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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances third quarter 2010 earnings conference call. All lines will be in a listen-only mode until the formal question and answer portion of the call. Participants will be announced by their name and company, and in order to give all participants an opportunity to ask their questions we request a limit of one question per person. I would now like to introduce Michael DeVeau, Investor Relations Manager. You may begin.

Michael DeVeau - *International Flavors & Fragrances - IR Manager*

Thank you, Operator, and good morning, everyone. With me on the call today in New York is our Chairman and CEO Doug Tough, our President of Fragrances, Nicolas Mirzayantz, and our Executive Vice President and CFO, Kevin Berryman. Hernan Vaisman, our Group President of Flavors is also joining us. However, he will be participating from Asia. This call is being recorded and will be available for playback on our website.

Please keep in mind that during this call, we will be making forward-looking statements about the Company's performance, particularly with respect to the fourth quarter of 2010. These statements are based on how we see things today and contain elements of uncertainty. For additional information concerning factors that could can actual results to differ materially from forward-looking statements, I ask you to refer to the cautionary statements and risk factors contained in today's press release and in IFF's filing with the SEC. Some of today's prepared remarks will (inaudible) non-GAAP financial information which excludes those items that affect comparability. These items are laid out in a reconciliation to comparable GAAP measures which is also available on our website. With that, I'd like to turn the call over to

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Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Thank you, Mike. Good morning and good afternoon and good evening to everyone. Before reviewing our recent results, I would like to briefly update you on the progress of our strategic review. Historically at IFF, we have evaluated all of our business sectors whether customers, regions, and categories by subtracting our operating cost and taxes from our sales to determine profits. This approach, however, did not take into consideration the other costs that went into the sale such as capital investments. As part of our strategic review, we now have incorporated all costs to create a more robust fact base across our entire business portfolio. During the evaluation process, we reconfirmed that both of our flavor and fragrance businesses are sound. Like most businesses, however, it appears there are areas where we have the potential to accelerate our top line growth by placing greater emphasis on the right categories, regions, and customers and improve our overall profitability by implementing margin-enhancing solutions such as cost reduction or changes to our pricing on parts of the portfolio that are underperforming.

I know many of you are eager to hear the full specifics of our review, but you can appreciate that we do not wish to divulge specifics for obvious competitive reasons. In our next phase which will take us through the balance of this year, I have asked our Company leaders to develop solutions in those areas where we think we have the opportunity to improve. We will begin to incorporate these solutions into our 2011 plan. Now, we won't specify all parts of our strategic work. There are a few areas that I can cover.

First, innovation remains a very important aspect of our business, both today and into the future. During the third quarter, we created a new position of Senior Vice President, Research and Development to which we promoted Dr. Ahmet Baydar to fill a role. Ahmet Baydar will be responsible for leading IFF's efforts in innovation, technological development, and external collaborations. All of which are vital to our ability to serve our customers well and generate innovative solutions and new products to drive our future growth. Dr. Baydar has an extensive background in both Flavor and Fragrance R&D making him well suited for this key leadership position. Reporting directly to me, he has joined our senior leadership team and has the full support of the Company and our Board in pursuit of his goals.

Now within R&D, the trends in health and wellness are very attractive. As we all try to live a healthier lifestyle, we are in search of foods that have less sugar, less salt, less fat, but still taste great. Starting from a position of strength, we already invest substantial resources in the discovery and the development of molecules, natural ingredients, and delivery systems. I am pleased to report, and Hernan will go into greater detail that our health and wellness tools such as sugar and salt reduction solutions have led to a very high success rate with our customers in this quarter. My expectation is that as we reemphasize our investments in this area, we will continue to capitalize on this dynamic trend.

From a geographic perspective, the emerging markets will continue to be a critical component of our Company's long-term, global strategy. IFF already has a large percentage of sales in the emerging markets as well as a high market share position relative to our overall portfolio. Year-to-date through September, sales to emerging markets accounted for 44% of our total global sales. Looking ahead, we will continue to focus on these markets due to their attractive growth rates.

Turning to our recent performance in Q3, I would like to provide a brief overview of our results. Our third quarter performance marks the continuation of excellent results. Our worldwide, local currency sales once again grew double digits as all categories performed at or above expectations. Both the flavor and fragrance teams continue to be successful in winning key new business that supported our strong growth. This outstanding top line performance, combined with our continued focus on cost discipline, enabled us to deliver a margin profile of 18.3% that has not been achieved in over five years. The end result was extremely positive as adjusted Q3 earnings per share grew 20% to $0.98, an all-time Company high.

