

INTERNATIONAL FLAVORS & FRAGRANCES INC  
Form 10-K  
February 23, 2007

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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, 2006

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)  
521 WEST 57TH STREET, NEW YORK, N.Y.  
(Address of principal executive offices)

13-1432060  
(IRS Employer Identification No.)  
  
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 12½¢ 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 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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

## Edgar Filing: INTERNATIONAL FLAVORS & FRAGRANCES INC - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2006 was \$3,204,758,056.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of February 15, 2007: 89,772,171 shares of common stock, par value 12 ½¢ per share.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be sent to shareholders in connection with the 2007 Annual Meeting (the "IFF 2007 Proxy Statement") are incorporated by reference in Part III of this Form 10-K.

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## PART I

### ITEM 1. BUSINESS.

International Flavors & Fragrances Inc., incorporated in New York in 1909 and its subsidiaries (the “Registrant”, “IFF” or the “Company”), is a leading creator and manufacturer of flavor and fragrance products used by other manufacturers to impart or improve flavor or fragrance in a wide variety of consumer products. Fragrance products are sold principally to manufacturers of perfumes, cosmetics, personal care products, hair care products, deodorants, soaps, detergents and air care products; flavor products are sold principally to manufacturers of prepared foods, beverages, dairy foods, pharmaceuticals and confectionery products as well as the food service industry.

The Company currently has 30 manufacturing facilities with the major manufacturing facilities located in the United States, Great Britain, Ireland, the Netherlands, Spain, Argentina, Brazil, Mexico, India, Australia, China, Indonesia, Japan and Singapore. The remaining manufacturing facilities are located in 8 other countries. The Company maintains its own sales and distribution facilities in 30 countries and is represented by sales agents and distributors in other countries. The Company’s principal executive offices are located at 521 West 57th Street, New York, New York 10019 (212-765-5500).

### MARKETS

Fragrance products are used by customers in the manufacture of consumer products such as soaps, detergents, cosmetic creams, lotions and powders, lipsticks, after-shave lotions, deodorants, hair preparations, candles, air fresheners and all-purpose cleaners as well as in other consumer products designed solely to appeal to the sense of smell, such as perfumes and colognes. The cosmetics industry, including perfume and toiletries manufacturers, is one of the Company’s two largest fragrance customer groups. Most of the major United States companies in this industry

are customers of the Company, and five of the largest United States cosmetics companies are among its principal customers. The household products industry, including soaps and detergents, is the other important fragrance customer group. Four of the largest United States household product manufacturers are major customers of the Company. In the three years ended December 31, 2006, sales of fragrance products accounted for 57%, 57% and 55%, respectively, of the Company's total sales.

Flavor products are sold principally to the food and beverage industries for use in consumer products such as soft drinks, candies, baked goods, desserts, prepared foods, dietary foods, dairy products, drink powders, pharmaceuticals, snack foods and alcoholic beverages. Two of the Company's largest customers for flavor products are major producers of prepared foods and beverages in the United States. In the three years ended December 31, 2006, sales of flavor products accounted for 43%, 43% and 45%, respectively, of the Company's total sales.

## PRODUCTS

The Company's principal fragrance and flavor products consist of compounds of large numbers of ingredients blended in proprietary formulas created by its perfumers and flavorists. Most of these compounds contribute the total fragrance or flavor to the consumer products in which they are used. This fragrance or flavor characteristic is often a major factor in the consumer selection and acceptance of the consumer end product. A smaller number of compounds are sold to manufacturers who further blend them to achieve the finished fragrance or flavor in their products. The Company produces thousands of compounds, and new compounds are constantly being created in order to meet the many and changing characteristics of its customers' end products. Most of the fragrance and flavor compounds are created and produced for the exclusive use of particular customers. The Company's products are sold in solid and liquid forms and in amounts ranging from a few pounds to many tons, depending upon the nature of the product.

