

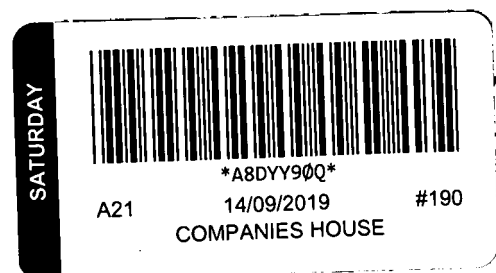
Registration number: 00214174

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Annual Report and Financial Statements

for the Year Ended 28 December 2018

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Maurice Wilkes Building
St John's Innovation Park
Cowley Road
Cambridge
Cambridgeshire
CB4 0DS



International Flavours & Fragrances I.F.F. (Great Britain) Limited

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International Flavours & Fragrances I.F.F. (Great Britain) Limited

Company Information

Directors S Olive
J Fox
K Hammond

Registered office Duddery Hill
Haverhill
Suffolk
CB9 8LG

Independent Auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Maurice Wilkes Building
St John's Innovation Park
Cowley Road
Cambridge
Cambridgeshire
CB4 0DS

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Strategic Report for the Year Ended 28 December 2018

The directors present their strategic report for the year ended 28 December 2018.

Fair review of the business

The trading results for the year are shown in the profit and loss account. The Company has continued to trade profitably, with improvements in both gross profit (up by £3.3 million (+11.1%)) and profit before interest and taxation (up by £0.4 million (+4.1%)). The total assets at the year end were £147,713,000 (2017: £132,164,000) and total liabilities were £25,240,000 (2017: £21,452,000).

The flavour and fragrance markets are of a mature nature, particularly in the western hemisphere, with a number of manufacturers of varying sizes not just in the UK, but globally. The market remains highly competitive with a number of significant players.

In total terms turnover increased by £6.1 million (5.6%) when compared to 2017. In addition, favourable product mix and continued cost constraint resulted in the profit improvements noted above. This being said profit margins continue to be put under pressure both from customers and competitors, particularly those with manufacturing facilities in emerging economies and in particular the Asia-Pacific region. The net assets of the company were £122.5 million (2017: £110.7 million).

Financial Key Performance Indicators

The company's management evaluates performance on an on-going basis paying attention to a large number of performance criteria. Included within this review are a number of KPI's which are closely monitored including:

	Unit	2018	2017
Sales	£	114,299,000	108,230,000
Gross Profit	£	33,037,000	29,730,000
Gross Margin	%	29	27

The Company saw an increase in both its Gross sales of £6,069,000 (5.6%) and in its Gross Margin from 27.5% to 28.9%.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Strategic Report for the Year Ended 28 December 2018 (continued)

Principal risks and uncertainties

Competition/consolidation:

As mentioned above, the flavour and fragrance markets are mature in the United Kingdom with many competitors, particularly in the flavour market, of varying sizes that threaten the continued sales of the company. Consolidation of competition and the emergence of chemical plants in emerging economies continue to threaten the maintenance of sales levels and also apply constant downward pressure on margins.

In order to mitigate this risk, the Company has implemented some process improvement programmes, in particular in relation to manufacturing and customer service.

Legislation/Regulatory:

The Company spends considerable time monitoring changes to legislation by the regulatory bodies (e.g. Flavour ingredient contamination testing and environmental impact) in order to avoid using any prohibited substances. Similarly, the impact of a change to approved ingredients could render many products obsolete and as a result, the Company constantly researches and develops alternate products using natural flavourings.

Changes to environmental regulations are monitored closely to ensure that our chemical manufacturing process does not unduly impact the environment.

Supply Chain:

Sourcing quality raw materials (natural or otherwise) is of major concern and the Company has recently invested in highly accurate testing equipment to ensure the quality of purchased materials and finished goods.

The availability of raw materials can be impacted greatly by natural disasters (e.g. Vanilla) thereby driving up price and further pressurising margins.

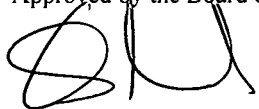
The Company mitigates this risk through the International Flavor & Fragrances Inc. group's Global Strategic Sourcing team who procure raw materials for all affiliates worldwide, carefully selecting suppliers and agreeing terms therewith.

Retention of key staff:

The Company employs a number of key employees (e.g. perfumers, flavourists and global account managers) whose skills are in great demand from competitors.

In order to retain these key employees, the Company believes that it provides appropriate incentives and rewards, whilst providing them with the necessary environment and resources to allow them to excel in their positions.

Approved by the Board on 21 August 2019 and signed on its behalf by:



K Hammond
Director

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Directors' Report for the Year Ended 28 December 2018

The directors present their report and the audited financial statements for the year ended 28 December 2018.

For the purpose of the financial statements the term 'year' represents the 364 days to 28 December 2018.

Principal activities

The principal activity of the company is the development, manufacture and sale of fragrance ingredients and flavourings. The Company is a member of the International Flavors & Fragrances Inc. group.

