Givaudan
Leading Sensory Innovation

# Financial Report 2005

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# Financial Review

| *in millions of Swiss francs, except for share data* | 2005 | Restated[a] 2004 | Reported[a] 2004 |
|---|---|---|---|
| Sales | 2,778 | 2,680 | 2,680 |
| Gross profit | 1,359 | 1,278 | 1,280 |
| *as % of sales* | *48.9%* | *47.7%* | *47.8%* |
| EBITDA[b] | 640 | 584 | 588 |
| *as % of sales* | *23.0%* | *21.8%* | *21.9%* |
| Operating profit at comparable basis[c] | 534 | 501 | 505 |
| *as % of sales* | *19.2%* | *18.7%* | *18.8%* |
| Operating profit | 513 | 480 | 484 |
| *as % of sales* | *18.5%* | *17.9%* | *18.1%* |
| Result attributable to equity holders of the parent | 406 | 337 | 350 |
| *as % of sales* | *14.6%* | *12.6%* | *13.1%* |
| Earnings per share – basic (CHF) | 56.57 | 44.64 | 46.36 |
| Earnings per share – diluted (CHF) | 56.17 | 44.31 | 46.02 |
| Operating cash flow | 502 | 586 | 586 |
| *as % of sales* | *18.1%* | *21.9%* | *21.9%* |

a) *The Group early adopted IFRS3 "Business Combinations", IAS36 "Impairment of Assets" (revised 2004) and IAS38 "Intangible Assets" (revised 2004) with effective date beginning on 1 January 2004. The Group adopted all other new and revised standards with effective date beginning on 1 January 2005. Comparative information is presented according to the transitional provisions set out in each relevant standard (see Note 2.22 of the consolidated financial statements).*

b) *EBITDA: Earnings Before Interest (and other financial income), Tax, Depreciation and Amortisation. This corresponds to operating profit before depreciation, amortisation and impairment of long-lived assets.*

c) *Operating profit at comparable basis compares the 2004 operating profit before restructuring costs with the 2005 operating profit excluding asset impairments.*

## Foreign exchange rates

| *Foreign currency to Swiss francs exchange rates* | ISO code | Units | 31 Dec 2005 | Average 2005 | 31 Dec 2004 | Average 2004 | 31 Dec 2003 |
|---|---|---|---|---|---|---|---|
| Dollar | USD | 1 | 1.32 | 1.25 | 1.14 | 1.24 | 1.24 |
| Euro | EUR | 1 | 1.56 | 1.55 | 1.55 | 1.54 | 1.56 |
| Pound | GBP | 1 | 2.26 | 2.26 | 2.18 | 2.28 | 2.21 |
| Yen | JPY | 100 | 1.11 | 1.13 | 1.11 | 1.15 | 1.16 |

With the publication of the 2005 Annual Report, we have decided to present the Financial Section as a separate Financial Report in English. As a consequence of new and changing accounting standards, which require detailed financial information and disclosures, the volume of the Financial Report is increasing. By presenting the financial details in a separate booklet, we hope to make the reading of the Financial Report easier.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have revised and issued a large number of standards and interpretations with effective date 1 January 2005. Givaudan has incorporated those changes and is consequently presenting as required restated 2004 financial statements in this report. Details of the changes in accounting policies, as well as a reconciliation between reported and restated 2004 financial statements, are fully described in Note 2.22.

### Operating Performance

In an increasingly challenging environment, Givaudan again delivered a solid operating performance in 2005, particularly when compared with the strong results of the previous year.

Sales increased by 3.6 % in Swiss francs and 2.5 % in local currencies. It should be noted that both divisions continued the elimination of lower value-added ingredients from their respective product portfolios. Excluding this streamlining effect, sales increased by 3.5% in local currencies.

Gross profit improved by 6% to CHF 1,359 million representing a gross margin of 48.9% compared to 47.7% for the previous year. Despite several raw material cost increases, this improvement was possible due to efficiency gains, the completion of the margin improvement initiatives initiated two years ago and the positive impact of the European Flavour site consolidation.

Operating profit increased by 7% to CHF 513 million, in spite of CHF 21 million of asset impairments recognised in connection with site closures. On a comparable basis, excluding restructuring expenses in 2004 and asset impairments in 2005, the EBIT margin improved from 18.7% to 19.2%, while the EBITDA rose from 21.8% to 23.0%. These results confirm the Givaudan commitment to maintaining a strong operating profitability.

## Financial Performance

The global economic environment presented challenges as well as opportunities for Givaudan financial operations. The US dollar strengthened considerably during the year, requiring prudent management of currency exposures. Notwithstanding the strengthening of the US dollar, overall the average exchange rates of the key currencies remained at levels similar to those of the previous year.

Interest rates in Switzerland remained at low levels, offering the opportunity to issue in May 2005 a CHF 300 million straight bond at attractive terms. This transaction secured favourable long-term conditions in view of the repayment of the straight bond which matured on 29 December 2005. Interest expenses increased compared to the previous year, reflecting the higher average debt position during 2005.

Financial expenses, net of income, decreased by CHF 25 million to CHF 26 million, mainly due to net gains realised on the sale of marketable securities.

The average expected tax rate decreased from 20% in 2004 to 19%, as the result of careful monitoring of this position. However, the effective tax rate in 2005 reached 16%, due to a one time positive effect of CHF 13 million.

Net profit after taxes increased by 21% to CHF 406 million, representing 14.6% of sales. As a consequence of the net profit improvement and the lower average number of outstanding shares, earnings per share increased by 27% to CHF 56.57.

## Cash flow

Givaudan continued to deliver a sound operating cash flow of CHF 502 million, although not at the level of 2004. The decrease is due to the combined effect of an increase in working capital in 2005 and the exceptionally low taxes paid in 2004 (special tax credits and payment of some 2004 taxes in 2005). Total net investments of CHF 151 million remained stable, leading to an operating cash flow after investments of CHF 351 million.

During 2005, Givaudan returned a total of CHF 286 million in cash to its shareholders; CHF 169 million in the form of share buy back and CHF 117 million in the form of dividends.

## Balance sheet

The Givaudan balance sheet remains strong. At the end of 2005, the equity ratio reached 54% of total assets, up from 46% at year end 2004. Net debt increased slightly from CHF 541 million to CHF 618 million. Cash and marketable securities decreased, mainly as a consequence of the share buy back programmes and the dividend payment, whereas total debt decreased as a consequence of the final redemption of the US dollar convertible bond. The debt maturity profile changed towards higher long term debt, as a result of the refinancing of the CHF 300 million straight bond redeemed on 29 December 2005.

## Share Buy Back Programme

At the end of April 2005, Givaudan completed its second share buy back programme. Consequently, the cancellation of the remaining 200,000 shares will be proposed to the Annual General Meeting of 7 April 2006. A third share buy back programme, targeted at repurchasing an additional 720,000 shares, was launched on 6 May 2005. Under this programme 34,800 shares have been bought back by 31 December 2005. On 17 February 2006, the Board of Directors decided to extend this programme by one year until 31 May 2007.

## Dividend

The Board of Directors will propose to the Annual General Meeting of 7 April 2006 the payment of an ordinary dividend of CHF 17.60 per share. This represents a 80% increase of the ordinary dividend per share or a 8% increase of the combined ordinary and extraordinary dividends per share of last year.

