series D Senior Notes incorporated by reference to Exhibit 4.8 of Registrant's Report on Form 8-K filed on October 1, 2007.
*10.1	Letter Agreement between International Flavors & Fragrances Inc. and Andreas Fibig, dated May 26, 2014, incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed on May 28, 2014.
*10.2	Supplemental Retirement Plan, adopted by the Registrant's Board of Directors on October 29, 1986 as amended and restated through October 9, 2007, incorporated by reference to Exhibit 10.5 to Registrant's Report on Form 10-K filed on February 27, 2008.
*10.3	2000 Stock Award and Incentive Plan, adopted by the Registrant's Board of Directors on March 9, 2000 as amended and restated through October 9, 2007, incorporated by reference to Exhibit 10.6 to Registrant's Report on Form 10-K filed on February 27, 2008.
*10.4	2010 Stock Award and Incentive Plan, as Amended and Restated as of February 6, 2014.
*10.5	2000 Supplemental Stock Award Plan, adopted by the Registrant's Board of Directors on November 14, 2000 as amended and restated through October 9, 2007, incorporated by reference to Exhibit 10.7 to Registrant's Report on Form 10-K filed on February 27, 2008.
*10.6	Performance Criteria for the Registrant's Equity Choice Program relating to Senior Executives incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q filed on May 6, 2010.
*10.7	Form of Non-Employee Director's Restricted Stock Units Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan, incorporated by reference to Exhibit 10.7 to Registrant's Report on Form 10-Q filed on October 31, 2007.
*10.8	Form of U.S. Restricted Stock Units Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.5 to Registrant's Report on Form 10-Q filed on October 31, 2007.

**Exhibit  
Number**

**Description**

- \*10.9 Form of U.S. Stock Settled Appreciation Rights Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan, incorporated by reference to Exhibit 10.6 to Registrant's Report on Form 10-Q filed on October 31, 2007.
- \*10.10 Form of Restricted Stock Units Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q filed on August 5, 2009.
- \*10.11 Form of Purchased Restricted Stock Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q filed on August 5, 2009.
- \*10.12 Form of Employee Stock Option Agreement under International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan, incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q filed on November 9, 2004.
- \*10.13 Form of International Flavors & Fragrances Inc. Stock Option Agreement under 2000 Stock Option Plan for Non-Employee Directors, incorporated by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q filed on November 9, 2004.
- \*10.14 Amended and Restated Executive Severance Policy, as Amended through and including October 23, 2014, incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 10-Q Filed on November 4, 2014.
- \*10.15 Director Charitable Contribution Program, adopted by the Board of Directors on December 8, 2009, incorporated by reference to Exhibit 10.38 to Registrant's Report on Form 10-K filed on February 25, 2010.
- 10.16 Form of Director/Officer Indemnification Agreement incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed on July 28, 2008.
- 10.17 Credit Agreement, dated as of November 9, 2011, Amended and Restated as of April 4, 2014, among International Flavors & Fragrances Inc., International Flavors & Fragrances (Luxembourg) S.à r.l., International Flavors & Fragrances (Nederland) Holding B.V., International Flavors & Fragrances I.F.F. (Nederland) B.V., IFF Worldwide (Gibraltar) Limited and IFF Aroma Esans Sanayi Ve Ticaret Anonim Sirketi, as borrowers, the banks, financial institutions and other institutional lenders party thereto, and Citibank, N.A. as administrative agent, incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed on April 8, 2014.
- 10.18 Amendment No. 1 to the Credit Agreement, dated as of June 2, 2014, among International Flavors & Fragrances Inc., International Flavors & Fragrances (Luxembourg) S.à r.l., International Flavors & Fragrances (Nederland) Holding B.V., International Flavors & Fragrances I.F.F. (Nederland) B.V., IFF Worldwide (Gibraltar) Limited and IFF Aroma Esans Sanayi Ve Ticaret Anonim Sirketi, the various financial institutions as are parties to the Credit Agreement, and Citibank, N.A. as administrative agent.
- \*10.19 Form of Executive Death Benefit Plan Agreement incorporated by reference to Exhibit 10.27 to Registrant's Report on Form 10-K filed on February 28, 2012.
- \*10.20 Deferred Compensation Plan, as amended and restated December 12, 2011 incorporated by reference to Exhibit 10.28 to Registrant's Report on Form 10-K filed on February 28, 2012.
- \*10.21 Form of U.S. Stock Settled Appreciation Rights Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.29 to Registrant's Report on Form 10-K filed on February 28, 2012.