Now before passing on to Nicolas Mirzayantz, I would like to highlight two areas where IFF as an organization has excelled. First, as we completed the closure of our Drogheda manufacturing facility, part of our European restructuring announced last September, I would like to acknowledge all the employees for their hard work and their dedication and their professionalism. Because of their efforts, our customers continued to enjoy the outstanding service they had come to expect even while this difficult change was underway. Second, in early October, we were recognized as one of the top performing global suppliers by Proctor & Gamble. For the second consecutive year, our expertise in innovation, relationship management, commercial proactiveness, and supply chain integration were acknowledged. My hat is off to the entire organization for this excellent achievement.

Once the team has concluded their prepared remarks, I plan to follow up with some perspectives on our fourth quarter outlook and the full year. With that, I would like to introduce our Group President of Fragrances, Nicolas Mirzayantz.

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

Thank you, Doug, and good morning, everyone. I am happy to report that local currency sales in the third quarter increased 15% as all regions reported double-digit growth. Our strong performance was once again driven by our ability to win important new business. As our customers are searching for new and unique experiences for their brands, the demand for innovation and product superiority is high. Our in-depth consumer insight and superior, creativity combined with our cutting edge delivery systems such as encapsulation, are helping us satisfy the demand. This has driven our year-to-date results as we are now on to the fifth consecutive quarter of local currency growth.

In the Fine Fragrance and Beauty Care category, local currency sales grew 24%. Fine Fragrance results continued to grow double digits as key new wins drove the largest portion of our growth, highlighted by an exceptional performance in Europe and Latin America. Some of our global key new launches included Armani Acqua di Gio, Calvin Klein Beauty, and Paco Rabanne Lady Million. The balance can be accredited to volume gains including some portion of restarting. It is worth noting that in one of the most dynamic fragrance markets in the world, Brazil, we are growing more than twice the market. Achievements similar to this are being realized worldwide which have driven absolute sales dollars above our previous record, higher than 2007 results.

In Beauty Care, Hair Care and Toiletries once again achieved excellent results, marking the fourth consecutive quarter of double-digit growth. Our continued success can be credited to our longstanding presence and consumer insight investment within the emerging markets. In these markets, growth in excess of 20% was achieved.

Our Functional Fragrance business continued to perform well increasing 6% in local currency sales, despite our most challenging, or 9% year-over-year comparable in 2009. Fabric Care performance remained solid as new wins in Europe aided results. In Home Care, we grew double digits as we continued to benefit from access to new business. And in Personal Wash, success in greater Asia continued as we reported strong results in this region. Finally, Fragrance Ingredient local currency sales increased 18% as continued improvement in underlying demand drove results.

While I am extremely pleased with our double-digit growth across all regions, I must say that our performance in the emerging markets was outstanding. The strong trends seen over the previous five quarters have continued as sales in our emerging market grew 19% in the quarter. Brazil, Russia, India, and China combined grew double digits 20% plus, driven by new win performance and increased volume. The Fine Fragrance and Beauty Care categories are exhibiting the strongest results in these regions with Latin America contributing approximately one third of total fragrance dollar growth. Our longstanding presence along with key investments, like our March 2009 opening of our Sao Paulo creative center and strengthening our customer understanding and leading to above market growth.

From the profitability standpoint, excluding a $2 million charge related to ongoing restructuring efforts in Europe this quarter and $11 million related to restructuring cost in the prior-year period, adjusted operating profit grew a very strong 23%, or $13 million to $71 million. Our strong sales, favorable input costs, and ongoing profit improvement initiatives drove a 190 basis point improvement in adjusted operating margin to 19%. As we progress through the fourth quarter, we are optimistic about our start. As the benefits of restarting are subsiding, new win performance continues to be strong. I am now happy to introduce Hernan Vaisman, our Global President of Flavors.

Hernan Vaisman - *International Flavors & Fragrances - Global President of Flavors*

Thank you, Nicolas. Good morning and good afternoon, everyone. It is my pleasure to report that local currency sales in the third quarter grew 10%, marking the 21st consecutive quarter of growth. These excellent results continued to be driven by an accelerated level of demand and new business wins across all regions. Emerging market performance continues to outpace the rest of the world as counties like Brazil, Russia, India, and China combined grew over 15%. As a result, our emerging market [percent] in flavors has grown to approximately 46% of sales. Our strong position in these key emerging markets continues to bode well for future flavors results given the expected higher growth rate in these markets versus the rest of the world.