# Consolidated Financial Statements

## Consolidated Income Statement for the Year Ended 31 December

| *in millions of Swiss francs, except for share data* | Note | 2005 | Restated[a] 2004 | Reported[a] 2004 |
|---|---|---|---|---|
| Sales | 5 | 2,778 | 2,680 | 2,680 |
| Cost of sales | | (1,419) | (1,402) | (1,400) |
| Gross profit | | 1,359 | 1,278 | 1,280 |
| *as % of sales* | | *48.9%* | *47.7%* | *47.8%* |
| Marketing, development and distribution expenses | 6 | (658) | (633) | (625) |
| Administration expenses | | (112) | (97) | (90) |
| Amortisation of intangible assets | 18 | (19) | (18) | (18) |
| Other operating income (expenses), net | 9 | (57) | (50) | (63) |
| Operating profit | | 513 | 480 | 484 |
| *as % of sales* | | *18.5%* | *17.9%* | *18.1%* |
| Financial income (expenses), net | 10 | (26) | (51) | (41) |
| Result before taxes | | 487 | 429 | 443 |
| Income taxes | 11 | (80) | (92) | (93) |
| ▶ Result for the period | | 407 | 337 | 350 |
| ▶ Attribution: | | 407 | 337 | 350 |
| Result attributable to minority interest | 12 | 1 | - | - |
| Result attributable to equity holders of the parent | | 406 | 337 | 350 |
| *as % of sales* | | *14.6%* | *12.6%* | *13.1%* |
| ▶ Earnings per share – basic (CHF) | 13 | 56.57 | 44.64 | 46.36 |
| ▶ Earnings per share – diluted (CHF) | 13 | 56.17 | 44.31 | 46.02 |

*a) The Group early adopted IFRS3 “Business Combinations”, IAS36 “Impairment of Assets” (revised 2004) and IAS38 “Intangible Assets” (revised 2004) with effective date beginning on 1 January 2004. The Group adopted all other new and revised standards with effective date beginning on 1 January 2005. Comparative information is presented according to the transitional provisions set out in each relevant standard (see Note 2.22 of the consolidated financial statements).*

## Consolidated Balance Sheet at 31 December

| *in millions of Swiss francs* | Note | 2005 | Restated[a] 2004 | Reported[a] 2004 |
|---|---|---|---|---|
| Cash and cash equivalents | | 289 | 459 | 459 |
| Available-for-sale financial assets | 14 | 285 | 318 | 318 |
| Accounts receivable – trade | 15 | 471 | 401 | 401 |
| Inventories | 16 | 548 | 458 | 458 |
| Current income tax assets | 11 | 12 | 26 | 26 |
| Trading financial instruments | 20 | 10 | 11 | 11 |
| Own equity instruments | 22 | 45 | 31 | |
| Other current assets | | 63 | 62 | 62 |
| Current assets | | 1,723 | 1,766 | 1,735 |
| Property, plant and equipment | 17 | 1,130 | 1,028 | 1,028 |
| Intangible assets | 18 | 1,369 | 1,288 | 1,288 |
| Deferred income tax assets | 11 | 110 | 91 | 91 |
| Other long-term assets | | 184 | 157 | 157 |
| Non-current assets | | 2,793 | 2,564 | 2,564 |
| ▶ Total assets | | 4,516 | 4,330 | 4,299 |
| Short-term debt | 19 | 190 | 492 | 492 |
| Provisions | 21 | 16 | 47 | 47 |
| Accounts payable – trade and others | | 191 | 161 | 161 |
| Current income tax liabilities | 11 | 43 | 51 | 51 |
| Trading financial instruments | 20 | 13 | 23 | 23 |
| Own equity instruments | 22 | 144 | 314 | |
| Accrued and other current liabilities | | 166 | 150 | 155 |
| Current liabilities | | 763 | 1,238 | 929 |
| Long-term debt | 19 | 1,002 | 826 | 826 |
| Provisions | 21 | 35 | 26 | 26 |
| Liabilities for post-employment benefits | 7 | 60 | 58 | 107 |
| Deferred income tax liabilities | 11 | 92 | 88 | 88 |
| Other non-current liabilities | | 127 | 106 | 58 |
| Non-current liabilities | | 1,316 | 1,104 | 1,105 |
| ▶ Total liabilities | | 2,079 | 2,342 | 2,034 |
| Share capital | 23 | 74 | 78 | 78 |
| Retained earnings and reserves | 23 | 3,010 | 3,003 | 3,119 |
| Own equity instruments | 22 | (318) | (664) | (385) |
| Fair value reserve for available-for-sale financial assets | | 18 | 13 | (105) |
| Equity component of exchangeable bond | | | 8 | 8 |
| Cumulative translation differences | | (349) | (451) | (451) |
| Total equity attributable to equity holders of the parent | | 2,435 | 1,987 | 2,264 |
| Minority interest | 12 | 2 | 1 | 1 |
| ▶ Equity | | 2,437 | 1,988 | 2,265 |
| ▶ Total liabilities and equity | | 4,516 | 4,330 | 4,299 |

*a) The Group early adopted IFRS3 “Business Combinations”, IAS36 “Impairment of Assets” (revised 2004) and IAS38 “Intangible Assets” (revised 2004) with effective date beginning on 1 January 2004. The Group adopted all other new and revised standards with effective date beginning on 1 January 2005. Comparative information is presented according to the transitional provisions set out in each relevant standard (see Note 2.22 the consolidated financial statements).*

## Consolidated Statement of Changes in Equity for the Year Ended 31 December

| *in millions of Swiss francs – 2005* | Note | Share Capital | Restricted retained earnings and reserves | Unrestricted retained earnings and reserves | Own equity instruments | Equity component of exchangeable bond | Fair value reserve for available-for-sale financial assets | Currency translation differences | Equity attributable to equity holders of the parent | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ▶ Balance at 31 December 2004 as reported | | 78 | 504 | 2,615 | (385) | 8 | (105) | (451) | 2,264 | 1 | 2,265 |
| Effect of the restatement | 2.22 | | | (116) | (279) | | 118 | | (277) | | (277) |
| ▶ Balance at 1 January 2005 as restated | | 78 | 504 | 2,499 | (664) | 8 | 13 | (451) | 1,987 | 1 | 1,988 |
| Movement on fair value for available-for-sale financial assets, net | | | | | | | 17 | | 17 | | 17 |
| Movement on deferred taxes on fair value adjustments | | | | | | | - | | - | | - |
| (Gain) loss on available-for-sale financial assets removed from equity and recognised in the income statement | | | | | | | (12) | | (12) | | (12) |
| Change in currency translation | | | | | | | - | 102 | 102 | | 102 |
| ▶ Net gains (losses) not recognised in the income statement | | | | | | | 5 | 102 | 107 | | 107 |
| Cancellation of shares | 23 | (4) | | (290) | 294 | | | | | | |
| Dividends paid | 23 | | | (117) | | | | | (117) | | (117) |
| Result for the period | | | | 406 | | | | | 406 | 1 | 407 |
| Transfer from restricted reserves | | | (231) | 231 | | | | | | | |
| Movement on own equity instruments, net | | | | 8 | 52 | (8) | | | 52 | | 52 |
| ▶ Net changes in other equity items | | (4) | (231) | 238 | 346 | (8) | | | 341 | 1 | 342 |
| ▶ Balance at 31 December 2005 | | 74 | 273 | 2,737 | (318) | | 18 | (349) | 2,435 | 2 | 2,437 |

| *in millions of Swiss francs – 2004* | Note | Share Capital | Restricted retained earnings and reserves | Unrestricted retained earnings and reserves | Own equity instruments | Equity component of exchangeable bond | Fair value reserve for available-for-sale financial assets | Currency translation differences | Equity attributable to equity holders of the parent | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ▶ Balance at 1 January 2004 as reported | | 80 | 139 | 2,871 | (9) | 10 | (115) | (391) | 2,585 | 1 | 2,586 |
| Effect of the restatement | 2.22 | | | (103) | (283) | | 103 | | (283) | | (283) |
| ▶ Balance at 1 January 2004 as restated | | 80 | 139 | 2,768 | (292) | 10 | (12) | (391) | 2,302 | 1 | 2,303 |
| Movement on fair value for available-for-sale financial assets, net (restated) | | | | | | | 23 | | 23 | | 23 |
| Movement on deferred taxes on fair value adjustments (restated) | | | | | | | - | | - | | - |
| (Gain) loss on available-for-sale financial assets removed from equity and recognised in the income statement (restated) | | | | | | | 2 | | 2 | | 2 |
| Change in currency translation | | | | | | | - | (60) | (60) | | (60) |
| ▶ Net gains (losses) not recognised in the income statement | | | | | | | 25 | (60) | (35) | | (35) |
| Cancellation of shares | 23 | (2) | | (125) | 127 | | | | | | |
| Dividends paid | 23 | | | (118) | | | | | (118) | | (118) |
| Result for the period (restated) | 2.22 | | | 337 | | | | | 337 | | 337 |
| Transfer to restricted reserves | | | 365 | (365) | | | | | | | |
| Movement on own equity instruments, net (restated) | 2.22 | | | 2 | (499) | (2) | | | (499) | | (499) |
| ▶ Net changes in other equity items | | (2) | 365 | (269) | (372) | (2) | | | (280) | | (280) |
| ▶ Balance at 31 December 2004 as restated | | 78 | 504 | 2,499 | (664) | 8 | 13 | (451) | 1,987 | 1 | 1,988 |