<u>Exhibit Number</u>	<u>Description</u>
*10.22	Form of Restricted Stock Units Award Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.31 to Registrant's Report on Form 10-Q filed on May 6, 2014.
*10.23	Form of Purchased Restricted Stock Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.31 to Registrant's Report on Form 10-K filed on February 28, 2012.
*10.24	Form of Non-Employee Director's Restricted Stock Units Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.32 to Registrant's Report on Form 10-K filed on February 28, 2012.
*10.25	Form of Annual Bonus Award Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan
*10.26	Form of Long-Term Incentive Plan Award Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan
*10.27	Restricted Stock Units Award Agreement, dated as of June 13, 2014, between International Flavors and Fragrances Inc. and Nicolas Mirzayantz, incorporated by reference to Exhibit 10.5 to Registrant's Report on Form 10-Q Filed on August 5, 2014.
*10.28	Form of Equity Choice Program Award Agreement under International Flavors & Fragrances Inc. 2010 Stock Award and Incentive Plan incorporated by reference to Exhibit 10.2 to Registrant's Report on Form 10-Q Filed on May 6, 2014.
*10.29	Restricted Stock Units Award Agreement, dated as of March 6, 2014, between International Flavors & Fragrances Inc. and Hernan Vaisman, incorporated by reference to Exhibit 10.3 to Registrant's Report on Form 10-Q Filed on May 6, 2014.
21	List of Principal Subsidiaries.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Andreas Fibig pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Richard A. O'Leary pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Andreas Fibig and Richard A. O'Leary pursuant to 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extensions Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Management contract or compensatory plan or arrangement



<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> /s/ Andreas Fibig <hr/> <b>Andreas Fibig</b>	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2015
<hr/> /s/ Richard A. O'Leary <hr/> <b>Richard A. O'Leary</b>	Interim Chief Financial Officer, Vice President and Controller	March 2, 2015
<hr/> /s/ Marcello V. Bottoli <hr/> <b>Marcello V. Bottoli</b>	Director	March 2, 2015
<hr/> /s/ Linda B. Buck <hr/> <b>Linda B. Buck</b>	Director	March 2, 2015
<hr/> /s/ J. Michael Cook <hr/> <b>J. Michael Cook</b>	Director	March 2, 2015
<hr/> /s/ Michael Ducker <hr/> <b>Michael Ducker</b>	Director	March 2, 2015
<hr/> /s/ Roger W. Ferguson, Jr. <hr/> <b>Roger W. Ferguson, Jr.</b>	Director	March 2, 2015
<hr/> /s/ Christina Gold <hr/> <b>Christina Gold</b>	Director	March 2, 2015
<hr/> /s/ Alexandra A. Herzan <hr/> <b>Alexandra A. Herzan</b>	Director	March 2, 2015
<hr/> /s/ Henry W. Howell, Jr. <hr/> <b>Henry W. Howell, Jr.</b>	Director	March 2, 2015
<hr/> /s/ Katherine M. Hudson <hr/> <b>Katherine M. Hudson</b>	Director	March 2, 2015
<hr/> /s/ Arthur C. Martinez <hr/> <b>Arthur C. Martinez</b>	Director	March 2, 2015
<hr/> /s/ Dale F. Morrison <hr/> <b>Dale F. Morrison</b>	Director	March 2, 2015

**INTERNATIONAL FLAVORS & FRAGRANCES INC. AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

(IN THOUSANDS)

	For the Year Ended December 31, 2014				
	Balance at beginning of period	Additions (deductions) charged to costs and expenses	Accounts written off	Translation adjustments	Balance at end of period
Allowance for doubtful accounts <sup>(1)</sup>	\$ 10,493	\$ 222	\$ (554)	\$ (1,014)	\$ 9,147
Valuation allowance on credit and operating loss carryforwards and other net deferred tax assets	503,990	(92,204) <sup>(2)</sup>	—	(56,218)	355,568
	For the Year Ended December 31, 2013				
	Balance at beginning of period	Additions (deductions) charged to costs and expenses	Accounts written off	Translation adjustments	Balance at end of period
Allowance for doubtful accounts <sup>(1)</sup>	\$ 9,293	\$ 1,984	\$ (1,059)	\$ 275	\$ 10,493
Valuation allowance on credit and operating loss carryforwards and other net deferred tax assets	450,733	38,360 <sup>(3)</sup>	—	14,897	503,990
	For the Year Ended December 31, 2012				
	Balance at beginning of period	Additions (deductions) charged to costs and expenses	Accounts written off	Translation adjustments	Balance at end of period
Allowance for doubtful accounts <sup>(1)</sup>	\$ 5,831	\$ 3,639	\$ (824)	\$ 647	\$ 9,293
Valuation allowance on credit and operating loss carryforwards and other net deferred tax assets	290,879	153,718 <sup>(4)</sup>	—	6,136	450,733

<sup>(1)</sup> Amounts have been revised to properly reflect a \$2.1 million prior period adjustment.