The ingredients used by the Company in its compounds are both synthetic and natural. The Company manufactures a substantial portion of the synthetic ingredients. While the major part of the

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Company's production of synthetic ingredients is used in its compounds, a substantial portion is also sold to others. The natural ingredients are derived from flowers, fruits and other botanical products as well as from animal products. They contain varying numbers of organic chemicals, which are responsible for the fragrance or flavor of the natural product. The natural products are purchased for the larger part 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. The Company's flavor products also include extracts and seasonings derived from various fruits, vegetables, nuts, herbs and spices as well as microbiologically-derived ingredients.

## MARKET DEVELOPMENTS

The demand for consumer products utilizing flavors and fragrances has been stimulated and broadened by changing social habits resulting from various factors such as increases in personal income, and dual-earner households, teenage population, leisure time, health concerns and urbanization and by the continued growth in world population. In the fragrance field, these developments have expanded the market for hair care, candles and air care products and deodorant and personal wash products with finer fragrance quality, as well as the market for colognes, toilet waters, men's toiletries and other products beyond traditional luxury items such as perfumes. In the flavor field, similar market

characteristics have stimulated the demand for products such as convenience foods, soft drinks and low-fat food products that must conform to expected tastes. New and improved methods of packaging, application and dispensing have been developed for many consumer products that utilize some of the Company's flavor or fragrance products. These developments have called for the creation of new compounds and ingredients compatible with the newly introduced materials and methods of application.

## PRODUCT DEVELOPMENT AND RESEARCH

The development of new flavors and fragrances is a complex technical and artistic process calling upon the combined knowledge and skill of the Company's creative perfumers and flavorists, and its scientists. With extensive experience, the perfumers and flavorists continuously advance their skills for creating fragrances or flavors best suited to the market requirements of the customers' products.

Scientists from various disciplines work in project teams with the perfumers and flavorists to develop fragrance and flavor products with consumer preferred performance characteristics. Scientific expertise includes: natural products research, plant science, organic chemistry, analytical chemistry, biochemistry, microbiology, process engineering, food science, material science and sensory science. Analytical and sensory science is applied to understand the complex interactions of the many ingredients in a consumer product in order to optimize the flavor or fragrance performance at all points of use. Material science technology is applied to create controlled release and delivery systems to enhance flavor and fragrance performance in consumer products. An important contribution to the creation of new fragrances and flavors is the discovery and development of new ingredients having improved fragrance or flavor value. The ingredients research program discovers molecules found in natural substances and creates new molecules that are subsequently tested for their fragrance or flavor value. The new molecules that meet rigorous requirements for commercial development are subsequently transferred to manufacturing operations for production.

Creative and technical product development is conducted in 32 fragrance and flavor laboratories in 23 countries. The Company maintains a research and development center at Union Beach, New Jersey. The Company spent \$186 million in 2006, \$180 million in 2005 and \$175 million in 2004 on its research and development activities. These expenditures are currently expected to increase in 2007 to approximately \$190 million. Of the amount expended in 2006 on such activities, 64% was for fragrances and the balance was for flavors. The Company employed 1,065 persons in 2006 and 1,095 persons in 2005 in such activities.

The business of the Company is not materially dependent upon any patents, trademarks or licenses.

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## DISTRIBUTION

Most of the Company's sales are through its own sales force, operating from 4 sales offices in the United States and 46 sales offices in 29 foreign countries. Sales in additional countries are made through agents and distributors. For the year ended December 31, 2006, 29% of the Company's sales were to customers in North America, 36% in Europe, 17% in Asia Pacific, 14% in Latin America and 4% in the India Region. For additional information with respect to the Company's operations by major geographical region, see Note 13 of the Notes to the Company's Consolidated Financial Statements.

During 2006, the Company's 30 largest customers accounted for 57% of its sales; its five largest customers accounted for 9.7%, 8.1%, 6.2%, 4.7% and 2.4%, respectively, of its sales, and no other single customer accounted for more than 2% of sales.