## Consolidated Cash Flow Statement for the Year Ended 31 December

| *in millions of Swiss francs* | Note | 2005 | Restated [a] 2004 | Reported [a] 2004 |
|---|---|---|---|---|
| ▶ Cash flows from (for) operating activities | 25 | 502 | 586 | 586 |
| Proceeds from issue of straight bond | | 297 | | |
| Other increase (decrease) in long-term debt, net | | (28) | 180 | 180 |
| Repayment of straight bond | | (300) | | |
| Other increase (decrease) in short-term debt, net | | (16) | (46) | (46) |
| Interest paid | | (62) | (53) | (53) |
| Dividends paid | | (117) | (118) | (118) |
| Acquisition of own equity instruments, net | | (339) | (493) | (493) |
| Others, net | | 17 | 13 | 13 |
| ▶ Cash flows from (for) financing activities | | (548) | (517) | (517) |
| Purchase of property, plant and equipment and intangible assets | 17,18 | (161) | (149) | (149) |
| Proceeds from the disposal of property, plant and equipment and intangible assets | | 10 | 6 | 6 |
| Interest received | | 5 | 4 | 4 |
| Dividends received | | 1 | 4 | 4 |
| Purchase and sale of available-for-sale financial assets, net | | 67 | 22 | 22 |
| Purchase and sale of trading financial instruments, net | | (36) | 30 | 30 |
| Others, net | | (24) | (20) | (20) |
| ▶ Cash flows from (for) investing activities | | (138) | (103) | (103) |
| Net effect of currency translation on cash and cash equivalents | | 14 | (1) | (1) |
| Increase (decrease) in cash and cash equivalents | | (170) | (35) | (35) |
| Cash and cash equivalents at the beginning of the year | | 459 | 494 | 494 |
| ▶ Cash and cash equivalents at the end of the year | | 289 | 459 | 459 |

*a) The Group early adopted IFRS3 "Business Combinations", IAS36 "Impairment of Assets" (revised 2004) and IAS38 "Intangible Assets" (revised 2004) with effective date beginning on 1 January 2004. The Group adopted all other new and revised standards with effective date beginning on 1 January 2005. Comparative information is presented according to the transitional provisions set out in each relevant standard (see Note 2.22 of the consolidated financial statements).*

# Notes to the Consolidated Financial Statements

## 1. Group organisation

Givaudan SA and its subsidiaries (hereafter 'the Group'), operate under the name Givaudan. Givaudan SA is a limited liability company incorporated and domiciled in Switzerland. The Group is headquartered in Vernier, near Geneva, Switzerland.

Givaudan is a leading supplier of creative fragrance and flavour products to consumer goods industries. It operates in over 100 countries and has subsidiaries and branches in more than 40 countries. World-wide, it employs 5,924 people. A list of the principal Group companies is shown in Note 27 of the consolidated financial statements.

The Group is listed on the SWX Swiss Exchange.

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and trading financial instruments.

Givaudan SA's Board of Directors approved these consolidated financial statements on 17 February 2006.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are for the most part related to the estimated impairment of goodwill (see Note 18), to the calculation of the present value of defined benefit obligations (see Note 7), to the estimates of income taxes (see Note 11) and to the estimates of provisions (see Note 21). If, in the future, estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

In the preparation of these financial statements, the Group applied the same accounting principles and policies as applied in the 2004 annual financial statements, except for IFRS 2 (issued 2004) "Share-based Payment", IFRS 5 (issued 2004) "Non-current Assets Held for Sale and Discontinued Operations", IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors", IAS 10 (revised 2003) "Events after the Balance Sheet", IAS 16 (revised 2003) "Property, Plant and Equipment", IAS 17 (revised 2003) "Leases", IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates", IAS 24 (revised 2003) "Related Party Disclosures", IAS 27 (revised 2003) "Consolidated and Separate Financial Statements", IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation", IAS 33 (revised 2003) "Earnings per Share" and IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement", see Note 2.22 on Changes in accounting policies and IFRS.

### 2.2 Consolidation

The subsidiaries that are consolidated are those companies controlled, directly or indirectly, by Givaudan SA, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Thus, control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. Companies acquired during the year are consolidated from the date on which operating control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, shares issued and liabilities undertaken or assumed at the date of acquisition, plus any costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest and except for non-current assets (or disposal groups) that are classified as held for sale (see Note 2.15). The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances, income and expenses are eliminated.

### 2.3 Foreign currency valuation

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements are presented in Swiss francs, which is the Group's presentation currency.

Assets and liabilities of Group companies reporting in currencies other than Swiss francs (foreign entities) are translated into Swiss francs using year-end rates of exchange. Sales, costs, expenses, net income and cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average year and year-end exchange rates are taken directly to equity.

On the divestment of a foreign entity, the cumulative currency translation differences relating to that foreign entity are recognised in income as part of the gain or loss on divestment.

Exchange gains and losses arising in Group companies from the translation into their local functional currency of their financial assets and liabilities denominated in foreign currencies and from the settlement of foreign currency transactions are included in financial income (expenses), net.

### 2.4 Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

### 2.5 Sales and cost of sales

Sales represent amounts received and receivable for goods supplied and services rendered to customers after deducting volume discounts and sales taxes. Sales are recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, which is generally upon shipment of products. Cost of sales includes the corresponding direct production costs of goods manufactured and services rendered as well as related production overheads.

### 2.6 Research and product development costs

Research and product development costs are recognised as expenses as incurred since the criteria for their recognition as an asset are not met in the opinion of management.

### 2.7 Employee benefit costs

Wages, salaries, social security contributions, annual leave and paid sick leave, bonuses and non-monetary benefits are expensed in the year in which the associated services are rendered by the Group's employees.

#### Pension obligations

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, principally dependent on employees' years of service and remuneration at retirement. The asset and liability recognised in the balance sheet is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses, and past service costs. The present value of the defined benefit obligations and the related current service cost are calculated annually by independent actuaries using the projected unit credit method. This reflects the discounted expected future payment required to settle the obligation resulting from employee service in the current and prior periods. The future cash outflows incorporate actuarial assumptions primarily regarding the projected rates of remuneration growth, long-term expected rates of return on plan assets, and long-term indexation rates. Discount rates, used to determine the present value of the defined benefit obligation, are based on the market yields of high-quality corporate bonds in the country concerned. A portion, representing 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are allocated over the estimated average remaining working lives of employees. Where a plan is unfunded, a liability for the entire obligation is recorded in the balance sheet. Past service costs are amortised over the average period until the benefits become vested. Pension assets and liabilities in different defined benefit schemes are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administrated funds. The Group has no further payment obligations once the contributions have been made. The contributions are charged to the income statement in the year to which they relate.

### Other post-retirement obligations

Some Group companies provide certain post-retirement healthcare and life insurance benefits to their retirees, the entitlement to which is usually based on the employee remaining in service up to retirement age and completing a minimum service period. The expected costs of these benefits are accrued over the periods in which employees render service to the Group.

### 2.8 Share-based payment

The Group established share option plans to align the long-term interests of Group executives and members of the Board of Directors with the interests of the shareholders. Key executives are awarded a portion of their performance-related compensation either in equity-settled plans or in cash-settled share-based plans.

The *equity-settled plans* are established with call options which have Givaudan registered shares as underlying securities. Call options are set generally with a vesting period of two or three years, during which the options cannot be exercised or transferred. The Group has at its disposal either treasury shares or conditional share capital when the options are exercised. The cost of equity-settled instruments to be expensed, together with a corresponding increase in equity, over the vesting period is determined by reference to the market value of the options granted at the date of the grant. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. No market vesting conditions are involved. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation.

The *cash-settled* plans are established with options right units which provide a right to an executive to participate in the value development of Givaudan call options. Options right units, which may be only settled in cash, are set generally with a vesting period of two or three years, during which the right cannot be exercised. The liability of the cash-settled instruments, together with a corresponding adjustment in expenses, is measured, over the vesting period, initially and at balance sheet date until settled, at market value.

### 2.9 Taxation

Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the distribution of retained earnings within the Group. Other taxes not based on income, such as property and capital taxes, are included either in operating expenses or in financial expenses according to their nature.

Deferred income taxes are provided based on the balance sheet liability method, under which deferred tax consequences are recognised for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

### 2.10 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and time, call and current balances with banks and similar institutions. Bank overdrafts are shown within short-term debt in current liabilities on the balance sheet.