<sup>(2)</sup> The 2014 amount includes an adjustment to the 2013 foreign net operating loss carryforwards in the amount of \$81 million, as discussed in Note 9 of the Consolidated Financial Statements.

<sup>(3)</sup> The 2013 amount includes an adjustment to the 2012 foreign net operating loss carryforwards in the amount of \$30 million, as discussed in Note 9 of the Consolidated Financial Statements.

<sup>(4)</sup> During 2012, the Company increased its deferred tax assets by \$129 million. The 2012 amount includes an adjustment to the 2011 foreign net operating loss carryforwards in the amount of \$74 million and a \$55 million increase related to current year internally generated intangible assets. This entire increase of \$129 million was offset by a corresponding increase in valuation allowances.

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**  
**INVESTOR INFORMATION**

**ANNUAL MEETING**

The Annual Meeting of Shareholders will be held at the offices of the Company, 521 West 57<sup>th</sup> Street, New York, New York, on May 6, 2015 at 10:00 a.m., EDT.

IFF will be furnishing proxy materials to shareholders on the internet, rather than mailing printed copies of those materials to each shareholder. A Notice of Internet Availability of Proxy Materials will be mailed to each shareholder on or about March 18, 2015, which will provide instructions as to how shareholders may access and review the proxy materials for the 2015 Annual Meeting on the website referred to in the Notice or, alternatively, how to request a printed copy of the proxy materials be sent to them by mail.

**TRANSFER AGENT AND REGISTRAR**

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, New York 10038  
800-937-5449  
[www.amstock.com](http://www.amstock.com)

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New York Stock Exchange

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

PricewaterhouseCoopers LLP

**WEBSITE**

[www.iff.com](http://www.iff.com)

## LIST OF SUBSIDIARIES OF INTERNATIONAL FLAVORS &amp; FRAGRANCES INC.

<b>Name of Entity</b>	<b>Country</b>
International Flavors & Fragrances SRL	Argentina
Bush Boake Allen Australia Pty Ltd	Australia
IFF Australia Holdings Pty Ltd	Australia
International Flavours & Fragrances (Australia) Pty Ltd	Australia
Alva Insurance Ltd	Bermuda
I.F.F. Essencias e Fragancias Ltda.	Brazil
Bush Boake Allen Industria E Commercial do Brasil Limitada	Brazil
International Flavors & Fragrances I.F.F. (Canada) Ltd.	Canada
Bush Boake Allen (Chile) S.A.	Chile
IFF Sabores y Fragancias de Chile Ltda.	Chile
International Flavors & Fragrances I.F.F. (Chile) Limitada	Chile
International Flavors & Fragrances (Hangzhou) Co. Ltd1	China
IFF Flavors & Fragrances (Hangzhou) Trading Co.	China
International Flavors & Fragrances (Zhejiang) Co., Ltd.	China
International Flavors & Fragrances (China) Ltd.	China
Sabores y Fragancias S.A.	Colombia
International Flavors & Fragrances (Middle East) FZ-LLC	Dubai
Misr Co. for Aromatic Products (MARP) S.A.E.	Egypt
International Flavors & Fragrances I.F.F. (France) SAS	France
International Flavors & Fragrances I.F.F. (Deutschland) G.m.b.H.	Germany
IFF Worldwide (Gibraltar) Limited	Gibraltar
IFF (Gibraltar) Holdings	Gibraltar
International Flavors & Fragrances (Hong Kong) Limited	Hong Kong
Essence Scientific Research Private Limited	India
Fragrance Holdings Private Limited	India
International Flavours & Fragrances India Private Limited2	India
P.T. Essence Indonesia	Indonesia
IFF Capital Services Ltd.	Ireland
IFF Financial Services Ltd.	Ireland
Irish Flavours and Fragrances Limited	Ireland
Aromatics Holdings Limited	Ireland
International Flavors & Fragrances Irish Acquisition Company Limited	Ireland
Aromor Flavor & Fragrances Ltd.	Israel
BKF Vision Ltd.	Israel
K-Vision Consulting and Investments Ltd.	Israel
M.P. Equity Holdings Ltd.	Israel
International Flavors & Fragrances I.F.F. (Israel) Ltd.	Israel
International Flavors & Fragrances I.F.F. (Italia) S.r.l.	Italy
Bush Boake Allen (Jamaica) Limited3	Jamaica
International Flavors & Fragrances (Japan) Ltd.	Japan
IFF (Korea) Inc.	Korea
IFF (Gibraltar) Holdings (Luxembourg) SCS	Luxembourg
International Flavors & Fragrances (Luxembourg) S.a.r.l.	Luxembourg
International Flavors & Fragrances Ardenne S.a.r.l.	Luxembourg
International Flavours & Fragrances (Mauritius) Ltd.	Mauritius

1 90% of the voting stock of International Flavors & Fragrances (Hangzhou) Co. Ltd., is owned, directly or indirectly, by the Company.