Performance in North America was robust, growing 9% as the team did an excellent job winning new business. The strong trends we experienced in the first half continued into the third quarter as both confectionary and beverage grew at a double-digit rate. In EAME, local currency sales increased 13% over the previous year quarter as all categories reported solid results. Beverages continued to be a standout as increased volumes and new wins led to a double-digit performance for the fourth consecutive quarter. Local currency sales in Latin America grew 7% as double-digit growth in Confectionary, Savory, and Dairy were achieved. And finally in greater Asia, local currency sales were up 11% as higher volumes and new wins fueled positive results across all categories.

As Doug noted earlier, an important component to our success this quarter has been our ability to capitalize on health and wellness trends. I am pleased to report that our new attitudes such as sweetness enhancement and sodium reduction have led to a very high success rate with our customers who are a critical component to our new win performance this quarter. The combination of our exceptionally creative teams along side these innovative tools allow us to work closely with our customers, [design exciting] business, and get a foothold into new wins in this important area.

Turning to profit. Flavors operating profit increased 15%, or $8 million to $63 million in the third quarter driven by accelerated sales growth, improving input cost, and our continued margin improvement initiatives. Operating profit margin improved 100 basis points, to 21% versus 20% in the prior year period. Looking ahead to the fourth quarter, I expect local currency sales growth to remain strong although growth levels may begin to approach more normalized levels. With that, I would like to turn the call over to Kevin.

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Thank you, Hernan, and good day to everyone. We are extremely pleased with our financial results in the third quarter. As you can imagine, our 13% local currency sales growth was a key driver to our success. It had a considerable impact on the P&L. Looking at the specifics of our top line performance, I would like to highlight that new wins continue to drive results. As expected, volume trends, while strong, did slow relative to the first half due to a reduction in restocking and more challenging year-over-year comparables. In fact for the first time this year, sales associated with new business wins accounted for a larger percentage of overall growth than our volume growth from existing business. It is also worth noting that the reduction in volume was more pronounced in Fragrances as the benefits of restocking have slowed.

Our operational leverage from our strong sales performance, when combined with lower input costs and our continued focus on efficiencies, drove an accelerated 15% increase in gross profit dollars. When combined with the strict discipline and the management of our other costs, IFF benefited from further operating leverage to deliver an 18% growth in our adjusted operating profit. This allowed our adjusted operating profit margin to rise 140 basis points to 18.3%. Clearly, the continued benefit of growth leverage was also seen in our strong EPS performance. In the quarter, adjusted EPS grew 20%, setting a Company record for the highest quarterly EPS ever recorded.

Turning to input costs, we continue to see year-over-year decreases in the P&L driven by a reduction of higher cost inventory. As expected in the quarter, input costs decreased 3% versus the year-ago period. And regarding our fourth quarter outlook, we do anticipate that input costs should remain marginally favorable versus our year-ago figures. As we have noted in the past, while IFF has realized the benefits of lower input costs through the first nine months of this year, overall material costs remain above historical levels. Importantly, while these costs remain elevated, we have been able to deliver gross margin improvements that have brought us back to gross margin levels not seen since 2006 and 2007. This can be attributed to our proactive efforts to take strategic pricing to offset cost pressures, by driving margin-enhancing innovation into our portfolio, and achieving efficiencies throughout our supply chain. Given that we expect input cost pressure to build in 2011, our continued efforts to drive margin improvements will be critical as we look to offset any potential pressures.

From an overhead cost standpoint, adjusted research, selling, and administrative expenses, or RSA, as a percentage of sales increased 40 basis points to 24.1% driven by our strong growth which resulted in additional incentive compensation provisions and other spending to support this growth. Importantly, RSA as a percentage of sales declined 220 basis points from the second quarter, an indication of our continued discipline. Within RSA, R&D expense as a percentage of sales decreased 20 basis points to 7.9%. However, on am absolute basis, R&D expense increased approximately $4 million as higher investments were made to support growth initiatives. As we look ahead to the fourth quarter, we certainly will continue to maintain strict discipline in the management of our fixed cost structure.