#### GOVERNMENTAL REGULATION

Manufacture and sale of the Company's products are subject to regulation in the United States by the Food and Drug Administration, the Agriculture Department, the Bureau of Alcohol, Tobacco and Firearms, the Environmental Protection Agency, the Occupational Safety and Health Administration, the Drug Enforcement Administration and state authorities. Foreign subsidiaries are subject to similar regulation in a number of countries. In particular, the European Union in December 2006 adopted legislation requiring extensive chemical registration and testing over the next 11 years. Compliance with existing governmental requirements regulating the discharge of materials into the environment has not materially affected the Company's operations, earnings or competitive position. The Company expects to spend in 2007 approximately \$5 million in capital projects and \$16 million in operating expenses and governmental charges for the purpose of complying with such requirements.

#### RAW MATERIAL PURCHASES

More than 5,000 different raw materials are purchased from many sources all over the world. The principal natural raw material purchases consist of essential oils, extracts and concentrates derived from fruits, vegetables, flowers, woods and other botanicals, animal products and raw fruits. The principal synthetic raw material purchases consist of organic chemicals. The Company believes that alternate sources of materials are available to enable it to maintain its competitive position in the event of any interruption in the supply of raw materials from present sources.

#### COMPETITION

The Company has more than 50 competitors in the United States and world markets. While no single factor is responsible, the Company's competitive position is based principally on the creative skills of its perfumers and flavorists, the technological advances resulting from its research and development, the quality of its customer service, the support provided by its marketing and application groups, and its understanding of consumers. The Company believes that it is one of the largest companies producing and marketing on an international basis a wide range of fragrance and flavor products for sale to manufacturers of consumer products. In particular countries and localities, the Company faces competition from numerous companies specializing in certain product lines, among which are some companies larger than the Company and some more important in a particular product line or lines. Most of the Company's customers do not buy all their fragrance or flavor products from the same supplier, and some customers make their own fragrance or flavor compounds with ingredients supplied by the Company or others.

#### EMPLOYEE RELATIONS

At December 31, 2006, the Company employed 5,087 persons, of whom 1,382 were employed in the United States. The Company has never experienced a work stoppage or strike and considers its employee relations to be satisfactory.

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EXECUTIVE OFFICERS OF REGISTRANT:

Name	Office and Other Business Experience <sup>(1)</sup>	Age	Year First Became Officer
Robert M. Amen	Chairman of the Board and Chief Executive Officer since July 2006; President, International Paper from 2003 to March 2006; Executive Vice President, International Paper from 2000 to 2003; President of International Paper, Europe, prior thereto.	57	2006
James H. Dunsdon	Chief Transition Officer since January 2007; Chief Operating Officer from October 2004 to December 2006; Senior Vice President, Global Business Development, Flavors and Functional Fragrances from March 2004 to September 2004; Vice President, Global Account Sales and Regional Manager North America from January 2003 to March 2004; Regional Vice President, North America from January 2001 to January 2003.	60	2003
Steven J. Heaslip	Senior Vice President, Human Resources since December 2002; Vice President, Human Resources from September 2001 to December 2002; Senior Vice President, Human Resources, Elizabeth Arden, a manufacturer of prestige beauty products, prior thereto.	49	2001
Dennis M. Meany	Senior Vice President, General Counsel and Secretary since January 2004; Associate General Counsel, prior thereto.	59	2004
Nicolas Mirzayantz	Group President, Fragrances since January 2007; Senior Vice President, Fine Fragrance and Beauty Care and Regional Manager, North America Region from April, 2005 to December 2006; Senior Vice President, Fine Fragrance and Beauty Care from October 2004 to March 2005; Vice President, Global Business Development, Fine Fragrance and Toiletries from December 2002 to September 2004; Vice President, Global Business Development Fine Fragrances and Toiletries prior thereto.	44	2002
Douglas J. Wetmore	Senior Vice President and Chief Financial Officer	49	1992
Hernan Vaisman	Group President, Flavors since January 2007; Vice President, Latin America Region from October 2004 to December 2006; Regional Finance Director, Latin America Region, prior thereto.	48	2004
Joseph Faranda	Vice President and Chief Marketing Officer since March 2005; Vice President, Strategic Marketing, The Home Depot, Inc. from February 2002 to March 2005; Senior Vice President Strategy, and Business Development, Avon Products, Inc., prior thereto.	53	2005
James P. Huether	Controller	50	2001

(1) Employed by the Company or an affiliated company for the last five years, except as otherwise indicated.