### 2.11 Financial Instruments

Financial assets are composed of debt and equity securities and are initially recorded at acquisition cost, including transaction costs. They are generally treated as available-for-sale financial assets; purchases and sales are accounted for on the settlement date. They are classified as current assets, unless they are expected to be realised beyond twelve months of the balance sheet date. At each period-end, for quoted financial assets, the book value is adjusted to the market value, the latter being calculated by reference to share exchange quoted selling prices at close of business on the balance sheet date, with a corresponding entry in equity. Monetary items, such as marketable debt securities, denominated in a foreign currency are adjusted for the effect of any change in exchange rates with unrealised gain or loss booked in the income statement. Realised gain or loss is recognised in the income statement upon disposal of available-for-sale financial assets or when determined to be impaired. Dividends and interest earned are included in the income statement as financial income.

At each period-end, non-quoted financial assets are re-valued at fair value based on prices given by reputable financial institutions or on the price of the latest transaction.

An available-for-sale financial asset is impaired when in management's opinion there is objective evidence that the estimated future recoverable amount is less than the carrying amount and when its market value is 20% or more below its original cost for a sustained six-month period. When an impairment loss has previously been recognised, further declines in value are recorded as an impairment loss in the income statement. The charge is recorded within financial income (expenses), net line of the consolidated income statement. Impairment losses recognised on equity instruments are not reversed.

Most derivative instruments are entered into for providing economic hedges. Generally, they do not qualify for hedge accounting according to IAS39 and are treated as held-for-trading financial instruments within the category financial asset or financial liability at fair value through profit or loss They are initially recorded at cost, excluding transaction costs. Purchases and sales are accounted for on the settlement date. At period-end, the derivatives are re-valued at fair value based on quoted market prices at the balance sheet date, with unrealised gain or loss booked in the income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with realised gain or loss booked in the income statement.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and when the host contract is not carried at fair value through profit or loss.

The proceeds of straight bonds and of private placements of debt issued are recognised at the proceeds received, net of transaction costs incurred. Any discount arising from the coupon rate, represented by the difference between the net proceeds and the redemption value, is amortised using the effective interest rate method and charged to interest expense over the life of the bond. They are de-recognised at redemption date.

The proceeds, net of expenses, of exchangeable bonds are accounted for by splitting the debt element and the embedded derivative option. The fair value of the liability portion is determined using a market interest rate for an equivalent straight bond; this amount is recorded as a non-current liability. The debt discount arising from the difference between the debt element at issuance and the par value is recognised using the cost method over the life of the bonds. The charge is recorded as interest expense in the income statement. The debt securities are de-recognised at the time of option exercise or at redemption date. The residual amount of the proceeds is allocated to the conversion option which is recognised and included in equity. The value of the conversion option is not changed in subsequent periods but will be reclassified to retained earnings at the time of conversion or at redemption date.

Debt is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Information on financial risk management of the Group is described in the Note 3. Detailed disclosures can be found in Notes 14, 19 and 20 to the consolidated financial statements.

### 2.12 Accounts receivable - trade

Trade receivables are carried at anticipated realisable value. An allowance is made for doubtful receivables based on a periodic review of all outstanding amounts. During the year in which they are identified, bad debts are written off. The charge is reported within marketing, development and distribution expenses of the consolidated income statement.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads but exclude borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### 2.14 Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Estimated useful lives of major classes of depreciable assets are as follows:

| | |
|---|---|
| Buildings and land improvements | 40 years |
| Machinery and equipment | 5-15 years |
| Office equipment | 3 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying values of plant and equipment are written down to their recoverable amount when the carrying value is greater than their estimated recoverable amount (see Note 2.18)

Repairs and maintenance costs are recognised as expenses as incurred.

Interest costs on borrowing to finance the purchase or construction of property, plant and equipment are recognised as expenses as incurred.

### 2.15 Non-current assets held for sale

Non-current assets may be a component of an entity, a disposal group or an individual non-current asset. They are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This situation is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged against such assets.

### 2.16 Leases

Leases of assets are classified as operating leases when all the risks and rewards of ownership of the assets are not transferred to the Group. Operating lease payments are charged in the consolidated income statement on a straight-line basis over the term of the lease.

When all the risks and rewards of ownership of the assets are transferred to the Group, the leases of assets are classified as finance leases. They are recognised assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a debt. Assets purchased under finance lease are depreciated in accordance with the Group policy. The interest charge is recorded over the lease term in financial income (expenses), net in the consolidated income statement. The Group has no significant finance leases.

### 2.17 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions is recorded in the balance sheet as an intangible asset. Goodwill is tested annually for impairment, or more frequently when there are indications of impairment, and carried at cost less accumulated impairment losses. Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign entity are generally recorded in the local currency at the effective date of the transaction and translated at year-end exchange rate.

Goodwill is allocated to each of the cash-generating units for the purpose of impairment testing. Those cash-generating units represent the Group's investment in each primary reporting segment.

Other intangibles assets such as intellectual property rights (consisting predominantly of know-how being inseparable processes, formulas and recipes) and process-oriented technology are initially recorded at historical cost and classified as intangible assets with finite useful lives. They are carried at cost and are amortised on a straight-line basis over their estimated economic useful lives. Internally generated intangible assets are not capitalised. Estimated useful lives of major classes of amortisable assets are as follows:

| | |
|---|---|
| Intellectual property rights | 20 years |
| Process-oriented technology | 15 years |

Intangible assets are derecognised when no future economic benefits are expected from the use of them or on disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount and are reported within other operating expenses, net in the consolidated income statement.

### 2.18 Impairment of long-lived assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the recoverable amount of an asset, being the higher of its net selling price and its value in use, is less than its carrying amount, then the carrying amount is reduced to the asset's recoverable value. This reduction is reported as an impairment loss within other operating income (expenses), net line of the consolidated income statement. Value in use is determined using estimated cash flows, generally over a five-year period, with extrapolating projections for subsequent years. These are discounted using an appropriate long-term interest rate.

### 2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation.

Restructuring provisions comprise lease termination penalties and employees termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group are not provided in advance.

### 2.20 Own equity instruments

Own equity instruments are own shares and derivatives on own shares. Purchases and sales are accounted for on the settlement date.

Purchases of own shares are recorded at acquisition cost including transaction costs as a deduction from equity. The original cost of acquisition, results from resale and other movements are reported as changes in equity, net. Treasury shares bought back for the purpose of cancellation are deducted from equity until the shares are cancelled. Treasury shares acquired by the execution of own equity instruments are recorded at the execution date market price.

The settlement and the contract in derivatives on own shares drive the category of the instruments. When the contract assumes the settlement is made by exchanging a fixed amount of cash for a fixed number of treasury shares, the contract is recorded in equity except for forward contract to buy and written puts which must be recorded as a financial liability. When the contract assumes the settlement either net in cash or net in treasury shares or in case of option in the settlement, the contract is recorded as derivatives. Equity instruments are recorded at acquisition cost including transaction costs in equity. Financial liability instruments are recognised at the net present value of the strike price of the derivative on own shares with the interest charge recorded over the life of the derivative in the line financial income (expenses), net of the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with realised gain or loss booked in equity. At period-end, derivative instruments are re-valued at fair value based on quoted market prices at the balance sheet date, with unrealised gain or loss booked in the line financial income (expenses), net of the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with realised gain or loss booked in the line financial income (expenses), net of the consolidated income statement.

More detailed information is provided in Note 22 of the consolidated financial statements.

### 2.21 Dividend distributions

Dividend distributions are recorded in the period in which they are approved by the Group's shareholders.

### 2.22 Changes in accounting policies and IFRS

These consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at 31 December 2005. The main effects are described below.

#### Consolidation, impairment of long-lived assets and intangible assets

The early adoption of IFRS3, IAS36 (revised 2004) and IAS38 (revised 2004) resulted in an accounting policy change for goodwill in the 2004 audited financial statements. Until 31 December 2003, goodwill was amortised on a straight line basis over 20 years and assessed for an indication of impairment at each balance sheet date. From 1 January 2004, the Group ceased amortisation of goodwill. On 1 January 2004, the accumulated amortisation has been eliminated with a corresponding decrease in the cost of goodwill. From 1 January 2004, goodwill is tested annually for impairment and when there are indications of impairment.