Turning to currency. The Euro declined in value year-over-year against the US dollar as expected which did pressure results. In the past, we have said that for every one percent strengthening or weakening of the US dollar, we expect a plus or minus $0.02 impact on our EPS on an annual basis. This indeed was the case in Q3 as both the profit and balance sheet activities combined to negatively impact EPS by approximately $0.07. Looking ahead, if currency rates stay where they are today, including the Euro at $1.40, we expect to face only modest pressure in Q4. And as we have previously communicated, we have also implemented hedging strategies in order to protect our levels of Euro-based profits at the local affiliate level. Specifically related to our Q4 forecast, we believe there will only be a limited impact on our results from these hedging strategies as we were able to create hedges which secured local Euro profits at foreign exchange rates very close to market levels.

Turning to our EPS reconciliation, we continue to see an improved performance. The combination of strong operational results as well as below the line leverage drove a 20% increase versus the year-ago period. As we move from our adjusted EPS to our reported EPS, I would like to note the $0.03 difference is entirely related to our previously announced European rationalization. A key effort focused on improving our fragrance operations. We continue to expect our total cost for this initiative to be approximately $31 million to $34 million with targeted annual cost savings of $17 million to $20 million beginning in 2011. Importantly as part of this initiative, we have finalized the formal closure of our Drogheda, Ireland facility, as well as the partial closure of our Haverhill, UK facility and expect that we will begin to see the benefits fully realized in 2011. In Q4 specifically, we continue to believe that some remaining transition costs will largely offset the benefits from the closure over this near-term quarter.

Finally from a cash flow perspective, we continued to make improvements in working capital efficiency versus the year-ago period. While the tremendous sales growth seen in the first nine months of 2010 did place pressure on absolute levels, working capital increased only $21 million on a sales increase of $252 million. This is a clear indication that our concentrated efforts are continuing to pay dividends. This efficiency, when combined with the relative business strength in the quarter, drove an $8 million increase year-over-year in cash flow from operations.

Finally, a quick update and note regarding our capital expenditures. We continue to believe we will spend approximately 4% of sales for the full-year 2010. With that, I would like to turn it back over to Doug for his perspective on the fourth quarter and the full year.

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Thank you, Kevin. As we look toward the balance of this year, we expect local currency sales in the fourth quarter to remain strong, albeit approaching more normalized levels. We believe that our team's ability to continue to win new business will be a critical driver of our results going forward in 2011 as it appears volume trends are softening due to lower restocking benefits. Turning to our cost structure, we continue to believe that input costs will remain marginally favorable in the fourth quarter, though we are seeing an increasing trend in some of our costs. I would also like to remind you that the fourth quarter is seasonably our smallest quarter which has implications on our gross margin lower than our year-to-date results.

From an RSA standpoint, we will continue to be disciplined in the management of our fixed costs. We expect business reinvestments will take place as we continue to invest to support future growth, particularly in the areas identified in our strategic review. Now, as a result of the above mentioned fourth quarter commentary combined with our performance year-to-date, we expect both local currency and adjusted earnings per share for the full-year 2010 to grow at least double digits.

In summary, we are extremely pleased that we have achieved another record quarter for our shareholders. This performance is a testament to the passion and the commitment to all the employees here at IFF. As we look forward, we continue to remain cautiously optimistic but are confident that our business trends, supported by our new win performance, will remain strong. The combination of this underlying strength and the insights being gained from our strategy review should bode well for future performance. I would like to acknowledge the many parts of our organization for their significant contributions to the strategy process. Their findings and the ensuing actions are leading to continued optimism as we move forward and start implementing actions in 2011. The net result is that we expect 2010 to be a pivotal year, not only from our robust financial performance, but also our ability to incorporate our strategic findings to maximize shareholder value going into the future. As we look toward 2011, we are confident we will continue to strengthen our organization, ensuring our ability to win in the marketplace. And with that, we'll be happy to take any questions you might have.

QUESTIONS AND ANSWERS

Operator

You have a question from the line of Jeff Zekauskas with JPMorgan.

Silke Kueck - *JPMorgan - Analyst*

Good morning. This is Silke Kueck for Jeff, how are you?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Good morning.

Silke Kueck - *JPMorgan - Analyst*

When I look at your local currency results on a combined basis. If I take 2009 and 2010 together and then take the average, I think the local currency growth rates have been 5% to 6% in the first quarter, 6% to 7% in the second, and 7% to 8% in the third quarter. As you go into 2011, how do you look at those growth rates? Do you think you can grow at a similar rate? And would it be at a lower rate and what are the different factors that you consider?

