Financial review

in millions of Swiss francs, except for per share data	2010	2009
Sales	**4,239**	**3,959**
Gross profit	**1,956**	**1,780**
as % of sales	46.1%	45.0%
EBITDA at comparable basis[a, b]	**963**	**820**
as % of sales	22.7%	20.7%
EBITDA[a]	**887**	**758**
as % of sales	20.9%	19.1%
Operating income at comparable basis[b]	**655**	**525**
as % of sales	15.5%	13.3%
Operating income	**556**	**460**
as % of sales	13.1%	11.6%
Income attributable to equity holders of the parent	**340**	**199**
as % of sales	8.0%	5.0%
Earnings per share – basic (CHF)[c]	**37.87**	**25.07**
Earnings per share – diluted (CHF)[c]	**37.63**	**24.97**
Operating cash flow	**730**	**738**
as % of sales	17.2%	18.6%

a) EBITDA: **E**arnings **B**efore **I**nterest (and other financial income (expense), net), **T**ax, **D**epreciation and **A**mortisation. This corresponds to operating income before depreciation, amortisation and impairment of long-lived assets and impairment on joint ventures.

b) EBITDA at comparable basis excludes restructuring expenses. Operating income at comparable basis excludes restructuring expenses and impairment of long-lived assets and impairment on joint ventures.

c) The issuance of 736,785 shares in 2010 related to MCS conversion decreased the EPS.

in millions of Swiss francs, except for employee data	31 December 2010	31 December 2009
Total assets	6,923	7,083
Total liabilities	3,477	4,271
Total equity	3,446	2,812
Number of employees	8,618	8,501

Foreign exchange rates

Foreign currency to Swiss francs exchange rates	ISO code	Units	31 Dec 2010	Average 2010	31 Dec 2009	Average 2009	31 Dec 2008	Average 2008
Dollar	USD	1	0.93	1.04	1.04	1.08	1.07	1.08
Euro	EUR	1	1.25	1.38	1.48	1.51	1.49	1.59
Pound	GBP	1	1.46	1.61	1.67	1.69	1.56	2.00
Yen	JPY	100	1.15	1.19	1.11	1.16	1.18	1.05

Sales

In 2010, Givaudan Group sales totalled CHF 4,239 million, an increase of 8.9% in local currencies and 7.1% in Swiss francs compared to the previous year. Sales of the Fragrance Division were CHF 1,988 million, an increase of 10.5% in local currencies and 9.0% in Swiss francs. Sales of the Flavour Division were CHF 2,251 million, an increase of 7.5% in local currencies and 5.4% in Swiss francs compared to the previous year.

Operating performance

Gross margin

The gross profit margin increased to 46.1% from 45.0% as a result of higher volumes, favourable product mix and relatively stable input costs.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

EBITDA increased to CHF 887 million in 2010 from CHF 758 million last year. On a comparable basis, excluding integration and restructuring expenses, EBITDA increased to CHF 963 million from CHF 820 million reported last year. The comparable EBITDA margin was 22.7% in 2010, compared to the 20.7% reported in 2009. Higher sales and gross margin, as well as tightly controlled operating expenses, all contributed to this result. When measured in local currency terms, EBITDA on a comparable basis increased by 18.4%.

Operating income

Operating income increased to CHF 556 million from CHF 460 million last year. On a comparable basis, excluding CHF 99 million of integration and restructuring costs, operating income increased to CHF 655 million in 2010 from CHF 525 million in 2009. The operating margin on a comparable basis increased to 15.5% in 2010 from 13.3% reported last year, mainly as a result of the higher sales and proportionally lower operating expenses. When measured in local currency terms, operating income on a comparable basis increased by 25.5%.

Financial performance

Financing costs were CHF 93 million in 2010, down from CHF 142 million in 2009. Other financial expenses, net of income, were CHF 26 million in 2010, versus CHF 51 million in 2009. In particular, the impairment charges incurred in the first half of 2009 were not repeated in 2010.

The Group's income taxes as a percentage of income before taxes were 22% in 2010, versus 25% in 2009.

Net income

Net income increased by 70.9% to CHF 340 million in 2010 from CHF 199 million in 2009. This represents 8.0% of sales in 2010, versus 5.0% in 2009. Basic earnings per share increased to CHF 37.87 in 2010 from CHF 25.07 in the previous year.