The early adoption of IFRS3, IAS36 (revised 2004) and IAS38 (revised 2004) resulted in a classification of intangible assets such as patents, licences, trademarks, know-how and process-oriented technology as intangible assets with finite useful lives. The Group has reassessed their useful lives according to IAS38, and no adjustment has resulted.

These changes in accounting policies were applied prospectively from 1 January 2004.

#### Executive share option plans

IFRS2 requires to reflect the effects of share-based payment transactions in profit and loss and financial position. The Group revised its accounting policy accordingly regarding equity-settled share-based payment and cash-settled share-based payment transactions.

- *Equity-settled instruments:* The cost of equity-settled instruments to be expensed, together with a corresponding increase in equity, over the vesting period is determined by reference to the market value of the options granted at the date of the grant. No market vesting conditions are involved. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation. Prior to the adoption of IFRS2, no compensation cost was recognised in the income statement except for the underlying social security costs.
- *Cash-settled instruments:* The liability of the cash-settled instruments, together with a corresponding adjustment in expenses, is measured, over the vesting period, initially and at balance sheet date until settled, at market value. Prior to the adoption of IFRS2, compensation cost was recognised immediately in the income statement.

The adoption of IFRS2 must be done retrospectively and, as a result, the opening retained earnings have been restated as of 1 January 2004 and 2005 as if this standard had always been applied. The Group applied the standard to equity-settled plan grants after 7 November 2002 and not vested at 1 January 2005. Therefore, plans 2000 and 2001 have not been restated. Full retrospective application has been used for cash-settled plans.

The booking of equity-settled plans decreased retained earnings as of 1 January 2005 by CHF 3 million (1 January 2004: CHF 3 million), and the equity line result for the full year 2004, split over each relevant operating functions line, has reduced by CHF 4 million, while the equity line own equity instruments increased by the corresponding amount. The restatement of cash-settled plans increased retained earnings as of 1 January 2005 by CHF 6 million (1 January 2004: CHF 6 million) while current liabilities decreased by the same amount. The 2004 full year operating expenses have changed by CHF 0 million and in addition certain reclassifications were made across the relevant operating functions lines.

#### Financial instruments

IAS39 (revised 2003) expanded the definition of the objective evidence that a financial asset classified as available-for-sale is impaired, with a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost being specifically considered as objective evidence of impairment. The Group revised its accounting policy accordingly and added to the existing impairment triggers that available-for-sale financial instruments that have a market value 20% or more below their original cost for a sustained six-month period will have to be considered as impaired. When an impairment loss has previously been recognised for an investment classified as available-for-sale, further declines in value are recorded as an impairment loss in the income statement.

The adoption of IAS39 (revised 2003) must be done retrospectively, and as a result, the opening retained earnings have been restated as of 1 January 2004 and 2005 as if this standard had always been applied.

Retained earnings as of 1 January 2005 have been reduced by CHF 105 million (1 January 2004: CHF 105 million), and the equity line result for the full year 2004 has reduced by CHF 16 million, while the fair value reserve for available-for-sale financial assets increased by the corresponding amount. The gains (losses) from available-for-sale financial assets realised in 2004 have been revisited and resulted in an adjustment increasing by CHF 2 million the line financial income (expenses), net of the consolidated income statement.

### Own equity instruments

IAS32 (revised 2003) extended the definitions to include the treatment of derivatives on the entity's own equity. The accounting treatment depends primarily on the method of settlement, whether, cash or physical, whether gross or net, and whether either the issuer or the counterparty has the settlement choice. The Group revised its accounting policy accordingly to account for a derivative on the entity's own equity as, a derivative instrument, a non-derivative financial liability or an equity instrument.

The adoption of IAS32 (revised 2003) must be done retrospectively, and as a result, the opening retained earnings have been restated as of 1 January 2004 and 2005 as if this standard had always been applied.

The 2005 opening balance of the equity line own equity instruments has been raised by CHF 286 million (opening balance 2004: CHF 286 million), the equity line retained earnings and reserves has been decreased by CHF 3 million (opening balance 2004: CHF 3 million), and the equity line result for the full year 2004 has been raised by CHF 6 million, with corresponding adjustments in current assets of CHF 31 million (2004: CHF 21 million) regarding net cash-settled purchased calls recognised at market price and in current liabilities of CHF 314 million (2004: CHF 310 million) regarding gross physical-settled written puts recognised at the present value of the redemption amount. A derivative on the entity's own equity classified as a derivative instrument is measured at market value with a corresponding entry in the line financial income (expenses), net of the consolidated income statement. Any discount, represented by the difference between the present value of a non-derivative financial liability and its redemption amount, is amortised over the expected life of the instrument in the line financial income (expenses), net of the consolidated income statement.

### Taxation

The restatements made on the consolidated financial statements changed the carrying value of some balance sheet items and consequently resulted in different temporary differences. Deferred taxes have been adjusted accordingly.

## Reconciliation of Equity at 1 January 2004

| *in millions of Swiss francs* | Reported 1 January 2004 | Executive share option plans | Financial instruments | Own equity instruments | Taxation | Restated 1 January 2004 |
|---|---|---|---|---|---|---|
| Current assets | 1,945 | | | 21 | | 1,966 |
| Non-current assets | 2,603 | | | | | 2,603 |
| ▶ Total assets | 4,548 | | | 21 | | 4,569 |
| Current liabilities | 633 | (6) | | 310 | | 937 |
| Non-current liabilities | 1,329 | | | | - | 1,329 |
| Total liabilities | 1,962 | (6) | | 310 | - | 2,266 |
| Share capital | 80 | | | | | 80 |
| Retained earnings and reserves | 3,010 | 3 | (105) | (3) | 2 | 2,907 |
| Own equity instruments | (9) | 3 | | (286) | | (292) |
| Fair value reserve for available-for-sale financial assets | (115) | | 105 | | (2) | (12) |
| Equity component of exchangeable bond | 10 | | | | | 10 |
| Cumulative translation differences | (391) | | | | | (391) |
| Minority interest | 1 | | | | | 1 |
| Equity | 2,586 | 6 | | (289) | | 2,303 |
| ▶ Total liabilities and equity | 4,548 | | | 21 | | 4,569 |

## Reconciliation of Equity at 1 January 2005

| *in millions of Swiss francs* | Reported 31 December 2004 | Executive share option plans | Financial instruments | Own equity instruments | Taxation | Restated 1 January 2005 |
|---|---|---|---|---|---|---|
| Current assets | 1,735 | | | 31 | | 1,766 |
| Non-current assets | 2,564 | | | | | 2,564 |
| ▶ Total assets | 4,299 | | | 31 | | 4,330 |
| Current liabilities | 882 | (6) | | 314 | | 1,190 |
| Non-current liabilities | 1,152 | | | | - | 1,152 |
| Total liabilities | 2,034 | (6) | | 314 | - | 2,342 |
| Share capital | 78 | | | | | 78 |
| Retained earnings and reserves | 2,769 | 3 | (105) | (3) | 2 | 2,666 |
| Result for full year 2004 | 350 | (4) | (16) | 6 | 1 | 337 |
| Own equity instruments | (385) | 7 | | (286) | | (664) |
| Fair value reserve for available-for-sale financial assets | (105) | | 121 | | (3) | 13 |
| Equity component of exchangeable bond | 8 | | | | | 8 |
| Cumulative translation differences | (451) | | | | | (451) |
| Minority interest | 1 | | | | | 1 |
| Equity | 2,265 | 6 | | (283) | | 1,988 |
| ▶ Total liabilities and equity | 4,299 | | | 31 | | 4,330 |