Directors of the company

The directors of the company who were in office during the year were and up to the date of signing the financial statements were:

S Olive

J Fox

K Hammond

Dividends

An interim dividend of £9,000,000 was paid during the year (2017: £10,000,000). No final dividend is proposed by the directors (2017: £nil).

Financial instruments

Objectives and policies

The Company's operations expose it to a variety of financial risks that include the effect of credit risk, liquidity risk, foreign currency risk and interest rate cash flow risk.

Price risk, credit risk, liquidity risk and cash flow risk

Credit risk:

The Company has implemented policies that require appropriate credit checks on potential customers before sales over a certain credit limit are made.

Liquidity risk:

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure the Company can meet liabilities as they fall due.

Foreign currency risk:

The Company procures supplies from across the globe and pays for the goods in a variety of currencies. The Company does not use derivatives to manage this risk, as exposure is managed at a regional level by the International Flavors & Fragrances Inc. group.

Interest rate cash flow risk:

The Company has both interest bearing assets and interest bearing liabilities. All loans with and to other IFF group companies are subject to variable interest rates. Bank balances and loans are subject to variable interest rates.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Directors' Report for the Year Ended 28 December 2018 (continued)

Employees

We fully realise that our employees wish to be informed and consulted on matters affecting their work and to be involved in problem-solving affecting their own areas of interest and responsibility. The Company is firmly committed to a policy of good communication at all levels and, in order to encourage understanding of the financial performance of the Company, a presentation of the group's results is made to employees once a year and local results in particular are illustrated and explained. We aim to establish a climate which constantly encourages the open flow of information and ideas.

Certain employees of the Company are eligible to participate in the International Flavors and Fragrances Inc. group global employee stock purchase plan.

Any applications for employment from disabled persons are considered on their merits and regard is paid only to the ability of an applicant to carry out satisfactorily the functions required. The same policy is adopted when considering career development. If an employee becomes disabled while in employment, all due consideration would be given to continued employment whether in the same or in an alternative capacity, and training would be given where necessary.

Future developments

As was the case in 2017, the market environment in 2018 is expected to continue to be highly competitive with further pressure on margins. This being said the Directors are of the view that the Company is well positioned to continue to perform well and as a result achieve an acceptable level of performance.

Research and development

Research and development programmes to improve and develop new products continue to be important activities for the Company. Research and development expenditure is written off in the year in which it is incurred. During the year these costs amounted to £2,624,000.00 (2017: £2,581,000.00).

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Directors' Report for the Year Ended 28 December 2018 (continued)

Important non adjusting events after the financial period

Following the clarification from Leading Council (Andrew Short QC) dated 19 February 2019 on Barber v Guardian Royal Exchange Assurance Group ("Barber") case, Trustees of the IFF Pension Plan advised the Company on 24 May 2019 that it must change its administrative practise to allow members who joined the Plan prior to 1 February 1988 to take certain parts of their benefits unreduced from age 60 and make restitution payments to members whose benefits have been incorrectly reduced in the past. The directors of the company believes that this qualifies as amendment to the pension plan post year-end and therefore no adjustment is required as at 28 December 2018.

The scheme Actuary has confirmed that the financial impact cannot be estimated, due to the complexities of the calculation, before September 2019 however the amount is expected to be material.

Directors' liabilities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchase and maintain throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Directors' Report for the Year Ended 28 December 2018 (continued)

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 21 August 2019 and signed on its behalf by:



.....
K Hammond
Director

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Independent Auditors' Report to the Members of International Flavours & Fragrances I.F.F. (Great Britain) Limited

Report on the audit of the financial statements

Opinion

In our opinion, International Flavours & Fragrances I.F.F. (Great Britain) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 28 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 28 December 2018 the profit and loss account, the statement of comprehensive income and the statement of changes in equity for the year ended 28 December 2018; and the notes to the financial statements for the year ended 28 December 2018, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Independent Auditors' Report to the Members of International Flavours & Fragrances I.F.F. (Great Britain) Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 28 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

**Independent Auditors' Report to the Members of International Flavours & Fragrances
I.F.F. (Great Britain) Limited (continued)**

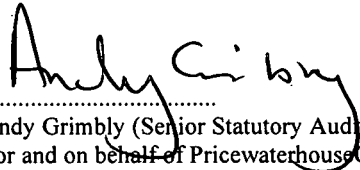
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andy Grimbly (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
Cambridge

12 SEPT 2019
Date:.....

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Profit and Loss Account for the Year Ended 28 December 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	114,299	108,230
Cost of sales		<u>(81,262)</u>	<u>(78,500)</u>
Gross profit		33,037	29,730
Distribution costs		(7,126)	(7,283)
Administrative expenses		(16,953)	(14,038)
Other operating income	5	1,656	1,760
Other operating expenses	6	<u>(183)</u>	<u>(152)</u>
Profit before interest and taxation	7	<u>10,431</u>	<u>10,017</u>
Interest receivable and similar income	9	1,055	114
Interest payable and similar expenses	10	<u>(201)</u>	<u>(267)</u>
Net interest income/(expense)		<u>854</u>	<u>(153)</u>
Profit before taxation		11,285	9,864
Tax on profit	13	<u>(1,266)</u>	<u>(1,876)</u>
Profit for the financial year		<u><u>10,019</u></u>	<u><u>7,988</u></u>

The above results were derived from continuing operations.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Statement of Comprehensive Income for the Year Ended 28 December 2018

	2018 £ 000	2017 £ 000
Profit for the financial year	<u>10,019</u>	<u>7,988</u>
Remeasurement gain on defined benefit pension schemes	12,893	22,412
Remeasurement loss on deferred tax relating to defined benefit pension schemes	<u>(2,192)</u>	<u>(3,810)</u>
	<u>10,701</u>	<u>18,602</u>
Total comprehensive income for the year	<u><u>20,720</u></u>	<u><u>26,590</u></u>

The notes on pages 15 to 40 form an integral part of these financial statements.

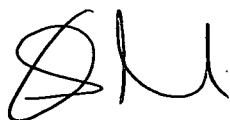
International Flavours & Fragrances I.F.F. (Great Britain) Limited

(Registration number: 00214174)

Balance Sheet as at 28 December 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Tangible assets	15	15,834	14,538
Current assets			
Stocks	16	15,672	14,001
Debtors	17	73,630	59,853
Cash at bank and in hand		<u>42,577</u>	<u>43,772</u>
		131,879	117,626
Creditors: Amounts falling due within one year	18	<u>(16,760)</u>	<u>(15,400)</u>
Net current assets		<u>115,119</u>	<u>102,226</u>
Total assets less current liabilities		130,953	116,764
Provisions for liabilities	19	<u>(8,480)</u>	<u>(6,052)</u>
Net assets		<u>122,473</u>	<u>110,712</u>
Capital and reserves			
Called up share capital	21	689	689
Share premium account	22	32,674	32,674
Other reserves	22	735	694
Profit and loss account	22	<u>88,375</u>	<u>76,655</u>
Total equity		<u>122,473</u>	<u>110,712</u>

The financial statements on pages 11 to 40 were approved and authorised by the Board on 21 August 2019 and signed on its behalf by:



.....
K Hammond
Director

The notes on pages 15 to 40 form an integral part of these financial statements.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Statement of Changes in Equity for the Year Ended 28 December 2018

	Note	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total Equity £ 000
At 31 December 2016		689	32,674	684	60,065	94,112
Profit for the year		-	-	-	7,988	7,988
Other comprehensive income		-	-	-	18,602	18,602
Total comprehensive income		-	-	-	26,590	26,590
Dividends	25	-	-	-	(10,000)	(10,000)
Share based payment transactions	24	-	-	10	-	10
At 29 December 2017		689	32,674	694	76,655	110,712

		Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total Equity £ 000
At 30 December 2017		689	32,674	694	76,655	110,712
Profit for the year		-	-	-	10,019	10,019
Other comprehensive income		-	-	-	10,701	10,701
Total comprehensive income		-	-	-	20,720	20,720
Dividends	25	-	-	-	(9,000)	(9,000)
Share based payment transactions	24	-	-	41	-	41
At 28 December 2018		689	32,674	735	88,375	122,473

The notes on pages 15 to 40 form an integral part of these financial statements.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018

1 General information

The company is a private company limited by share capital, incorporated in England.

The address of its registered office is:

Duddery Hill
Haverhill
Suffolk
CB9 8LG
England

These financial statements were authorised for issue by the Board on 21 August 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Companies Act 2006.

Basis of preparation

These financial statements have been prepared using the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The financial statements are presented in Sterling (£).

Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the following exemptions:

- The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17 (d) to prepare a statement of cash flows;
- The requirements of Section 11 paragraphs 11.39 to 11.48(a) and Section 12 paragraphs 12.26 to 12.29A, regarding disclosures for financial liabilities and assets, as the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated;
- From disclosing the company key management personnel compensation, as required by FRS 102 paragraph 33.7; and
- The requirement of Section 33 Related Party Disclosures paragraph 33.9 to disclose related party transactions within other members of the Group.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

2 Accounting policies (continued)

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The Company recognises revenue when (a) the amount of revenue can be reliably measured; (b) it is probable that future economic benefits will flow to the entity; and (c) the significant risks and rewards of ownership have been transferred to the buyer. This may be upon shipment, completion of the product or based on specific contract terms.

Income from investments in subsidiary and associated undertakings

Other operating income is derived from dividends remitted from its subsidiary undertakings and it accounted for only when received.

Cost of sales

Cost of sales comprises all those costs directly incurred by the Company, including depreciation and an appropriate proportion of overheads, in order to bring each product sold to its saleable condition.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

2 Accounting policies (continued)

Deferred tax is recognised in respect of all timing differences between taxable profits and profits reported in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

Tangible assets

Tangible assets is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, on a straight-line basis over their estimated useful lives. The depreciation rates used are as follows:

Assets in the course of construction are not depreciated until they are available for use.

Asset class	Depreciation method and rate
Freehold buildings	3.33%
Leasehold improvements	10%
Other, property, plant and equipment	10 to 33.33%
Furniture, fixtures and equipment	10 to 20%
Motor Vehicles	10%

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the weighted average method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the company has an obligation at the reporting date as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

2 Accounting policies (continued)

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

The Company has no assets held under finance leases.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Distributions to equity holders

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined contribution pension obligation

The Company operates a defined contribution pension scheme which is open to new employees. Costs of contributions made by the Company are recognised as they fall due.

Defined benefit pension obligation

The Company operates two defined benefit pension schemes – the IFF (GB) Pension and Life Assurance Plan and the Bush Boake Allen Pension Scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The schemes are funded by both employers and employees contributions. Both schemes are closed to new entrants and to further accrual. The obligations of the defined benefit schemes are measured at discounted present value while scheme assets are measured at their fair value. The operating and financing costs of such plans are recognised separately in the profit and loss account. Actuarial gains and losses arising from either experiences differing from previous actuarial assumptions or changes to those assumptions are recognised immediately in the statement of comprehensive income.

Where, at the reporting date, the present value of defined benefit obligation is less than the fair value of the plan assets the plan has a surplus. An entity shall recognise a surplus only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Post retirement benefits other than pensions

The costs of post retirement benefits other than pensions have been provided for in accordance with the recommendations of an independent actuary.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

2 Accounting policies (continued)

Share based payments

The parent company, International Flavors & Fragrances Inc., operates a share based payment scheme under which the entity receives services from employees as consideration for equity instruments (restricted stock units) of the parent company. The fair value of the employee services provided by UK employees received in exchange for the grant of the restricted stock units is recognised as an expense in the International Flavours & Fragrances I.F.F. (Great Britain) Limited financial statements.

The total amount expensed is determined by reference to the fair value of the restricted stock units granted as adjusted for any forfeitures or cancellations. The total expense is recognised over the vesting period. Any revision to original estimates is recognised in the profit and loss account with a corresponding adjustment to equity.

Financial instruments

Classification

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Recognition and measurement

Financial assets:

Basic financial assets, including trade and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities:

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Share-based payments

The company's employees have been granted restricted stock units by the ultimate parent company. The total amount expensed is determined by reference to the fair value of the restricted stock units granted as adjusted for any forfeitures or cancellations. The total expense is recognised over the vesting period. Any revision to original estimates is recognised in the profit and loss account with a corresponding adjustment to equity.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

3 Critical accounting judgements and estimation uncertainty (continued)

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 15 for the carrying amount of the property plant and equipment, and note 2 for the useful economic lives for each class of assets.

Stock provisioning

The company is subject to changing consumer demands and trends. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 16 for the net carrying amount of the inventory and associated provision.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures relating to the defined benefit pension scheme.

4 Turnover

The analysis of the company's revenue for the year from continuing operations is as follows:

	2018	2017
	£ 000	£ 000
Sale of goods	<u>114,299</u>	<u>108,230</u>

The analysis of the company's turnover for the year by class of business is as follows:

	2018	2017
	£ 000	£ 000
Flavours	67,232	59,652
Fragrances	<u>47,067</u>	<u>48,578</u>
	<u>114,299</u>	<u>108,230</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

4 Turnover (continued)

The analysis of the company's turnover for the year by market is as follows:

	2018 £ 000	2017 £ 000
UK	24,330	23,767
Rest of Europe, Africa and Middle East	65,112	56,600
North and Latin America	19,916	21,860
Asia	4,941	5,924
Rest of World	-	79
	<u>114,299</u>	<u>108,230</u>

5 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2018 £ 000	2017 £ 000
Commissions receivable from group undertakings	<u>1,656</u>	<u>1,760</u>

6 Other operating expenses

The analysis of the company's other operating expenses for the year is as follows:

	2018 £ 000	2017 £ 000
Commissions payable to group undertakings	183	151
Loss on sale of assets	<u>-</u>	<u>1</u>
	<u>183</u>	<u>152</u>

7 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	1,441	1,308
Write-down of stocks to net realisable value	(198)	110
Research and development cost	2,624	2,581
Foreign exchange (gains)/losses	(52)	5
Operating lease expense - plant and machinery	544	617
Operating lease expense - other	249	270
Loss on disposal of property, plant and equipment	<u>-</u>	<u>1</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

8 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	<u>90</u>	<u>86</u>

9 Interest receivable and similar income

	2018 £ 000	2017 £ 000
Interest income on bank deposits	259	114
Other finance income	<u>796</u>	<u>-</u>
	<u>1,055</u>	<u>114</u>

10 Interest payable and similar expenses

	2018 £ 000	2017 £ 000
Interest expense on other finance liabilities	201	171
Other finance costs	<u>-</u>	<u>96</u>
	<u>201</u>	<u>267</u>

11 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	13,245	12,800
Social security costs	1,448	1,500
Pension costs, defined contribution scheme	1,136	1,161
Other post-employment benefit costs	1,011	64
Share-based payment expenses	<u>380</u>	<u>375</u>
	<u>17,220</u>	<u>15,900</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

11 Staff costs (continued)

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2018 No.	2017 No.
Production	124	121
Administration and support	135	137
	<u>259</u>	<u>258</u>

12 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	<u>499</u>	<u>518</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2018 No.	2017 No.
Received or were entitled to receive shares under long term incentive schemes	3	3
Exercised share options	3	4
Accruing benefits under defined benefit pension scheme	<u>3</u>	<u>4</u>

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	264	269
Defined benefit accrued pension entitlement at the end of the year	<u>57</u>	<u>57</u>

During the year the highest paid director exercised share options and also received or was entitled to receive shares under a long term incentive scheme. (2017: exercised share options and also received or was entitled to receive shares under a long term incentive scheme)

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

13 Tax on profit

Tax charged in the profit and loss account

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	381	-
UK corporation tax adjustment to prior periods	(19)	537
Total current tax	362	537
Overseas tax	-	4
Total current income tax	362	541
Deferred taxation		
Arising from origination and reversal of timing differences	918	1,733
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(14)	(398)
Total deferred taxation	904	1,335
Tax expense in the profit and loss account	1,266	1,876

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	11,285	9,864
Corporation tax at standard rate	2,144	1,899
Effect of expense not deductible in determining taxable profit	74	67
(Decrease)/increase in UK and foreign current tax from adjustment for prior periods	(33)	139
Tax decrease from other short-term timing differences	(919)	(229)
Total tax charge	1,266	1,876

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

13 Tax on profit (continued)

Deferred tax

Deferred tax assets

	Asset £ 000	Liability £ 000
28 December 2018		
Other short term timing differences	767	-
Deferred tax asset on pension liability	-	7,335
Difference between capital allowances and depreciation	1,122	-
Losses carried forward	305	-
	<u>2,194</u>	<u>7,335</u>
29 December 2017		
Other short term timing differences	1,281	-
Deferred tax asset on pension liability	-	4,830
Difference between capital allowances and depreciation	323	-
Losses carried forward	1,182	-
	<u>2,786</u>	<u>4,830</u>

Tax relating to items recognised in other comprehensive income or equity

	2018 £ 000	2017 £ 000
Deferred tax related to items recognised as items of other comprehensive income	<u>(7,335)</u>	<u>(4,830)</u>

14 Intangible assets

	Goodwill £ 000	Total £ 000
Cost or valuation		
At 30 December 2017	<u>1,868</u>	<u>1,868</u>
At 28 December 2018	<u>1,868</u>	<u>1,868</u>
Accumulated Amortisation		
At 30 December 2017	<u>1,868</u>	<u>1,868</u>
At 28 December 2018	<u>1,868</u>	<u>1,868</u>
Carrying amount		
At 28 December 2018	<u>-</u>	<u>-</u>
At 29 December 2017	<u>-</u>	<u>-</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

14 Intangible assets (continued)

Goodwill arose upon the transfer of the trade, assets and liabilities from Bush Boake Allen Limited to the Company on 28 April 2001. The goodwill arising was amortised over a two year period.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

15 Tangible assets

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Properties under construction £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation						
At 30 December 2017	10,475	1,630	6	7,335	44,090	63,536
Additions	-	-	-	2,737	-	2,737
Disposals	-	(86)	-	-	(992)	(1,078)
Transfers	4,269	-	-	(5,617)	1,348	-
At 28 December 2018	14,744	1,544	6	4,455	44,446	65,195
Accumulated Depreciation						
At 30 December 2017	7,572	1,416	-	-	40,010	48,998
Charge for the year	373	26	1	-	1,041	1,441
Eliminated on disposal	-	(86)	-	-	(992)	(1,078)
At 28 December 2018	7,945	1,356	1	-	40,059	49,361
Carrying amount						
At 28 December 2018	6,799	188	5	4,455	4,387	15,834
At 29 December 2017	2,903	214	6	7,335	4,080	14,538

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

15 Tangible assets (continued)

Included within the net book value of land and buildings above is £6,798,935 (2017 - £2,903,684) in respect of freehold land and buildings and £Nil (2017 - £Nil) in respect of leasehold improvements.

16 Stocks

	2018 £ 000	2017 £ 000
Raw materials and consumables	3,844	3,981
Work in progress	1,696	1,140
Finished goods and goods for resale	10,132	8,880
	<u>15,672</u>	<u>14,001</u>

The cost of stocks recognised as an expense in the year amounted to £57,240,000 (2017 - £58,042,000).

Impairment of stocks

The amount of impairment loss included in profit or loss is £26,000 (2017 - £224,000).

17 Debtors

	Note	2018 £ 000	2017 £ 000
Trade debtors		16,027	15,967
Amounts owed by group undertakings		10,966	11,521
Other debtors		517	150
Deferred tax assets	13	2,194	2,786
Income tax asset	13	-	284
Defined benefit pension assets	20	43,146	28,412
Prepayments and accrued income		<u>780</u>	<u>733</u>
Total trade and other debtors		<u>73,630</u>	<u>59,853</u>

Debtors includes £44,464,725 (2017: £31,198,473) falling due after more than one year.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

There are no provisions for impairment included within the debtors balance.

Details of non-current trade and other debtors

£1,318,414 (2017: £2,785,953) of Deferred tax is classified as non current.

£43,146,311 (2017: £28,412,520) of Defined benefit pension asset is classified as non current.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

18 Creditors

	Note	2018 £ 000	2017 £ 000
Due within one year			
Trade creditors		9,167	8,567
Amounts owed to group undertakings		4,465	3,800
Taxation and social security		429	75
Income tax liability	13	100	-
Accruals and deferred income		2,599	2,958
		<u>16,760</u>	<u>15,400</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

19 Provisions for liabilities

	Deferred tax £ 000	Post retirement benefits £ 000	Dilapidation provision £ 000	Employer's NIC payable on share options £ 000
At 30 December 2017	4,830	792	296	134
Increase/(decrease) in existing provisions	<u>2,505</u>	<u>(68)</u>	<u>4</u>	<u>(13)</u>
At 28 December 2018	<u>7,335</u>	<u>724</u>	<u>300</u>	<u>121</u>
				Total £ 000
At 30 December 2017				6,052
Increase/(decrease) in existing provisions				<u>2,428</u>
At 28 December 2018				<u>8,480</u>

Provision has been made for post retirement benefits, based on an actuarial review of health and medical costs.

Provision has been made for the dilapidations relating to the London property.

Provision has been made for Employer's National Insurance Contributions payable on share options in accordance with UITF 25 'National Insurance Contributions on share option gains'.

The above provisions are not expected to be utilised in the short term.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £1,136,000 (2017: £1,161,000). There were no amounts outstanding (2017: nil) at the year end in relation to the defined contributions pension scheme.

Defined benefit pension schemes

The Company operates two funded defined benefit pension schemes providing benefits based on final pensionable salary; the IFF (GB) Pension and Life Assurance Plan and the Bush Boake Allen Pension Scheme. The assets of all schemes are held separately from those of the Company and are invested by independent fund managers.

The contributions to the defined benefit schemes are determined by a qualified independent actuary using the projected unit method.

The following amounts were measured in accordance with Financial Reporting Standard 102 (FRS102).

IFF (GB) Pension and Life Assurance Plan

The IFF (GB) Pension and Life Assurance Plan is a final salary defined benefit scheme. The scheme was closed to new entrants from 1 January 2003, and further, closed to future accrual with effect from 30 June 2014.

The date of the most recent comprehensive actuarial valuation was 31 December 2016. The scheme was updated to 28 December 2018 by a qualified independent actuary.

The Directors' best estimate of contributions to be paid in the year following 2018 is £1,500,000 (2017: £1,500,000).

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

	2018	2017
	£ 000	£ 000
Fair value of scheme assets	141,750	144,217
Present value of defined benefit obligation	<u>(117,723)</u>	<u>(129,690)</u>
Defined benefit pension scheme surplus	24,027	14,527
Other amounts recognised in the statement of financial position	<u>(4,085)</u>	<u>(2,470)</u>
Defined benefit pension scheme surplus net of deferred tax	<u>19,942</u>	<u>12,057</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Analysis of amounts charged to operating profit

	2018 £ 000	2017 £ 000
Administration expenses	405	457
Past service cost	646	-
Total operating charge	1,051	457

Analysis of amounts credited to finance (costs)/income

	2018 £ 000	2017 £ 000
Interest on Plan liabilities	3,083	3,520
Interest on Plan assets	(3,516)	(3,355)
Total expense	(433)	165

Analysis of amounts recognised in statement of comprehensive income

	2018 £ 000	2017 £ 000
Return on plan assets in excess of interest income	(2,240)	8,224
Experience gains arising on the Plan liabilities	1,266	1,830
Changes in assumptions underlying the present value of the Plan liabilities	9,187	6,928
Actuarial gains recognised in the statement of comprehensive income	8,213	16,982

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Difference between the expected and actual return on Plan assets

	2018	2017	2016	2015
Amount (£ 000)	(2,240)	8,224	15,399	(2,062)
Percentage of Plan assets	(1.6%)	5.7%	11.8%	(1.8%)

Experience gains on Plan liabilities

Amount (£ 000)	1,266	1,830	4,799	1,790
Percentage of the present value of the Plan liabilities	1.1%	1.4%	3.4%	1.5%

Total amount recognised in the statement of comprehensive income

Amount (£ 000)	8,213	16,982	(10,403)	291
Percentage of present value of the Plan liabilities	7.0%	13.1%	(7.4%)	0.2%

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income is £56,431,469 (2017: £48,217,931).

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2018 £ 000
Present value at start of year	129,690
Past service cost	646
Interest cost	3,083
Actuarial gains and losses	(10,453)
Benefits paid	(5,243)
Present value at end of year	<u>117,723</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2018 £ 000
Fair value at start of year	144,217
Interest income	3,516
Return on plan assets, excluding amounts included in interest income/(expense)	(2,240)
Employer contributions	1,905
Benefits paid	(5,243)
Administration expenses	(405)
Fair value at end of year	<u>141,750</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Cash and cash equivalents	2,981	4,112
Equity instruments	38,743	63,786
Property	13,397	10,399
Corporate bonds indexed - Linked Gilts	17,206	24,835
Hedge fund	8,551	12,941
Bonds	<u>60,872</u>	<u>28,144</u>

Return on scheme assets

	2018 £ 000	2017 £ 000
Return on scheme assets	<u>1,276</u>	<u>11,578</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	2018 %	2017 %
Discount rate	2.96	2.47
Future pension increases	3.00	3.00
Inflation (RPI)	3.30	3.20
Inflation (CPI)	<u>2.30</u>	<u>2.20</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	23.20	23.30
Current UK pensioners at retirement age - female	25.40	25.50
Future UK pensioners at retirement age - male	24.90	25.00
Future UK pensioners at retirement age - female	<u>26.90</u>	<u>27.00</u>

Bush Boake Allen Pension Scheme

The Bush Boake Allen Pension scheme is a final salary scheme which was closed to further accrual in October 2003.

The date of the most recent comprehensive actuarial valuation was 31 December 2016. The scheme was updated to 28 December 2018 by a qualified independent actuary.

The Directors' best estimate of contributions to be paid in the year following 2017 is £1,558,500 (2017: £1,558,500).

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

	2018 £ 000	2017 £ 000
Fair value of scheme assets	191,498	202,465
Present value of defined benefit obligation	<u>(172,379)</u>	<u>(188,579)</u>
Defined benefit pension scheme surplus	19,119	13,886
Other amounts recognised in the statement of financial position	<u>(3,250)</u>	<u>(2,361)</u>
Defined benefit pension scheme surplus net of deferred tax	<u>15,869</u>	<u>11,525</u>

Analysis of amounts charged to operating profit

	2018 £ 000	2017 £ 000
Administration expenses	722	563
Past service cost	<u>1,368</u>	<u>-</u>
Total operating charge	<u>2,090</u>	<u>563</u>

Analysis of amounts credited to finance income

	2018 £ 000	2017 £ 000
Interest on Plan liabilities	4,543	4,847
Interest on Plan assets	<u>(4,905)</u>	<u>(4,917)</u>
Total income	<u>(362)</u>	<u>(70)</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Analysis of amounts recognised in statement of comprehensive income

	2018 £ 000	2017 £ 000
Actual return less expected return on Plan assets	(6,619)	5,663
Gains/(losses) arising on the Plan liabilities	11,299	(233)
Actuarial gains recognised in the statement of comprehensive income	4,680	5,430

Difference between the expected and actual return on Plan assets

	2018	2017	2016	2015
Amount (£ 000)	(6,619)	5,663	23,310	(9,179)
Percentage of Plan assets	(3.5%)	2.8%	12.0%	(5.4%)

Experience gains/(losses) on Plan liabilities

Amount (£ 000)	11,299	(233)	(32,656)	514
Percentage of the present value of the Plan liabilities	6.6%	(0.1%)	(16.6)%	0.3%

Total actuarial gains/(losses) on obligation

Amount (£ 000)	11,299	(233)	(32,656)	4,196
Percentage of the present value of the Plan liabilities	6.6%	(0.1%)	(16.6)%	2.5%

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2018 £ 000
Present value at start of year	188,579
Interest cost	4,543
Actuarial gains and losses	(11,299)
Expenses incurred by the scheme	722
Benefits paid	(11,534)
Plan amendments	1,368
Present value at end of year	172,379

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2018 £ 000
Fair value at start of year	202,465
Interest income	4,905
Return on plan assets, excluding amounts included in interest income/(expense)	(6,619)
Employer contributions	2,281
Benefits paid	<u>(11,534)</u>
Fair value at end of year	<u>191,498</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Cash and cash equivalents	1,341	772
Equity instruments	15,611	87,041
Property	542	782
Corporate bonds indexed - Linked Gilts	52,448	5,059
Hedge fund	98,589	106,806
Bonds	<u>22,967</u>	<u>2,005</u>

Return on scheme assets

	2018 £ 000	2017 £ 000
Return on scheme assets	<u>(1,714)</u>	<u>10,580</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	2018 %	2017 %
Discount rate	2.95	2.48
Future pension increases	3.20	3.05
Inflation (RPI)	3.30	3.20
Inflation (CPI)	<u>2.30</u>	<u>2.20</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

20 Pension and other schemes (continued)

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	22.70	22.60
Current UK pensioners at retirement age - female	25.10	25.00
Future UK pensioners at retirement age - male	24.00	24.40
Future UK pensioners at retirement age - female	<u>25.70</u>	<u>26.00</u>

Post retirement benefits

The Company provides health care benefits to certain retired employees. This scheme has now been discontinued but still applies to retired members. Provision has been made for the liability of these schemes on a basis similar to that used to determine residual defined benefit pension liabilities. The principal assumptions used in determining the required provisions are an interest rate 4.3% per annum and medical costs inflation of 3.3% pa. The most recent actuarial valuation identified a deficit, which has been provided for.

21 Called up Share capital

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>689</u>	<u>689</u>	<u>689</u>	<u>689</u>

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

22 Reserves

Called up share capital

Represents the nominal value of shares that have been issued.

Share premium account

Includes premiums received on issues of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Other reserves

Represents the provision for share based payments.

Profit and loss account

Includes all current and prior year retained profits and losses.

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Retained earnings £ 000	Total £ 000
Remeasurement gain/loss on defined benefit pension schemes	<u>10,701</u>	<u>10,701</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Retained earnings £ 000	Total £ 000
Remeasurement gain/loss on defined benefit pension schemes	<u>18,602</u>	<u>18,602</u>

23 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2018 £ 000	2017 £ 000
Not later than one year	573	631
Later than one year and not later than five years	1,082	1,017
Later than five years	<u>-</u>	<u>233</u>
	<u>1,655</u>	<u>1,881</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £792,198 (2017 - £886,971).

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

24 Share-based payments

Restricted Stock Units

Scheme details and movements

International Flavors & Fragrances Inc. operates a Restricted Stock Unit (RSU) plan under which senior management and other key employees, including employees of International Flavours & Fragrances I.F.F. (Great Britain) Limited, may be granted equity-based awards. Vesting of the RSUs is solely time-based at which point they become unrestricted stock units and the vesting period is primarily three years from the date of grant. There are no performance conditions attached to these instruments and no consideration is payable by the employee. RSUs are however subject to forfeiture if certain employment criteria are not met. The fair value of RSU awards granted has been estimated on the date of grant using the Black-Scholes option pricing model.

Grant date	2018	2017
Share price at grant date	\$140.10	\$138.83
Vesting period and expected life (years)	3	3
Expected volatility	22.5%	22.5%
Risk-free interest rate	2.1%	2.1%
Fair value per RSU	\$140.10	\$138.83

The expected volatility is based on historical volatility. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life.

The movements in the number of share options during the year were as follows:

	2018 Number	2017 Number
Outstanding, start of year	11,526	13,138
Granted during the year	4,204	3,815
Forfeited during the year	(195)	(1,181)
Exercised during the year	(3,839)	(4,246)
Outstanding, end of year	<u>11,696</u>	<u>11,526</u>

RSU's do not have an exercise price and therefore the reconciliation above shows only the number of awards, with no corresponding weighted average exercise prices.

International Flavours & Fragrances I.F.F. (Great Britain) Limited

Notes to the Financial Statements for the Year Ended 28 December 2018 (continued)

25 Dividends

	2018 £ 000	2017 £ 000
Interim dividend of £13.07 (2017 - £14.51) per each Ordinary shares	<u>9,000</u>	<u>10,000</u>

26 Contingent liabilities

The Company has a contingent liability to its bankers in respect of customs bonds and guarantees, entered into in the normal course of business, amounting to £860,000 (2017: £860,000).

27 Parent and ultimate parent undertaking

The company's immediate parent is International Flavors & Fragrances (GB) Holdings Limited, incorporated in United Kingdom.

The ultimate parent undertaking and controlling party is International Flavors & Fragrances Inc., incorporated in United States of America, which is the parent of the smallest and largest group to consolidate these financial statements.

These financial statements are available upon request from Duddery Hill, Haverhill, Suffolk, CB9 8LG.

28 Non adjusting events after the financial period

Following the clarification from Leading Council (Andrew Short QC) dated 19 February 2019 on Barber v Guardian Royal Exchange Assurance Group ("Barber") case, Trustees of the IFF Pension Plan advised the Company on 24 May 2019 that it must change its administrative practise to allow members who joined the Plan prior to 1 February 1988 to take certain parts of their benefits unreduced from age 60 and make restitution payments to members whose benefits have been incorrectly reduced in the past. The directors of the company believes that this qualifies as amendment to the pension plan post year-end and therefore no adjustment is required as at 28 December 2018.

The scheme Actuary has confirmed that the financial impact cannot be estimated, due to the complexities of the calculation, before September 2019 however the amount is expected to be material.