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Thank you for the question, Silke. Yes. 2010 certainly has been indicative of a very strong momentum which is what you're effectively pointing out because you're combining some weakness that we had obviously in 2009 and looking at the two-year combined growth rate. We're very happy that we've been able to perform at the levels that we've had. But we also recognize that there is a certain element of restocking and buoyancy in the numbers in 2010 which will not continue. Even though that's incorporated into your two-year analysis, the impact of our ability to drive elevated levels of growth will ultimately be driven by our win performance. It's clear, at least from our perspective, that we have a strong pipeline that looks good. But I'm not so sure that we can ultimately say that we're going to be able to grow in high single digits for forever. And I think that's probably the way to respond to the question.

Operator

Your next question is from the line of John Roberts with Buckingham Research.

John Roberts - *Buckingham Research - Analyst*

Thanks. Congratulations on some great results here. First, I'm struck by the difference between the Ingredient business in Fragrance in North America, or the US, and the Functional Fragrance packages. You've got the lowest growth worldwide in the US Functional Fragrances, but you've got the highest growth in the Ingredients business. Is there a relationship there? Is it a customer make versus buy so that they've slowed down a little of the purchases of formulated fragrance and doing more in-house which is driving the Ingredient sales?

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

Good morning. This is Nicolas Mirzayantz. I think that we have to really separate the two businesses because for Ingredients, we are not only dealing with some of our competitors but also with some customers. So you have different trends. We don't have a precise visibility on how our customers and competitors are using our ingredients and in which category they are going. So we really have to decouple the two. And I think that in Ingredient it is fair to say that we're benefiting from restocking and an increase demand in volume across the different categories.

Operator

Your next question is from the line of Mike Sison with KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hello. Congratulations on a great quarter.

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

Thank you.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Doug, in terms of normal in the industry these days, clearly your new product wins are ahead of what I would consider normal -- 7%, 8%. I think that's what Kevin said. Are customers in this early cycle of recovery really pumped up on generating new products that's allowing you to really generate that type of growth? Or are you just really blocking and tackling a lot better and winning more business?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Well, there's probably a little bit of all the elements you've talked about, Mike. I think around the world, there are very different pictures of a robust world in Asia, not necessarily mirrored in all parts of the world in the developed markets. So there's different levels of optimism. I think actually we are -- and both Hernan and Nicolas pointed this out, Mike. That the quotes blocking and tackling the way you've described it of defining and winning some new businesses is, we are achieving a higher level than we've historically done. And there are a number of factors behind that, and that's going to have to be a critical element going forward. Having said all of that, at the end of the day, I think someone on this call about three months ago or so asked the question about the lens as to the economic robustness around the world. And at the time, I think we were a little more pessimistic about things than we would be today. So there seems to be, at least from our customers, an improving trend toward new products and introductions and so on. But I wouldn't say it's all the way back to the halcyon days.

Operator

Your next question is from the line of Mark Astrachan with Stifel Nicolaus.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Good morning, everybody. Could you please talk a bit about the opportunity for worldwide manufacturing scale and leverage. I guess include in that some thoughts on potential savings. Especially as you look at emerging and developing markets given that the CapEx number as a percent of sales -- that 4% number that you talked about, Kevin, remains heightened versus historical levels. Just trying to get a sense of what you all are looking at in terms of why the heightened CapEx? And what the opportunities are as a result?

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Thanks for the question, Mark. Look, I think you already know that we have some levels of capital spend that are occurring relative to the restructuring that is occurring in the European facilities. That's specifically oriented around driving improvements in our Fragrance business. So there certainly is a piece there. We are also, though, looking at our efforts in terms of emerging markets. We continue to see, as you can see in the results, strong growth there. And we've communicated that that clearly is going to be something that we are thinking through and considering relative to future CapEx requirements going forward. Within the context of those spend levels, there will always be opportunities that we will look at relative to creating greater efficiencies. But it's more about our able to drive growth than it is really about a significant reduction in number of facilities or that kind of analytic. There are a lot of efficiencies to be gained when you do grow healthfully as you can see in our P&L in the third quarter.

Operator

Your next question is from the line of Lauren Lieberman with Barclays Capital.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks, good morning. I was wondering if you could talk a little bit about market growth rates because going through earnings season over the last week or two, it doesn't sound so good from both food and household product companies globally. And actually a lot of mixed messages in terms of market growth. From our standpoint, it feels like a lot of it has more to do with promotional activity which obviously you would be insulated from and maybe their view of real market growth and health isn't totally valid. Any color there would be really helpful.