## Reconciliation of the Consolidated Income Statement for the Year Ended 31 December 2004

| *in millions of Swiss francs, except for share data* | Reported | Executive share option plans | Financial instruments | Own equity instruments | Taxation | Restated |
|---|---|---|---|---|---|---|
| Sales | 2,680 | | | | | 2,680 |
| Cost of sales | (1,400) | (2) | | | | (1,402) |
| Gross profit | 1,280 | (2) | | | | 1,278 |
| *as % of sales* | *47.8%* | | | | | *47.7%* |
| Marketing, development and distribution expenses | (625) | (8) | | | | (633) |
| Administration expenses | (90) | (7) | | | | (97) |
| Amortisation of intangible assets | (18) | | | | | (18) |
| Other operating income (expenses), net | (63) | 13 | | | | (50) |
| Operating profit | 484 | (4) | | | | 480 |
| *as % of sales* | *18.1%* | | | | | *17.9%* |
| Financial income (expenses), net | (41) | | (16) | 6 | | (51) |
| Result before taxes | 443 | (4) | (16) | 6 | | 429 |
| Income taxes | (93) | | | | 1 | (92) |
| ▶ Result for the period | 350 | (4) | (16) | 6 | 1 | 337 |
| ▶ Attribution | 350 | (4) | (16) | 6 | 1 | 337 |
| Result attributable to minority interest | - | - | - | - | - | - |
| Result attributable to equity holders of the parent | 350 | (4) | (16) | 6 | 1 | 337 |
| *as % of sales* | *13.1%* | | | | | *12.6%* |
| ▶ Earnings per share – basic (CHF) | 46.36 | (0.53) | (2.11) | 0.79 | 0.13 | 44.64 |
| ▶ Earnings per share – diluted (CHF) | 46.02 | (0.53) | (2.10) | 0.79 | 0.13 | 44.31 |

New and revised standards and interpretations, issued but not yet effective, have been reviewed to identify the nature of the future change in accounting policy and to estimate the effect of any necessary changes in the consolidated income statement and financial position upon their adoption. The assessment resulted in an update of the accounting policy regarding the financial instruments and to no change in the consolidated income statement and financial position upon their adoption.

Issued and effective during 2006:

- IAS 19 Amendment for IAS 19 Actuarial Gains and Losses, Group Plans and Disclosures
- IAS 39 Amendment to the Fair Value Option
- IAS 39 Cash flow hedge accounting of forecast intra-group transactions
- IAS 39 Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts and Credit Insurance.
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics
- IFRIC 8 Scope of IFRS 2

Issued and effective during 2007:

- IAS 1 Amendment, Capital Disclosures
- IFRS 7 Financial Instruments: Disclosures

## 3. Financial risk management

Financial risk management within the Group is governed by policies approved by the Board of Directors and senior management. These policies cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. Group policies also cover areas such as cash management, investment of excess funds and raising short and long-term debt.

When deemed appropriate, certain of the above risks are reduced through the use of financial instruments. Group management believe that, in order to create the optimum value for the Group, it is not desirable to eliminate or mitigate all possible market fluctuations. Financial instruments are selectively used to optimise value. Group companies report details of the financial instruments outstanding and financial liquidity positions to Group Treasury on a monthly basis.

### Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in Swiss francs.

Transaction exposure arises because the equivalent amount in local currency paid or received in transactions denominated in foreign currencies may vary due to changes in exchange rates. For many Group companies, income is generated primarily in the local currency. A significant amount of expenditures, especially for the purchase of goods for resale and interest on, and repayment of, loans are in foreign currencies. Similarly, transaction exposure arises on net balances of monetary assets held in foreign currencies. Group companies manage this exposure at a local level, if necessary, by means of derivative financial instruments such as options and forward contracts. In addition, Group Treasury monitors total world-wide exposure with the help of comprehensive data received on a monthly basis.

Translation exposure arises from the consolidation of the foreign currency denominated financial statements of the Group's foreign subsidiaries. The effect on the Group's consolidated equity is shown as a currency translation difference.

### Interest rate risk

Interest rate risk arises from movements in interest rates which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments as described in the following section on market risk.

Group companies manage their short-term interest rate risk locally, if necessary by means of derivative financial instruments such as interest rate swaps. Furthermore, the consolidated interest rate risk is monitored by Group Treasury on a world-wide level.

### Market risk

Changes in the market value of certain financial assets, liabilities and instruments can affect the net income or financial position of the Group. The risk of loss in value is assessed by a very careful review prior to investing, diversification of assets and continuous monitoring of the performance of investments and changes in their risk configuration. The Group makes use of derivative financial instruments to manage risks on available-for-sale investments and debt instruments.

### Credit risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations, causing a financial loss to the Group.

Trade receivables are subject to a policy of active risk management which focuses on the assessment of country risk, credit limits, ongoing credit evaluation and account monitoring procedures. Collateral is generally not required. There are no significant concentrations within trade receivables of counter-party credit risk due to the large number of customers that the Group deals with and their wide geographical spread. Country risk limits and exposures are continuously monitored.

The exposure of other financial assets and liabilities to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counter-parties, continuously reviewing credit ratings, and limiting individual aggregate credit exposure accordingly.

### Liquidity risk

Group companies must have sufficient availability of cash to meet their obligations. Individual companies are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to Group policies, guidelines and guidance.

## 4. Business combinations

### IBF acquisition

On 7 January 2003, the Group acquired 100% control of International Bioflavors Inc. (hereafter "IBF"), located in Wisconsin (USA). No pro forma financial information relating to the IBF acquisition has been stated.

The acquisition of IBF has been accounted for in the financial statements by use of the purchase method of accounting. The results of IBF operations have been incorporated in the consolidated income statement since 7 January 2003.

As stated in the agreement, the purchase price excluding transaction costs amounts to USD 21 million (equivalent to CHF 30 million) and consideration was in the form of cash. The Group acquired intangible assets consisting of goodwill plus process-oriented technology. The latter is amortised on a straight-line basis over 15 years with the amortisation charge recorded within the amortisation of intangible assets line of the consolidated income statement.

On 31 December 2003, the goodwill arising from the IBF acquisition was estimated at CHF 15 million. The goodwill has been adjusted upon the finalisation of the purchase price and to subsequent changes in value of identifiable assets and liabilities. At 31 December 2004, the goodwill is determined to be CHF 21 million.

The total purchase consideration including transaction costs, the net assets acquired and the goodwill related to the IBF acquisition are as follows:

| *in millions of Swiss francs* | Note | |
|---|---|---|
| Purchase consideration | | 31 |
| Fair value of net assets acquired | | (16) |
| Adjustments in 2004 to fair value of net assets acquired | 18 | 6 |
| ▶ Total goodwill | | 21 |

## 5. Segment information

The Group's world-wide operations are organised into two operating divisions,

**Fragrances** Manufacture and sale of fragrances into three global business units: Fine Fragrances, Consumer Products and Fragrance Ingredients, and

**Flavours** Manufacture and sale of flavours into four business units: Beverages, Dairy, Savoury and Sweet Goods.

These divisions are the basis upon which the Group reports its primary segment information.

The secondary format is based on geographical segmentation. The business segments operate in five main geographical areas, namely Switzerland, other EAME (Other Europe, Africa and Middle East), USA and Canada, Latin America and Asia Pacific.

### Business segments

| *in millions of Swiss francs* | Fragrances | | Flavours | | Group | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Segment sales | 1,140 | 1,081 | 1,649 | 1,611 | 2,789 | 2,692 |
| Less inter-divisional sales [a] | (9) | (8) | (2) | (4) | (11) | (12) |
| ▶ Segment sales to third parties | 1,131 | 1,073 | 1,647 | 1,607 | 2,778 | 2,680 |
| EBITDA [b] | 203 | 213 | 437 | 371 | 640 | 584 |
| *as % of sales* | *17.9%* | *19.9%* | *26.5%* | *23.1%* | *23.0%* | *21.8%* |
| Depreciation | (41) | (43) | (46) | (43) | (87) | (86) |
| Amortisation | (1) | - | (18) | (18) | (19) | (18) |
| Impairment of long-lived assets | | | (21) | | (21) | |
| ▶ Operating profit | 161 | 170 | 352 | 310 | 513 | 480 |
| *as % of sales* | *14.2%* | *15.8%* | *21.4%* | *19.3%* | *18.5%* | *17.9%* |
| Additions to restructuring provisions | - | 2 | 1 | 19 | 1 | 21 |
| Reversal of unused restructuring provisions | 2 | - | 1 | - | 3 | - |
| Operating assets [c] | 980 | 879 | 2,538 | 2,296 | 3,518 | 3,175 |
| Unallocated assets [d] | | | | | 998 | 1,155 |
| ▶ Consolidated total assets | | | | | 4,516 | 4,330 |
| Operating liabilities [c] | (53) | (50) | (57) | (43) | (110) | (93) |
| Unallocated liabilities [d] | | | | | (1,969) | (2,249) |
| ▶ Consolidated total liabilities | | | | | (2,079) | (2,342) |
| ▶ Capital expenditures [e] | 55 | 58 | 106 | 91 | 161 | 149 |
| ▶ Number of employees | 2,505 | 2,473 | 3,419 | 3,428 | 5,924 | 5,901 |

