Compensation report

Givaudan aims to attract, motivate and retain the highest calibre of professional and executive talent to sustain its leadership position within the fragrances and flavours industry. The Company's compensation policies are an essential component of this strategy, as well as a key driver of organisational performance.

Compensation governance

The Compensation Committee of the Board of Directors consists of three non-executive members of the Board, chaired by André Hoffmann. The Chairman of the Board of Director, in an advisory capacity, as well as the CEO, are regularly invited to Compensation Committee meetings. The CEO does not participate in discussions regarding his own compensation.

The Compensation Committee regularly reviews and approves Company-wide compensation policies and programmes. This includes annual base salary positioning, annual incentive plans, share-based long-term incentive plans as well as benefits policies. The Compensation Committee is also responsible for reviewing and approving the individual compensation and benefits of each Executive Committee member as well as recommending the overall compensation for the Board of Directors.

The Compensation Committee meets two to three times a year. It utilises independent external consultants to benchmark the compensation of Executive Committee members.

Compensation principles

Givaudan compensation programmes are based on the following principles:

- **Pay for performance:** employees are rewarded for their contribution to business results. This is achieved through the variable pay plans described below.
- **External competitiveness:** total compensation positioning should enable Givaudan to attract and retain highly talented individuals critical to its success.
- **Internal consistency and fairness:** internal salary scales reflect job level, job function and geographic market.
- **Alignment of interests:** Givaudan seeks to align management and shareholders' interests by rewarding long-term value creation through share-based programmes.

Givaudan's total compensation offering is composed of the following elements:

- **Base salary:** base salary is regularly benchmarked in each location and pay scales are reviewed annually according to local market evolution. As a general rule, pay scales are built around market median.
- **Profit Sharing Plan:** non-management employees participate in the global Profit Sharing Plan. Payouts are based on yearly evolution of Group EBITDA (at comparable basis).
- **Annual Incentive Plan:** this plan covers all managers and executives globally. It rewards participants for the achievement of financial targets and other individual objectives.
- **Long Term Incentive Plan:** the LTIP links selected executives and key employees to the evolution of the Givaudan share price through share option and/or restricted share unit awards.
- **Performance Share Plan:** participation in the Performance Share Plan is restricted to approximately 50 senior executives. This plan has a five-year performance period (2008-2012). Vesting of performance shares is conditional upon the economic value generated over the performance period.
- **Benefits (indirect compensation):** benefit plans seek to address current and future security needs of employees. These generally include retirement, health, death and disability benefits. Benefits-in-kind such as Company vehicles are offered to certain employees according to local market practice.

As is apparent from the chart below, every Givaudan employee is linked to Company performance through cash-based and/or share-based variable pay plans.

The Annual Incentive Plan, the Long Term Incentive Plan and the Performance Share Plan are described in more detail in the next section.

Givaudan compensation architecture

Pay component	Targeted population	Approximate number of participants
Base salary	All employees	8,600
Profit Sharing Plan	Non-management employees	6,100
Annual Incentive Plan	Managers and executives	2,500
Long Term Incentive Plan	Executives and key employees	270
Performance Share Plan	Senior executives	50

Compensation of Givaudan executives

The compensation of Givaudan executives, in terms of both structure and level, is regularly benchmarked against individuals in similar positions within listed European companies. This comparative group of companies are similar in size and have a significant international presence in the fragrance and flavour or in related industries (e.g. consumer products, food and beverage, specialty chemicals). All benchmarking activity is performed by independent external consultants.

Givaudan's executive compensation targets base pay at the market median. Executives have the opportunity to be rewarded with above median pay for sustained outstanding performance through various variable compensation components. These variable elements reflect achievements against quantitative targets established by the Board of Directors, as well as the contribution and leadership qualities of individual executives. Variable compensation represents a significant portion of an executive's total compensation. The weight of variable compensation increases with level of responsibility and impact of the position on Company results.

The total compensation of Givaudan executives consists of direct and indirect compensation components.

- Direct compensation is composed of base salary, annual incentive and share-based components.
- Indirect compensation includes retirement coverage, health benefits, death and disability protection as well as certain benefits-in-kind according to local market practice.