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## AVAILABLE INFORMATION

The Company makes available free of charge on or through the Investor Relations link on its website, [www.iff.com](http://www.iff.com), all materials that it files electronically with the SEC, including its 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 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, the Company made all such materials available through its website as soon as reasonably practicable after filing such materials with the SEC.

You may also read and copy any materials filed by the Company 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 U.S. 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 the Company files electronically with the SEC.

A copy of the Company's Corporate Governance Guidelines, its 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 the Company's website, [www.iff.com](http://www.iff.com) and are available in print to any shareholder who requests copies by contacting Dennis M. Meany, Senior Vice President, General Counsel and Secretary, at the Company's principal executive office set forth above.

### Item 1A. Risk Factors.

Competitive factors may negatively impact our sales and marketability.

The market for flavor and fragrance products is fragmented and highly competitive. IFF competes with many companies and some of the Company's competitors specialize in one or more of our product lines while others sell many of the same product lines. In addition, some of our competitors may have greater financial and technical resources. Increased competition by existing or future competitors, including aggressive price competition, could result in the need for the Company to reduce prices or increase spending and this could have an impact on sales and profitability.

The Company is subject to economic and social changes which may impact sales.

Demand for consumer products using flavors and fragrances has been stimulated and broadened by changing social habits resulting from factors such as increases in personal income, dual-earner households, teenage population, leisure time, health concerns and urbanization and by the continued growth in world population. Changes in any number of external economic factors, or changes in social or consumer preferences, could adversely impact our results of operations.

The Company's results may be negatively impacted by the price, quality and availability of raw materials.



Raw materials are purchased from many sources from all over the world, including essential oils, extracts and concentrate derived from fruits, vegetables, flowers, woods and other botanicals, animal products, raw fruits and organic chemicals. Disruptions in the supply or quality of ingredients or rising prices for ingredients purchased could adversely impact results of operations and profitability of the Company.

The Company's results may be negatively impacted by the inability to implement the Company's business strategy, including the achievement of anticipated cost savings, profitability or growth targets.

The Company is committed to those particular business strategies which have been identified as likely to drive profitable future growth and improve operations and customer service. If the Company is unable to successfully and timely implement these strategies, it would adversely impact the financial condition and results of operations of the Company.

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The Company's results may be negatively impacted by the impact of currency fluctuation or devaluation in principal foreign markets and the effectiveness of hedging and risk management strategies.

The Company's operations are conducted in many countries, the results of which are reported in the local currency and then translated into U.S. dollars at applicable exchange rates. The exchange rates between these currencies and the U.S. dollar have fluctuated and may continue to do so in the future. The Company employs a variety of techniques to reduce the impact of exchange rate fluctuations, including foreign currency hedging activities. However, volatility in currency exchange rates may adversely impact the Company's reported results of operations, financial condition or liquidity.

The Company's results may be negatively impacted by the outcome of uncertainties related to litigation.

The Company is involved in a number of legal claims. While the Company believes that related insurance coverage is adequate with respect to such claims, the Company cannot predict the ultimate outcome of such litigation. In addition, the Company cannot provide assurance that future events will not 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 Company's results and cash flows may be negatively impacted by future pension funding and other postretirement obligations.

The Company establishes assumptions concerning discount rates and actuarial assumptions regarding pension funding and other postretirement benefit obligations based on current market conditions, plan participants, asset returns, interest rates and other factors. Changes in pension and other postretirement benefits, and associated expenses, may occur in the future due to changes in demographics and assumptions. These changes may adversely impact the Company's financial condition, results of operations or liquidity.

The Company's results may be negatively impacted by the effect of legal and regulatory requirements, as well as restrictions imposed on operations by foreign and domestic governmental entities.