*a) Transfer prices for inter-divisional sales are set on an arm's length basis.*

*b) EBITDA: Earnings Before Interest (and other financial income), Tax, Depreciation and Amortisation. This corresponds to operating profit before depreciation, amortisation and impairment of long-lived assets.*

*c) Operating assets consist primarily of property, plant and equipment, intangibles, inventories and receivables. Segment operating liabilities consist of trade accounts payable and notes payable.*

*d) Unallocated assets and liabilities mainly include current and deferred income tax balances, and financial assets and liabilities, principally cash, investments and debt.*

*e) Capital expenditures include additions to property, plant and equipment and to intangible assets, excluding acquisitions of subsidiaries.*

## Geographical segments

| *in millions of Swiss francs* | Segment sales [a] | | Segment net operating assets [b] | | Capital expenditures [c] | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Switzerland | 77 | 89 | 1,055 | 1,022 | 46 | 49 |
| Other EAME | 961 | 946 | 482 | 490 | 31 | 20 |
| USA and Canada | 902 | 872 | 1,332 | 1,114 | 56 | 56 |
| Latin America | 290 | 257 | 158 | 127 | 8 | 7 |
| Asia Pacific | 548 | 516 | 381 | 329 | 20 | 17 |
| ▶ Total | 2,778 | 2,680 | 3,408 | 3,082 | 161 | 149 |

*a) Sales are shown by destination.*

*b) Operating assets consist primarily of property, plant and equipment, intangibles, inventories and receivables. Segment operating liabilities consist of trade accounts payable and notes payable.*

*c) Capital expenditures include additions to property, plant and equipment and to intangible assets, excluding acquisitions of subsidiaries.*

### 6. Marketing, development and distribution expenses

Expenses for product development and research activities in 2005 amounted to CHF 220 million (2004: CHF 211 million) and are included in the income statement under marketing, development and distribution expenses.

### 7. Employee benefits

The following amounts related to employee remuneration and benefits are included in determining operating profit:

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Wages and salaries | 508 | 501 |
| Social security costs | 66 | 66 |
| Post-employment benefits: defined benefit plans | 37 | 35 |
| Post-employment benefits: defined contribution plans | 6 | 6 |
| Equity-settled instruments granted to Directors and executives | 5 | 4 |
| Cash-settled instruments granted to Directors and executives | 17 | 13 |
| Other employee benefits | 46 | 36 |
| ▶ Total employees' remuneration | 685 | 661 |

At the year-end, the Group employed 5,924 people (2004: 5,901).

#### Defined benefits plans

The amounts recognised in the income statement are as follows:

| *in millions of Swiss francs* | Defined benefit plans | | Non-pension post-employment plans | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Current service cost | 28 | 24 | 2 | 2 |
| Interest cost | 46 | 47 | 4 | 4 |
| Expected return on plan assets | (49) | (46) | | |
| Net actuarial (gains) losses recognised | 5 | 3 | 1 | 1 |
| ▶ Total included in employees' remuneration | 30 | 28 | 7 | 7 |

Non-pension post-employment benefits consist primarily of post-retirement healthcare and life insurance schemes, principally in the USA.

The amounts recognised in the balance sheet are as follows:

| *in millions of Swiss francs* | Defined benefit plans | | Non-pension post-employment plans | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Present value of funded obligations | (1,165) | (1,025) | | |
| Fair value of plan assets | 1,031 | 898 | | |
| | (134) | (127) | | |
| Unrecognised actuarial (gains) losses | 128 | 133 | | |
| Recognised asset (liability) for funded obligations, net | (6) | 6 | | |
| Present value of unfunded obligations | (40) | (52) | (92) | (69) |
| Unrecognised actuarial (gains) losses | 13 | 18 | 33 | 20 |
| Recognised (liability) for unfunded obligations | (27) | (34) | (59) | (49) |
| ▶ Total defined benefit liability | (33) | (28) | (59) | (49) |
| Deficit recognised as liabilities for post-employment benefits | (60) | (58) | (59) | (49) |
| Surplus recognised as part of other long-term assets | 27 | 30 | | |
| ▶ Total net asset (liability) recognised | (33) | (28) | (59) | (49) |

Amounts recognised in the balance sheet for post-employment defined benefit plans are predominantly non-current and are reported as non-current assets and non-current liabilities.

Changes in the present value of the defined benefit obligation are as follows:

| *in millions of Swiss francs* | Defined benefit plans | | Non-pension post-employment plans | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| ▶ Balance at 1 January | 1,077 | 1,034 | 69 | 66 |
| Net current service cost | 28 | 24 | 2 | 2 |
| Interest cost | 46 | 47 | 4 | 4 |
| Employee contributions | 8 | 8 | | |
| Benefit payment | (43) | (44) | (4) | (4) |
| Curtailments | (4) | (47) | | |
| Actuarial (gains) losses | 49 | 72 | 10 | 7 |
| Currency translation effects | 44 | (17) | 11 | (6) |
| ▶ Balance at 31 December | 1,205 | 1,077 | 92 | 69 |

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

| *in millions of Swiss francs* | Defined benefit plans | | Non-pension post-employment plans | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| ▶ Balance at 1 January | 898 | 825 | | |
| Actual return on assets | 110 | 55 | | |
| Employer contributions | 26 | 66 | 4 | 4 |
| Employee contributions | 8 | 8 | | |
| Benefit payment | (43) | (44) | (4) | (4) |
| Currency translation effects | 32 | (12) | | |
| ▶ Balance at 31 December | 1,031 | 898 | | |

The plan assets include 522 Givaudan registered shares (2004: 522 shares) for an amount of CHF 0.5 million (2004: CHF 0.4 million). They do not include any property occupied by, or other assets used by, the Group.

The Group operates defined benefit schemes in many countries for which the actuarial assumptions vary based on local economic and social conditions. The assumptions used in the actuarial valuations of the most significant defined benefit plans, in countries with stable currencies and interest rates, were as follows:

| | 2005 | 2004 |
|---|---|---|
| Discount rates | 3.3 to 5.5% | 3.5 to 5.8% |
| Projected rates of remuneration growth | 2.0 to 3.3% | 2.0 to 4.5% |
| Expected rates of return on plan assets | 5.4% | 5.6% |
| Healthcare cost trend rate | 4.8% | 6.0% |

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the respective Stock Exchange of each country where assets are managed. The overall expected rate of return is calculated by weighting the individual rates in accordance with the assets allocation of the plans.

During 2005, the Group's Japanese subsidiary withdrew its participation in the Tokyo Cosmetics Fund, a multi-employer plan. The related cost of CHF 4 million has been expensed in the income statement recorded at the time of the withdrawal.

## 8. Share-based payment

### Equity-settled instruments

Share options shown in the table below have been granted on a yearly basis. These options are tradable and transferable after the vesting period. The fair value of the options granted are based on market prices taking into account their respective terms and conditions upon which those equity instruments were granted. Participation in these plans is mandatory.

Share options outstanding at the end of the year have the following terms:

| Year of grant | Maturity date | Vesting date | Strike price [a] (CHF) | Ratio (option: share) | Option value at grant date (CHF) | Number of options 2005 | Number of options 2004 |
|---|---|---|---|---|---|---|---|
| 2000 | 30 Sep 2005 | 21 Jul 2003 | 546.5 | 100:1 | 1.0961 | | 276,000 |
| 2001 | 20 Feb 2006 | 19 Feb 2004 | 506.3 | 100:1 | 1.0120 | 25,000 | 590,500 |
| 2002 | 29 Jan 2007 | 28 Jan 2005 | 575.0 | 10:1 | 8.1200 | 65,100 | 365,900 |
| 2003 | 17 Mar 2008 | 17 Mar 2005 | 509.7 | 10:1 | 5.6700 | 88,600 | 429,700 |
| 2004 | 18 Mar 2009 | 18 Mar 2006 | 656.4 | 10:1 | 10.8700 | 532,200 | 531,000 |
| 2005 | 21 Mar 2010 | 21 Mar 2007 | 805.0 | 10:1 | 10.7400 | 522,100 | |

*a) Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.*

The cost of the equity-settled instruments of CHF 5 million (2004: CHF 4 million) has been expensed in the income statement.