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Well, Lauren, I'll start, and I'll invite Nicholas and Hernan to comment further and build on my comments as they so choose. I think the picture around the world is really very different, Lauren. And looking at it from the standpoint of perhaps mature and developed markets whether heightened levels of promotion are influencing it or a sustained level, certainly, in some of the markets like here in the United States things are quite modest which would contrast very significantly to considerable growth rates in some of the Asian markets. So when we come up with our own internal estimates of market growth overall, there are blends of high single digits in Asian markets to flat to perhaps a couple of points here. And various markets in kind of in between leading to a blended average probably somewhere in the 3% to 3.5% range. But it is really made up of very different perspectives worldwide. Anything you would want to add?

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

Hello, Lauren. Nicolas speaking. I think it is fair to [assume] so that looking at the different growth rates, we have benefited from restocking both at our customers level and the retailers level. So this way it is probably more difficult to correlate some of the growth that we're seeing by some of our customers and the overall growth that we are able to generate. I think it is also fair to say that we have a number of new wins that we have been able to secure. We are gaining market share, and it generated and accelerated a growth rate versus the overall market.

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Hernan, any comments you would want to make?

Hernan Vaisman - *International Flavors & Fragrances - Global President of Flavors*

You are right. It was well defined. I think that we are facing today two different dynamics. In the developing and developed. The developing are really growing fast. It's like they were not impacted by the prices. And also we have to mention that when we are thinking and we are mentioning about developing we are thinking in Asia. But you have Africa and the Middle East which are really also growing very fast. Then you have the developed. Of course, the growth is slower than the other one. Specifically to Flavors. You see a high growth rate growing like the US or in western Europe, it is because we are winning business. But basically, it was what you said. These two dynamics -- one part of the world is moving fast, and the other one is moving slower. But combined both are giving us this kind of a growth rate.

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Additional point, Lauren, to your question. You mentioned the impact of promotional spend on some of the results of our customers. You're right. In that, that is providing some dampening as it relates to their top line because they are taking some fairly aggressive stances there. And volumes for certain of our customers are really quite healthy which is certainly supporting growth.

Operator

You have a follow-up question from the line of Jeff Zekauskas with JPMorgan.

Silke Kueck - *JPMorgan - Analyst*

Yes, good morning again. So some of the suppliers into the detergent industry have indicated that because of also the promotional activities, the companies are now also focused on costs again and may try to watch their input costs more carefully. So the implication was that maybe next year there could be a lot more pricing pressure as consumer products companies watch their bottom line. Do you have any view on that? And secondarily, I was also wondering what your operating profits looked like in the more developed regions of North America and western Europe versus the emerging markets? Thank you.

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Silke, this is Kevin. I'll take an initial stab and then ask Nicolas if he wants to add anything. I think, in general, to respond to the second question first. The margin profile -- emerging markets versus developed. There's not a fundamental difference between those two. So I wouldn't suggest that you need to be thinking about that as it relates to our -- certainly, our large efforts to drive growth in the emerging markets. And I think that as it relates to the cost question that you have. I think our customers are always focused on that particular issue. Certainly, there has been discussions about input cost pressures starting to be developed. So that will be something they will always look to try and work with us on to help reduce some of the pressure points. But I will also say, and perhaps this is the one thing I would suggest is important to remember is that, if we're able to deliver innovation into the offering of the customer, they will be willing to pay for it because it will add value to their consumer proposition. Nicolas, anything to add?

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

No, I totally agree with your comments. Especially for the last one, innovation. And I think that's where when we're bringing solutions that are helping to differentiate the brains of our customers, to help deliver new experiences, and also to provide additional benefits. I think it's a very, very different dynamic. And the focus on product superiority and winning with consumers is really critical for the brands that we're dealing with. Therefore, we are focusing on driving innovation and differentiation for the brands we're working with.

Operator

You have a question from the line of Sam Yake with BGB Securities.

Sam Yake - *BGB Securities - Analyst*

Yes, hello. Good morning. Thanks for taking my question.

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Good morning, Sam.

Sam Yake - *BGB Securities - Analyst*

Michael, I just have a question, on your balance sheet. It continues to improve, and you're generating terrific free cash flow. I'm just wondering if you could give us some color on how you plan to use your free cash flow in the future?