Manufacture and sale of the Company's products are subject to regulation in the United States by the Food and Drug Administration, the Agriculture Department, the Bureau of Alcohol, Tobacco and Firearms, the Environmental

Protection Agency, the Occupational Safety and Health Administration, the Drug Enforcement Administration and state authorities. Foreign operations of the Company are subject to similar governmental regulation in a number of countries, including the extensive new European Union requirements. Compliance with existing governmental requirements and future governmental regulations may adversely impact the Company's financial condition, results of operations or liquidity.

The Company may face risks associated with events which may affect the world economy.

World events such as terrorist attacks, the current U.S. military action in the Middle East and elsewhere, and hostilities in the Middle East, Asia and other geographical areas, have and may in the future weaken the U.S. and world economies. Any resulting weaknesses in these economies may adversely affect the Company's business or the businesses of our customers, with a resultant negative impact on the Company's financial condition, results of operations or liquidity.

ITEM 1B. Unresolved SEC Staff Comments.

None.

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ITEM 2. PROPERTIES.

The principal properties of the Company are as follows:

Location	Operation
United States	
Augusta, GA	Production of fragrance chemical ingredients.
Carrollton, TX <sup>(1)</sup>	Production of flavor compounds.
Hazlet, NJ <sup>(1)</sup>	Production of fragrance compounds; fragrance laboratories.
Jacksonville, FL	Production of fragrance chemical ingredients.
New York, NY <sup>(1)</sup>	Fragrance laboratories.
South Brunswick, NJ <sup>(1)</sup>	Production of flavor compounds and ingredients; flavor laboratories.
Union Beach, NJ	Research and development center.
France	
Neuilly <sup>(1)</sup>	Fragrance laboratories.
Grasse	Production of flavor and fragrance ingredients; fragrance laboratories.
Great Britain	
Haverhill	Production of flavor compounds and ingredients, and fragrance chemical ingredients; flavor laboratories.
Ireland	
Drogheda	Production of fragrance compounds.
Netherlands	
Hilversum	Flavor and fragrance laboratories.
Tilburg	Production of flavor compounds and ingredients, and fragrance compounds.
Spain	

Benicarlo Argentina Garin	Production of fragrance chemical ingredients.
Brazil Rio de Janeiro São Paulo Taubate	Production of flavor compounds and ingredients, and fragrance compounds; flavor laboratories.
Mexico Tlalnepantla	Production of fragrance compounds. Fragrance laboratories. Production of flavor compounds and ingredients; flavor laboratories.
India Chennai <sup>(2)</sup>	Production of flavor and fragrance compounds; flavor and fragrance laboratories.
Australia Dandenong	Production of flavor compounds and ingredients and fragrance compounds; flavor laboratories.
9	Production of flavor compounds and flavor ingredients.

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Location	Operation
China Guangzhou <sup>(3)</sup> Shanghai <sup>(1)</sup> Xin'anjiang <sup>(4)</sup> Zhejiang	Production of flavor and fragrance compounds; flavor laboratories. Flavor and fragrance laboratories. Production of fragrance chemical ingredients. Production of fragrance chemical ingredients.
Indonesia Jakarta <sup>(5)</sup>	Production of flavor compounds and ingredients, and fragrance compounds and ingredients; flavor and fragrance laboratories.
Japan Gotemba Tokyo	Production of flavor compounds. Flavor and fragrance laboratories.
Singapore Jurong Science Park <sup>(1)</sup>	Production of flavor and fragrance compounds. Flavor and fragrance laboratories.

(1)Leased.

(2)The Company has a 93.3% interest in the subsidiary company that owns this facility.

(3)Land is leased and building and machinery and equipment are owned.

(4)The Company has a 90% interest in the subsidiary that leases the land and owns the buildings and machinery.

(5)Land is leased and building is partially leased and partially owned.

The principal executive offices of the Company and its New York laboratory facilities are located at 521 West 57th Street, New York City.

### ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to various claims and legal actions in the ordinary course of its business. In September 2001, the Company was named as a defendant in a purported class action brought against it in the Circuit Court of Jasper County, Missouri, on behalf of employees of a plant owned and operated by Gilster-Mary Lee Corp. in Jasper, Missouri (“Benavides case”). The plaintiffs alleged that they sustained respiratory injuries in the workplace due to the use by Gilster-Mary Lee of a BBA and/or IFF flavor. For purposes of reporting these actions, BBA and/or IFF are referred to as the (“Company”).

In January 2004, the Court ruled that class action status was not warranted. As a result of this decision, each of the 47 plaintiff cases was to be tried separately. Subsequently, 8 cases were tried to a verdict, 4 verdicts resulted for the plaintiffs and 4 verdicts resulted for the Company, all of which were appealed by the losing party. Subsequently all plaintiff cases related to the Benavides case have been settled.

Eighteen other actions based on similar claims of alleged respiratory illness due to workplace exposure to flavor ingredients are currently pending against the Company and other flavor suppliers and related companies. Trial has been scheduled in the action brought against the Company and another flavor supplier by 29 former and current workers at a Marion, Ohio factory. This case was filed in March 2003 and is pending in the Court of Common Pleas of Hamilton County, Ohio. The Plaintiffs in this case have been divided into trial groups, although no trials have occurred to date. The other flavor company has settled with all plaintiffs and the Company has settled with 17 plaintiffs by confidential agreement. Two other plaintiffs have been dismissed. The first trial is currently scheduled for February 2007 (“Arthur case”). In May 2004, the Company and another flavor supplier were named defendants, and subsequently a number of third party defendants were added, in a

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lawsuit by 4 former workers at a Ridgeway, Illinois factory in an action brought in the Circuit Court for the Second Judicial Circuit, Gallatin County, Illinois (Barker case) and another concerning 8 other workers at this same plant was filed in July 2004 and is pending in this same Court against the Company and another flavor supplier (Batteese case). In an action filed in June 2004, the Company, three other flavor suppliers, a flavor trade association and a consulting agency are defendants in a lawsuit by 1 worker at a Sioux City, Iowa facility which is pending in U.S. District Court for the Northern District of Iowa. Plaintiff voluntarily dismissed his claim against Bush Boake Allen, Inc. This case was settled by confidential agreement in October 2006 (Remmes case). Another case concerning 1 other worker at this same plant was filed in January 2006 and is pending in this same court against the same parties. The trial ready date is November 2007 (Kuiper case). In June 2004, the Company and 3 other flavor suppliers were named defendants in a lawsuit by 1 plaintiff brought in the Court of Common Pleas, Hamilton County, Ohio. Trial is set for November 2007 (Mitchell case). In June 2004, the Company and 2 other flavor suppliers were named defendants in a lawsuit by 1 former worker at a Northlake, Illinois facility in an action brought in the Circuit Court of Cook County, Illinois. Trial is set for September 2007 (Lopez case). In August 2004, the Company and another flavor supplier were named defendants in a lawsuit by 15 former workers at a Marion, Ohio factory in an action brought in the Court of Common Pleas, Marion County, Ohio. The other flavor supplier settled with all plaintiffs and the Company has settled with 12 plaintiffs by confidential agreement. The remaining plaintiffs have been divided into trial groups and the first trial is currently scheduled to be held in May 2007 (Williams case). In March 2005, the Company and 10 other companies were named defendants in a lawsuit by 1 former employee of Bell Flavors and Fragrances, Inc. in an action brought in the Circuit Court of Cook County, Illinois. On June 29, 2006, plaintiffs voluntarily dismissed their claims against one of the defendants, EMCO Chemical Distributors. There is no trial date pending (Robinson case). In July 2005, the Company and 9 other flavor and chemical suppliers were named defendants in a lawsuit by 1 former worker of Brach’s Confections, Inc. in an action brought in the Circuit Court of Cook County, Illinois. There is no trial date pending