2 93.36% of the voting stock of International Flavours & Fragrances (India) Limited is owned, directly or indirectly, by the Company.

3 70% of the voting stock of Bush Boake Allen (Jamaica) Limited is owned, directly or indirectly, by the Company.

Bush Boake Allen Controladora S.A. de C.V.	Mexico
IFF Mexico Manufactura S.A. de C.V.	Mexico
International Flavors & Fragrances (Mexico) S. de R.L. de C.V.	Mexico
Bush Boake Allen Benelux B.V.	Netherland
International Flavors & Fragrances (Nederland) Holding B.V.	Netherland
International Flavors & Fragrances I.F.F. (Nederland) B.V.	Netherland
IFF Luxar C.V.	Netherland
International Flavours & Fragrances (NZ) Ltd	New Zealand
Bush Boake Allen (NZ) Ltd	New Zealand
International Flavors & Fragrances (Philippines), Inc.	Philippines
International Flavors & Fragrances (Poland) Sp.z.o.o.	Poland
International Flavors & Fragrances (Greater Asia) Pte Ltd	Singapore
International Flavors & Fragrances (Asia Pacific) Pte Ltd	Singapore
International Flavors & Fragrances I.F.F. (S.A.) (Pty) Ltd.	South Africa
International Flavors & Fragrances I.F. F. (Espana) S.A.	Spain
IFF Latin American Holdings (Espana) S.L.	Spain
IFF - Benicarlo S.L.	Spain
International Flavors & Fragrances I.F.F. (Norden) AB	Sweden
International Flavors & Fragrances I.F.F. (Switzerland) A.G.	Switzerland
International Flavours & Fragrances (Thailand) Ltd.	Thailand
IFF Aroma Esans Sanayi Ve Ticaret A.S.	Turkey
A. Boake, Roberts And Company (Holding), Limited	England
International Flavours & Fragrances (CIL) Limited	England
Bush Boake Allen Enterprises Ltd.	England
Bush Boake Allen Limited	England
Bush Boake Allen (Pension Trustees) Limited	England
Bush Boake Allen Pension Investments Limited	England
Bush Boake Allen Holdings (U.K.) Limited	England
IFF Augusta Limited	England
IFF Augusta II Limited	England
International Flavours & Fragrances (GB) Holdings Limited	England
International Flavours & Fragrances I.F.F. (Great Britain) Ltd.	England
Asian Investments, Inc.	Delaware
Bush Boake Allen Inc.	Virginia
IFF Chemical Holdings Inc.	Delaware
IFF International Inc.	New York
IFF Augusta Holdings LLC	Delaware
Aromor Flavors & Fragrances Inc.	Delaware
International Flavors & Fragrances (Caribe) Inc.	Delaware
IFF Delaware Holdings, LLC	Delaware
van Ameringen-Haebler, Inc.	New York
Fragrances Ingredients Holdings Inc.	Delaware
Bush Boake Allen Zimbabwe (Private) Limited	Zimbabwe
International Flavors & Fragrances (Zimbabwe) (Private) Ltd.	Zimbabwe

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-46932 and No. 333-59689) and Form S-8 (No. 333-126421, No. 333-120158, No. 333-102825, No. 333-61072, No. 333-51436, No. 333-50752, No. 033-54423, No. 333-171297 and No. 333-187426) of International Flavors & Fragrances Inc. of our report dated March 2, 2015 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

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New York, New York

March 2, 2015



**CERTIFICATION**

I, Andreas Fibig, certify that:

1. I have reviewed this Annual Report on Form 10-K of International Flavors & Fragrances Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2015

By:	<u>/s/ Andreas Fibig</u>
Name:	Andreas Fibig
Title:	Chairman of the Board and Chief Executive Officer

**CERTIFICATION**

I, Richard A. O'Leary, certify that:

1. I have reviewed this Annual Report on Form 10-K of International Flavors & Fragrances Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2015

By:           /s/ Richard A. O'Leary          

Name: Richard A. O'Leary

Title: Interim Chief Financial Officer, Vice President and Controller