Cash flow

Givaudan delivered an operating cash flow of CHF 730 million, a reduction of CHF 8 million on 2009. The strong sales growth required a higher working capital but, as a percentage of sales, working capital remained stable.

Total net investments in property, plant and equipment were CHF 105 million, up from the CHF 85 million incurred in 2009, mainly driven by the investment in the new savoury flavours production facility in Hungary. Intangible asset additions were CHF 72 million in 2010, a significant portion of this investment being in the company's Enterprise Resource Planning (ERP) project based on SAP. Implementation was completed in the remainder of Europe, South America and North America (Fragrances), with the project focus now moving to North America (Flavours) and Asia. Operating cash flow after investments was CHF 553 million, down 6.1% versus the CHF 589 million recorded in 2009. Free cash flow, defined as operating cash flow after investments and interest paid, was CHF 437 million in 2010, down from CHF 459 million in 2009, mainly driven by the working capital requirements and higher investments in 2010. Free cash flow as a percentage of sales was 10.3%, compared to 11.6% in 2009.

Financial position

Givaudan's financial position remained solid at the end of December 2010. A strong operating performance was only dampened by pressure on working capital, although as a percentage of sales, working capital remained constant. Net debt at December 2010 was CHF 1,353 million, down from CHF 1,499 million (excluding the Mandatory Convertible Securities – MCS) at December 2009. In March 2010, MCS with a value of CHF 750 million matured and the Givaudan shares were delivered to holders of these securities. In total 736,785 new shares were delivered to holders of MCS, increasing the total number of outstanding shares to 9,233,586. At the end of December 2010 the leverage ratio (defined as net debt divided by net debt plus equity) was 28%, compared to 30% at the end of 2009.

Integration and restructuring

In 2010 Givaudan successfully completed the integration of Quest International, which started in 2007. The integration process was completed as planned and met previously communicated financial targets, transforming Givaudan into the leading player in the industry. Annual savings of CHF 230 million per year are being generated from the combined operations of the two companies, allowing the Group to achieve pre-acquisition profitability levels, and in particular an EBITDA margin in 2010 of 22.7%. Total integration costs were CHF 440 million.

In 2010 Givaudan announced the streamlining of its savoury manufacturing in the UK and Switzerland, as well as other efficiency programmes, and in the same year the Group incurred restructuring costs of CHF 27 million and impairments of CHF 10 million. Total costs of the restructuring programme are expected to be CHF 75 million, of which CHF 55 million are cash related. The restructuring is expected to be completed in 2011.

Dividend proposal

The Board of Directors of Givaudan will propose to the Annual General Meeting, on 24 March 2011, a cash dividend of CHF 21.50 per share for the financial year 2010. This is the 10th consecutive dividend increase in the past ten years, since Givaudan's listing at the Swiss stock exchange in 2000. The total amount of this dividend distribution will be made out of reserves for additional paid-in capital which Givaudan shows in its balance sheet as per the end of 2010. Pursuant to the new Swiss tax legislation, this dividend payment will not be subject to Swiss withholding tax and it will also not be subject to income tax on the level of the individual shareholders who hold the shares as part of their private assets and are resident in Switzerland for tax purposes.

Board succession planning

In order to facilitate a smooth Board succession planning over the next years, the Board of Directors will propose to the Annual General Meeting, two changes to the Articles of Incorporation, allowing flexible terms of office between one and three years and allowing to increase the number of Board members from seven to a maximum of nine.

The Board will propose the re-election of Prof Henner Schierenbeck for a term of one year. He will then have served for twelve years as a Board member and will no longer stand for re-election. In addition, Ms Lilian Fossum Biner, a Swedish national, will be proposed as a new member for a term of three years. Ms Biner is a Board member of two companies listed in Sweden, Oriflame Cosmetics SA and RNB, Retail and Brands AB.

Short-term outlook

Given the recent sharp increase in some key raw material prices towards the end of 2010, the company expects an overall strong raw material price increase in 2011. Givaudan will work in close collaboration with its customers to make the necessary adaptation of its prices.

Mid-term guidance

Mid-term, 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 over the next five years.

By delivering on the company's five-pillar growth strategy – emerging markets, Health and Wellness as well as market share gains with targeted customers and segments – Givaudan expects to outgrow the underlying market and to 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.