(Campbell case). In August 2005, the Company and 8 other companies, including a flavor trade association and consulting agency, were named defendants in a lawsuit by 3 former employees of the Gilster-Mary Lee facility in McBride, Missouri in the Missouri Circuit Court, 32nd Judicial Circuit (Fults case). In September 2005, the Company and 10 other companies were named defendants in a lawsuit by 2 former employees of the Gilster-Mary Lee facility in McBride, Missouri in the Circuit Court of St. Louis County. Trial is set for September 2007 (Bowling case). In November 2005, the Company, a flavor trade association, and a consulting agency were named defendants in a lawsuit by 1 former employee of the Snappy Popcorn Company in Breda, Iowa brought in U.S. District Court for the Northern District of Iowa, Western Division. The trial ready date is July 2007 (Weimer case). In August 2006, the Company and 3 other flavor and chemical suppliers were named defendants in a lawsuit by 39 current and former employees and/or a neighbor of the Gilster-Mary Lee facility in Jasper, Missouri in the Missouri Circuit Court of Jasper County (Arles case) and 5 other current and former employees in the same Court (Bowan case). In November 2006, the Company and 18 other flavor and chemical suppliers were named defendants in a lawsuit by 1 plaintiff allegedly injured by exposure to butter flavor and other substances at various facilities in which he worked (Solis case). In January 2007, the Company and 2 other flavor suppliers were named defendants in a lawsuit filed in Hamilton County, Ohio Court of Common Pleas by 4 former employees of a popcorn packaging plant in Iowa City, Iowa (Blood case). In January 2007, the Company and another flavor supplier were named defendants in a lawsuit filed in Hamilton County, Ohio Court of Common Pleas by 108 current and former employees of a Marion, Ohio factory (Aldrich case).

The Company believes that all IFF and BBA flavors at issue in these matters meet the requirements of the U.S. Food and Drug Administration and are safe for handling and use by workers in food manufacturing plants when used according to specified safety procedures. These procedures are detailed in instructions that IFF and BBA provided to all their customers for the safe handling and use of their flavors. It is the responsibility of IFF's customers to ensure that these instructions, which include the use of appropriate engineering controls, such as adequate ventilation, proper handling procedures and respiratory protection for workers, are followed in the workplace.

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At each balance sheet date, or more frequently as conditions warrant, the Company reviews the status of each pending claim, as well as its insurance coverage for such claims with due consideration given to potentially applicable deductibles, retentions and reservation of rights under its insurance policies, and the advice of its outside legal counsel and a third party expert in modeling insurance deductible amounts with respect to all these matters. While the ultimate outcome of any litigation cannot be predicted, management believes that adequate provision has been made with respect to all known claims. Based on information presently available and in light of the merits of its defenses and the availability of insurance, the Company does not expect the outcome of the above cases, singly or in the aggregate, to have a material adverse effect on the Company's financial condition, results of operation or liquidity. There can be no assurance that future events will not require the Company to increase the amount it has accrued for any matter or accrue for a matter that has not been previously accrued. See Note 17 for further information.

Over the past 20 years, various federal and state authorities and private parties have claimed that the Company is a potentially responsible party 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 seek to recover costs incurred and to be incurred to clean up the sites.

The waste site claims and suits usually involve million dollar amounts, and most of them are asserted against many potentially responsible parties. Remedial activities typically consist of several phases carried out over a period of

years. Most site remedies begin with investigation and feasibility studies, followed by physical removal, destruction, treatment or containment of contaminated soil and debris, and sometimes by groundwater monitoring and treatment. To date, the Company's financial responsibility for some sites has been settled through agreements granting the Company, in exchange for one or more cash payments made or to be made, either complete release of liability or, for certain sites, release from further liability for early and/or later remediation phases, subject to certain "re-opener" clauses for later-discovered conditions. Settlements in respect of some sites involve, in part, payment by the Company and other parties of a percentage of the site's future remediation costs over a period of years.

The Company believes that the amounts it has paid and anticipates paying in the future for clean-up costs and damages at all sites are not and will not be material to the Company's financial condition, results of operations or liquidity, because of the involvement of other large potentially responsible parties at most sites, because payment will be made over an extended time period and because, pursuant to an agreement reached in July 1994 with three of the Company's liability insurers, defense costs and indemnity amounts payable by the Company in respect of the sites will be shared by the insurers up to an agreed amount.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

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PART II

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

(a) Market Information.