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Sam, we've talked about it in the past. Certainly, the number one priority of our free cash flow will be to spend back against the growth opportunities that we face in our business. We certainly have shown in the past a willingness to have a proactive stance on our return of cash back to shareholders. We have done share buybacks in the past, as you know, but we're not doing that concernly. But certainly given the most recent raise that we had in our quarterly dividend which was approved by our Board last quarter. Certainly, that's an indication of that continuing commitment. So we have talked about, in addition, a further evaluation of our near-term maturities and debt. And that there will be consideration on paying down those, and certainly those are in the process of being evaluated.

Operator

You have a follow-up question from the line of John Roberts with Buckingham Research.

John Roberts - *Buckingham Research - Analyst*

We have record high sugar prices globally. So I'm curious over in the flavor side of the business whether that's driving a lot of reformulation activity? And at the same time we have in the US, even though you have got record high sugar prices, we're importing more sugar because they're trying to take HFCS out of some products. Is there a dynamic there that is driving a lot of reformulation in the food side?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Hernan, are you capable to handle that question?

Hernan Vaisman - *International Flavors & Fragrances - Global President of Flavors*

Yes. I will do it. [The difference increasing the sugar in a lot of food formulation.] But in the specific case, it also bring opportunities that's why we have this toolbox as I mentioned to you before with this sweetness enhancer that in some way helps the customers to reduce the content of sugar. And at the same time, help them to reduce costs and give this healthy position of the product. But the bottom line is, we have a lot of recommendations -- a lot of requests for customers [related to the] high price increase in sugar.

Operator

Your next question is a follow-up question from the line of Mike Sison with KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hello. When you think about 2011 and the momentum of new product wins that you have had. And given that you're running at mid to high single digits, any color on the strength of the backlog heading into 2011? Would you have a similar growth rate in terms of new product wins? Then, congrats on the 18% operating margin number here in the third quarter. It has been a goal for you for quite some time. What would it take to see that for a full year? You have cost savings kicking in. A little bit of volume growth next year. Are we at that run rate on a normalized basis going forward?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Mike, let me start, and I'll ask Kevin to build off some of the comments because you asked about three or four questions in there. They're all good. Starting from the standpoint of looking into 2011 and relative growth rates. There are obviously macroeconomic factors that we are assuming -- no significant economic turn down as I answer the question. So we've got a pretty good pipeline. We've got a pretty good win rate and some confidence going into next year.

I think there's an area around what I would call quality of growth that we should probably talk a little bit about. And that's really flowed out of the strategy review we've had. And that's really come about in dissecting the Company's business. We've really earmarked some parts and most parts fortunately which are clearly good growth. And by that, it is good volume gains but also healthy and attractive margins for us. There's also some -- I guess I would call it not-so-good growth which may be a contribution to the top line but at margins we don't find attractive. Over time, we will look to either improve those businesses or reemphasize parts elsewhere. So I think there's the potential for an impact on our top line that may be positive on the bottom line though not necessarily positive on the top line. So that overall mix should improve going forward and subject to gaining good volume we've got and the leverage that we've seen, I think Kevin would respond saying we're heading toward that margin as being much more sustainable which is our goal.

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

Mike, just -- I would agree and concur certainly with Doug's comments. A couple other points of nuance that are important to think through. Certainly, given the very strong performance that we had in the first half of this year, we've talked about that we'll be trending down to more normalized levels which will translate into a different perspective on what growth will look like in the second half versus the first half. The comparables that we will face next year are going to be quite robust in the first half of 2010. As you're thinking through that, clearly there's going to be greater challenges in the first half versus the second half. I think that on the margin question, it's about continued discipline. And nothing is ever guaranteed as it relates to that. If we have input cost pressures, we are going to have to be dedicated in terms of potential pricing actions. We're going to have to be dedicated in terms of ensuring we deliver against our restructuring initiatives that we've promised. So, it's a requirement that, day in day out, we've got to stay continued -- focused and disciplined in the management of our costs to ensure that we can get to those profit margins that you're alluding to.

Operator

You have a follow-up question from the line of Mark Astrachan with Stifel Nicolaus.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Hello again. Question on the Flavors business in Latin America. Given that you were lapping the loss of the nonstrategic business from a year ago, I'm just curious why the growth wasn't a bit stronger? And what sort of expectations you have going forward?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Hernan?