Direct compensation components are described below.

Base salary

Base salary adjustments are based primarily on market evolution, taking into consideration the executive's performance and contribution to Company results. Salary adjustments for Executive Committee members are decided by the Compensation Committee.

Annual Incentive Plan

The Annual Incentive Plan is designed to reward executives and managers for the achievement of annual operational targets.

Annual targets for Executive Committee members are set by the Board of Directors upon recommendation by the Compensation Committee. For 2010, these targets and their respective weights were as follows:

- Sales Growth (local currencies): 50%
- Operating Return On Sales (OROS): 50%

For the purpose of the Annual Incentive Plan, OROS is defined as Operating Income (excluding exceptional items), expressed as a percentage of Sales.

Achievements against these targets are reviewed and approved by the Compensation Committee.

Annual incentive payouts for lower level executives and managers are based on a mix of financial objectives cascaded from Givaudan Group targets and qualitative objectives addressing key initiatives and/or process improvements.

Expressed as a percentage of base salary, annual incentives at target were the following in 2010:

- Chief Executive Officer: 80%
- Chief Financial Officer and Division Presidents: 60%
- Global Head of Human Resources and Global Head of Information Technology: 50%
- Division Management Committee members: 35%-50%
- Other executives and managers: 10%-35%

Based on the performance achievements, incentive payouts may vary between 0% and a cap of 200% of target incentive.

Long Term Incentive Plan

A new design for the Givaudan Long Term Incentive Plan (LTIP) was approved by the Board of Directors on 25 March 2009.

Until 2008, the Givaudan LTIP was delivered in the form of stock options.

As from 2009, the LTIP gives participants a choice as to how they receive their awards:

- 100% of award value in stock options
- 100% of award value in restricted share units (RSUs)
- 50% of award value in stock options and 50% in RSUs

These three alternatives have approximately equal values at grant and are designed to address the various financial situations, personal circumstances and risk profiles of LTIP participants. The Company believes that offering participants a choice enhances the perceived value of the Givaudan LTIP, and therefore its effectiveness in attracting, retaining and motivating key talent.

The total grant value of the LTIP awards is approved each year by the Board of Directors. Participation is limited to approximately 3% of the employee population, including senior executives and key contributors. The individual grants to Executive Committee members are reviewed and approved annually by the Compensation Committee.

Both stock options and RSUs link executive compensation to shareholder value creation as reflected in the evolution of Givaudan's share price.

The main characteristics of stock options and RSUs are described below. More details can be found in the 'Share-Based Payments' section of the 2010 Financial Report.

Stock options

Stock options have a vesting period of two years and expire after five years.

As a principle, the strike price for the options is established by the Board of Directors at a level that is higher than the market value of the Givaudan share at grant (out-of-the-money options). The underlying market value at grant is the average price of the Givaudan share in the two weeks following the publication of the annual results.

The maximum number of options awarded each year (with annual issuance of call warrants on the Swiss stock exchange) and the option parameters are approved by the Board of Directors.

Restricted Share Units

RSUs give participants the right to receive a specific number of Givaudan shares (or a cash equivalent, where securities laws prevent the offering of Givaudan securities to employees) at the end of a vesting period of three years, subject to continued employment with the Company.

Participants have no shareholder's rights during the vesting period, i.e. they do not receive dividends and have no voting rights until RSUs are converted into Givaudan shares.

After the vesting period has elapsed, shares can be held or sold by the participant with no restriction except for applicable blackout periods.

Performance Share Plan

The introduction of a Performance Share Plan (PSP) was approved by the Board of Directors on 30 November 2007. The PSP is designed to reward executives who significantly impact long-term Company performance. Fifty-two senior executives were awarded performance shares in 2008. Performance shares will vest on 1 March 2013, conditional upon the economic value generation over the five-year period. The economic value generation will be measured by cumulative EBITDA over the five-year period, adjusted for the utilisation of capital.

The actual number of shares to vest at the end of the five-year performance period may vary between 0% and a maximum of 150% of the number of performance shares granted, based upon the performance achievement. Thirty thousand performance shares were reserved for the plan over the five-year period.

Performance shares are granted only once in respect of the five-year performance period.