The Company's 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	2006		2005	
	High	Low	High	Low
First	\$36.03	\$32.53	\$42.90	\$38.82
Second	38.84	33.46	41.29	34.90
Third	39.96	34.32	38.85	34.34
Fourth	49.88	39.19	35.72	31.19

Approximate Number of Equity Security Holders.

(A) Title of Class	(B) Number of record holders as of December 31, 2006
Common stock, par value 12½¢ per share	3,393

Dividends.

Cash dividends declared per share for each quarter since January 2005 were as follows:

	2007	2006	2005
First	\$0.210	\$0.185	\$0.175
Second		0.185	0.185
Third		0.185	0.185
Fourth		0.210	0.185

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Performance Graph.

Total Return To Shareholders  
(Includes reinvestment of dividends)

Company Name / Index	Annual Return Percentage Years Ending				
	2002	2003	2004	2005	2006
IFF	20.27	1.42	24.89	-20.21	49.64
S&P 500 Index	-22.10	28.68	10.88	4.91	15.79
Peer Group	-2.72	15.93	8.71	4.43	18.29

Company Name / Index	Base Period	Indexed Returns Years Ending				
		2001	2002	2003	2004	2005
IFF	\$100	\$120.27	\$121.97	\$152.33	\$121.55	\$181.89
S&P 500 Index	\$100	\$77.90	\$100.25	\$111.15	\$116.61	\$135.03
Peer Group	\$100	\$97.28	\$112.78	\$122.60	\$128.03	\$151.46

Peer Group Companies

Alberto-Culver Co.	H.J. Heinz Co.	Procter & Gamble Co.
Avon Products	Hershey Co.	Revlon Inc.
Campbell Soup Co.	Hormel Foods Corp.	Sara Lee Corp.
Church & Dwight Inc.	Kellogg Co.	Sensient Technologies Corp.
Clorox Co.	The Estée Lauder Companies Inc.	Unilever NV
Coca-Cola Co.	McCormick & Company Inc.	WM. Wrigley Jr Co.

Colgate-Palmolive Company	McDonald's Corp	Yum! Brands Inc.
Conagra Foods Inc.	Nestle SA-ADR	
General Mills Inc.	PepsiCo Inc.	

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- (1) The Cumulative Shareholder Return assumes that the value of an investment in the Company's Common Stock and each index was \$100 on December 31, 2001, and that all dividends were reinvested.
- (2) Due to the international scope and breadth of its business, the Company believes that a Peer Group comprised of international public companies which are representative of the customer group to which it sells its products, with market capitalizations ranging from approximately \$589 million to approximately \$205 billion, is the most appropriate group against which to compare shareholder returns.
- (c) Issuer Purchases of Equity Securities.

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(2)(3)</sup>	Maximum Dollar Value of Shares that may yet be Purchased under the Programs <sup>(2)(3)</sup>
October 1 – 31, 2006	—	—	—	\$315,002,000
November 1 – 30, 2006	1,215,100	\$46.45	1,215,100	\$258,558,000
December 1 – 31, 2006	1,099,600	\$47.59	1,099,600	\$206,225,000

- (1) An aggregate of 6,892,000 shares of common stock was repurchased during 2006; 4,904,000 and 1,988,000 shares of common stock were purchased under repurchase programs announced in May 2005 and October 2006, respectively.
- (2) In May 2005, the Board of Directors approved the repurchase of up to \$200 million of the Company's common stock, which has now been completed.
- (3) In October 2006, the Board of Directors approved the repurchase of up to \$300 million of the Company's common stock.

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ITEM 6. SELECTED FINANCIAL DATA.  
INTERNATIONAL FLAVORS & FRAGRANCES INC.  
QUARTERLY FINANCIAL DATA (UNAUDITED)  
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)



Quarter	Net Sales		Gross Profit		Net Income <sup>(a)</sup>	Net Income Per Share <sup>(b)</sup>	
	2006	2005	2006	2005	2006	Basic	Diluted