Hernan Vaisman - *International Flavors & Fragrances - Global President of Flavors*

It's correct. The first -- our year-to-date -- our performance has been impacted by the loss of nonstrategic business that occurred in the third quarter of 2009. During the first quarter of 2010, this did have a considerable impact to our sales. However, more recently in Q3 we did perform rather well, growing 7% in local currency. Specifically, in Confectionary, Savory, and Dairy. So basically, I think that we are coming back. We have a strong pipeline, and we have now seen returning to the normal growth that we used to have in Latin America. The pipeline is strong. The [sales effect] now is coming very good. So my expectation is to really come back to the previous performance in 2007 and 2008.

Operator

Your next question is a follow-up question from the line of Lauren Lieberman with Barclays Capital.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks. I actually just had two things. First was just a quick follow-up to Doug's comments around quality of growth. So is it reasonable to assume that in 2011 there will be some degree of drag on sales growth from -- good for margins. But some degree of a drag of sales growth as you potentially walk away from business?

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Well, there's the potential to that, Lauren. We have obviously drawn a number of conclusions from the strategy review that, in the simple sense, some businesses are better than others. We're a stubborn bunch, and we're a fighting bunch. So the challenge now as we've understood some of the business isn't as profitable as we probably wanted, how do we get it that way. And then over time, try to remedy those fixes. If we haven't -- and I won't put time frames around this. But if we haven't achieved the remedies, mitigated those problems into the future. Then we probably would walk away from some businesses. But the areas that we have identified, we have also identified solutions and fixes which will need to go -- put into place.

And I want to just build on a comment that Kevin made a minute ago which is on the heels of what is truly shaping up to be a splendid year in 2010 for IFF going into next year. A slower level of growth will still be on a blended average basis of over a couple of years, terrific results. So we will be looking for grow next year. We have called it a more normalized level because on this call I have already indicated we expect to finish the year more than double digits on the top line. So next year will certainly be an incredibly difficult comparable versus this year.

Lauren Lieberman - *Barclays Capital - Analyst*

Assuming very strong new win rates if there was a little bit of an offset. That was all. Okay. The other thing I wanted to just follow up on was -- this is more backward looking. But when would you say the momentum really changed internally for you in terms of win rates? Because my guess would be that a lot of the commercialization that you're seeing right now is briefs that have been won -- I don't know -- is it the past year or 18 months. And the companies and manufacturers were holding back on launching until they felt better about the state of the world. Is that fair? And when would you say that inflection point really occurred?

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

As far as Fragrances is concerned, you remember last year we had tremendous pressure from really destocking. At the same time, our win rate was already improving. So a lot of the work -- the strategy that was done in 2007, 2008. The new category structure and all of the fundamental works in consumer understanding and innovation were starting to accelerate our win rate. So you are right, what were the benefits of these wins is really impacting this year. We saw the chance probably in 2007, 2008 and growing this year.

Operator

You have a follow-up question from the line of John Roberts with Buckingham Research.

John Roberts - *Buckingham Research - Analyst*

Thank you. I had a question about mix effect. And this is in the Fragrance area. The acceleration in Fine Fragrance I would imagine has a positive mix effect on earnings? That would be a higher incremental margin area? But at the same time, you had an acceleration in the Ingredient side which would be lower incremental margins, I would suspect. Are they offsetting? Was there overall a favorable mix effect? Or we shouldn't think about mix as being important?

Kevin Berryman - *International Flavors & Fragrances - EVP, CFO*

You're right in that there was to the extent that Fine Fragrance is growing faster. It is a high margin business for us. So that's a positive. You're right in terms of assuming that there is some parts of the portfolio that are lower margin-based, and consequently, there is a drag. Mix is certainly playing some role, but it's not a material role relative to our performance level. So I would not suggest to you that the numbers that we're being able to deliver is driven by a specific mix issue is broad-based. And while Fine was good, so was the rest of the portfolio, too. And you can see that that is certainly the case. It's broad-based.

Operator

You have a follow-up question from the line of Mike Sison with KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

One last quick one. In [Scents] and Fine Fragrances, are you basically at your prior peak that you saw historically? We're sort of running full out there.

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

Actually, it is above 2007 which was our previous peak. So not only have we largely compensated for the destocking last year, but the level and the breadth of all the new success across all the regions have enabled us already this year to be above 2007.

Operator

There are no further questions at this time.

Douglas Tough - *International Flavors & Fragrances - Chairman, CEO*

Thank you all for your participation.

Operator

Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.