Movements in the number of share options outstanding, expressed in equivalent shares, are as follows:

| *Number of options expressed in equivalent shares* | 2005 | 2004 |
|---|---|---|
| ▶ At 1 January | 141,325 | 112,145 |
| Granted | 52,710 | 53,290 |
| Sold | (71,275) | (24,110) |
| Exercised | | |
| Lapsed | (1,710) | |
| ▶ At 31 December | 121,050 | 141,325 |

For these plans, the Group has at its disposal either treasury shares or conditional share capital up to an amount of CHF 1 million representing 100,000 registered shares with a par value of CHF 10 per share. When held or sold, an option does not give rights to receive a dividend nor to vote.

### Cash-settled instruments

Options rights shown in the table below have been granted on a yearly basis. The liability of the options rights, together with a corresponding adjustment in expenses, is measured, over the vesting period, initially and at balance sheet date until settled, at market value. The market value is based on market prices of similar observable instruments available on the financial market, as a rule the market price of the equity-settled instruments with identical terms and conditions upon which those equity instruments were granted. These rights are not tradable nor transferable after the vesting period. Participation in these plans is mandatory.

| Year of grant | Maturity date | Vesting date | Strike price [a] (CHF) | Ratio (option: share) | Option value at grant date (CHF) | Number of options 2005 | Number of options 2004 |
|---|---|---|---|---|---|---|---|
| 2000 | 30 Sep 2005 | 21 Jul 2003 | 546.5 | 100:1 | 1.0961 | | 181,000 |
| 2001 | 20 Feb 2006 | 19 Feb 2004 | 506.3 | 100:1 | 1.0120 | 133,000 | 523,000 |
| 2002 | 29 Jan 2007 | 28 Jan 2005 | 575.0 | 10:1 | 8.1200 | 55,250 | 343,600 |
| 2003 | 17 Mar 2008 | 17 Mar 2005 | 509.7 | 10:1 | 5.6700 | 117,500 | 410,500 |
| 2004 | 18 Mar 2009 | 18 Mar 2006 | 656.4 | 10:1 | 10.8700 | 485,100 | 495,500 |
| 2005 | 21 Mar 2010 | 21 Mar 2007 | 805.0 | 10:1 | 10.7400 | 540,700 | |

a) *Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.*

The cost of the cash-settled instruments of CHF 17 million (2004: CHF 13 million) has been expensed in the income statement. The liability regarding the cash-settled instruments of CHF 22 million (2004: CHF 18 million) has been recognised in the balance sheet.

Movements in the number of options rights outstanding, expressed in equivalent shares, are as follows:

| *Number of options expressed in equivalent shares* | 2005 | 2004 |
|---|---|---|
| ▶ At 1 January | 132,000 | 110,250 |
| Granted | 54,580 | 51,200 |
| Exercised | (62,485) | (26,050) |
| Lapsed | (2,910) | (3,400) |
| ▶ At 31 December | 121,185 | 132,000 |

For these plans, the Group has at its disposal treasury shares. When held or exercised, an option right does not give rights to receive a dividend nor to vote.

## 9. Other operating income (expenses), net

Other operating income (expenses), net represents predominantly various items such as commissions paid to agents, taxes from carrying on operating business and restructuring expenses.

In 2003, the Group initiated a large restructuring programme with the objective of improving the long-term profitability by reducing the Group's cost structure. Various projects to enhance cost efficiency have been commenced in 2003 and extended until 2005. Restructuring costs related to these initiatives of CHF 68 million have been charged in 2003 and additional restructuring costs of CHF 21 million, mainly related to the 2004 announcements of Tremblay (Paris, France) and Barneveld (Netherlands) site closures, have been charged in 2004 to the line other operating income (expenses), net. See also Note 21 on provisions.

Following further site consolidation and product streamlining in the USA, an asset impairment of CHF 16 million was recognised in 2005 to the line other operating income (expenses), net. See also Note 17 on property, plant and equipment.

Major business related information management projects costs of CHF 13 million have been charged in 2005 (2004; CHF 6 million) to the line other operating income (expenses), net.

## 10. Financial income (expenses), net

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Gains (losses) from available-for-sale financial assets, net | 27 | 3 |
| Interest income | 7 | 4 |
| Dividend income | 1 | 4 |
| Impairment of available-for-sale financial assets | | (18) |
| Fair value and realised gains (losses) from derivative instruments, net | (27) | 10 |
| Fair value and realised gains (losses) from own equity instruments, net | 15 | 10 |
| Interest expense | (64) | (59) |
| Exchange gains (losses), net | 27 | 5 |
| Other financial income (expenses), net | (12) | (10) |
| ▶ Total financial income (expenses), net | (26) | (51) |

## 11. Income taxes

Amounts charged (credited) in the income statement are as follows:

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Current income taxes | 91 | 89 |
| Adjustments of current tax of prior years | 3 | (18) |
| Deferred income taxes | (14) | 21 |
| ▶ Total income tax expenses | 80 | 92 |

Since the Group operates globally, it is liable for income taxes in many different tax jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Differences between the final tax outcome and the amounts that were initially recorded impact the income and deferred taxes in the period in which such determinations are made.

The Group calculates its average expected tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates.

The Group’s effective tax rate differs from the Group’s average expected tax rate as follows:

| | 2005 | 2004 |
|---|---|---|
| Group’s average expected tax rate | 19% | 20% |
| *Tax effect of* | | |
| - Income not taxable | | (1)% |
| - Expenses not deductible | | 1% |
| - Other differences | (3)% | 1% |
| ▶ Group’s effective tax rate | 16% | 21% |

The variation in the Group’s average expected tax rate is caused by changes in volumes, product mix and profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in applicable statutory tax rates.

The low Group’s effective tax rate for 2005 is due to an exceptional inter-company transaction that generated a one-time impact of CHF 13 million.

### Income tax assets and liabilities

Amounts recognised in the balance sheet related to income taxes are as follows:

**Current income taxes**

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Current income tax assets | 12 | 26 |
| Current income tax liabilities | (43) | (51) |
| ▶ Net current income tax asset (liability) | (31) | (25) |

**Deferred income taxes**

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Deferred income tax assets | 110 | 91 |
| Deferred income tax liabilities | (92) | (88) |
| ▶ Net deferred income tax asset (liability) | 18 | 3 |

Amounts recognised in the balance sheet for deferred taxes are reported as non-current assets and non-current liabilities, a portion of which is current and will be charged or credited to the income statement during 2006.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Group has no material unrecognised tax losses. Deferred income tax liabilities have not been established for withholding tax and other taxes that would be payable on the un-remitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested.

Deferred income tax assets and liabilities and the related deferred income tax charges are attributable to the following items:

| *in millions of Swiss francs – 2005* | Property, plant & equipment | Intangible assets | Pension plans | Other temporary differences | Total |
|---|---|---|---|---|---|
| Net deferred income tax asset at 1 January | (59) | 26 | 40 | (4) | 3 |
| Credited (charged) to income statement | 1 | (10) | 1 | 22 | 14 |
| Credited to equity | | | | | - |
| Currency translation effects | (11) | 5 | 7 | - | 1 |
| ▶ Net deferred income tax asset (liability) at 31 December | (69) | 21 | 48 | 18 | 18 |

| *in millions of Swiss francs – 2004* | Property, plant & equipment | Intangible assets | Pension plans | Other temporary differences | Total |
|---|---|---|---|---|---|
| Net deferred income tax asset at 1 January | (48) | 35 | 25 | 18 | 30 |
| Credited (charged) to income statement | (13) | (6) | 19 | (21) | (21) |
| Credited to equity | | | | 1 | 1 |
| Currency translation effects | 2 | (3) | (4) | (2) | (7) |
| ▶ Net deferred income tax asset (liability) at 31 December | (59) | 26 | 40 | (4) | 3 |

## 12. Minority interest

Minority interest represents the interests of third-party shareholders in the net results of the operations and the net assets of the subsidiary in Thailand which is not fully owned by Givaudan, either directly or indirectly.

## 13. Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares outstanding.

| | 2005 | 2004 |
|---|---|---|
| Net income for the year (CHF million) | 406 | 337 |
| *Weighted average number of shares outstanding* | | |
| Ordinary shares | 7,612,603 | 7,901,639 |
| Treasury shares | (436,031) | (352,663) |
| | 7,176,572 | 7,548,976 |
| ