

## Chief Executive's review

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Gilles Andrier, Chief Executive Officer

## Dear Shareholder

The year marked two milestones in Givaudan's recent history, as we celebrated our 10th anniversary as an independent Company on the Swiss stock exchange and successfully completed our three-year integration of Quest International.

Since our listing in June 2000, we have been able to continuously improve and transform the Company with the service and innovation capabilities provided to our customers. During the integration we accelerated this considerable improvement of our innovation capabilities, efficiency and organisation to continue our success in an even more rapidly changing marketplace.

The Group's 2010 financial results demonstrated that we met all the integration goals set out for this ambitious project. The most visible and measurable sign of this was the return to our pre-acquisition profitability as well as achieving the CHF 200 million annual savings target.



However, there is more to the integration than meeting financial targets. The benefits from our enhanced structure, combined with the talents of our enlarged employee base – applied to creating and producing fragrances and flavours that win in the market each day – have surpassed our expectations. These are important factors that will continue to make us successful in a dynamic marketplace.

By generating our strongest sales and returning to our pre-acquisition profitability level, the 2010 results are a sign of Givaudan's ability to successfully leverage the new and expanded platform. Group sales increased 8.9% in local currencies, propelled by an outstanding sales performance in the developing markets. The continued rise in income levels in developing countries, increasing the number of consumers who use flavoured and fragranced products, led to a 12.5% rise in sales in these markets.

The EBITDA margin reached the 22.7% mark we set ourselves three years ago and the net profit during the reporting year under review increased by 71% compared to 2009.

The Company continued with the integration of its supply chain in order to establish the best-in-class and industry-leading supply organisation. The announced closure of our fragrance compounding site in Argenteuil, France was completed in October. Our commitment to further expand our position in developing markets was underlined by the announcement to build a best-in-class savoury flavours production facility in Hungary, close to the fast-growing Eastern European markets. In São Paulo, we inaugurated our regional Fragrance Creative Centre, serving the home market of Brazil and the other fast-growing markets of Latin America.

Givaudan's strong innovation capabilities were also recognised by our industry. In 2010, our consumer understanding programme Miriad® 2.0 won the FIFI® Technological Breakthrough of the Year for Fragrance Creation and Formulation award.

The sustainability of our products, our Company and the communities in which we operate is an important element of our growth strategy. As part of the continued expansion of our sustainable raw materials sourcing strategy, we made new commitments in Laos and Madagascar. In Laos, where we sustainably source benzoin, a raw material in our perfumery activities, we opened as part of these commitments a second school for 120 students aged 10-14.

In our comprehensive Sustainability programme, progress during the year included establishing eco-efficiency targets for 2020. Detailed progress will be presented in our second Sustainability Report which will be published in March 2011.

As a global Company operating in over 45 countries and more than 80 locations, many of which have 15 or more nationalities working together, diversity has always been important to us. Indeed, much of our success has been founded on understanding and appreciating the diversity of our employees and, in turn, the markets in which we operate. This commitment has now been defined in a global diversity policy.

5.2%

Underlying sales  
CAGR, twice market  
growth rate

The global roll-out of our new SAP-based enterprise management system continues smoothly. During the year, the Fragrance and the Finance organisations in North America and all sites in Spain and Latin America went live. Our production and other systems such as finance and customer service now run with SAP software, and 1,360 new users were brought online, a record number for the year. This brought the total number of users in the Company to 4,700, or 70% of the targeted total.

The considerable change the Company has undergone provided us with an opportunity to align our brand. 'Engaging the Senses', our new brand positioning and tagline, is the most visible sign of this change and commitment to what we want to achieve every day.

While our industry leadership today stems from a rich legacy of the past, it is important to look ahead and ensure we capitalise on the numerous opportunities ahead, and so 2010 was also a time of asking 'what's next?'

At the beginning of the year we started to develop a five-year strategy, including ambitious targets. The result was communicated in August and we have a clear plan and roadmap to continue the success of the last ten years.

The strategy is built around five key points, which are explained in more detail later in this report:

- Leverage our unique position in the fast-growing developing markets, which already represent approximately 40% of our sales, we expect this share to reach 50% by 2015.
- Deliver consumer-relevant solutions driven by Givaudan's unique innovation platform which is backed by an industry-leading research & development investment of over CHF 300 million per year.
- Capture a significant share of the expanding Health and Wellness market opportunity for Flavours by capitalising on our technology innovation portfolio under our TasteSolutions® programme.
- Expand Givaudan's sustainable raw material sourcing strategy, with a focus on naturals, by leveraging the Company's unique knowledge and heritage.
- Build on the strategic partnerships with our main customers, developing our presence with accounts or product categories where we are currently under-represented relative to Givaudan's overall leadership position.

These strategic areas will guide all our future activities. Sustainability, which is already an integral part of the way we do business, will continue to be a main focus.

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Givaudan started as an independent Company ten years ago. Much has been achieved and the Company has proven its capacity to be a trusted and preferred partner for our customers in helping them develop the best fragrance and flavour solutions for their final products. By applying a consistent strategy and vision, we have expanded our leadership and changed the dynamics of our industry. I would like to thank all our employees worldwide for this achievement.

During the three-year integration period and in the adverse economic environment of 2009, we proved we are an agile Company, capable of quickly adapting to changing circumstances. The daily commitment and hard work of our people around the globe gives me confidence in our ability to operate in an environment that will change even more rapidly, with continued macroeconomic and geopolitical uncertainties.

We are receiving mixed signals about the sustained strength of the global economic recovery we saw in 2010. In light of this, we will evaluate additional ways of driving competitiveness in 2011 and over the long term.

In 2011, we enter the next era of growth for our business. Over the next five years, the overall objective is to grow organically between 4.5% and 5.5% per annum, assuming a market growth of 2-3%, and to continue on the path of market share gains.

By delivering on the Company's growth strategy outlined in this report, Givaudan expects to outgrow the underlying market and continue to achieve its industry-leading EBITDA margin while improving its annual free cash flow to between 14% and 16% of sales by 2015.

Givaudan confirms its intention to return above 60% of the Company's free cash flow to shareholders once the targeted leverage ratio – defined as net debt, divided by net debt plus equity – of 25% has been reached.

We have a challenging agenda ahead but I am confident that we will continue to build on and expand our distinct position in our industry.



Gilles Andrier CEO



**Streetview, Brazil**  
One of Givaudan's key developing markets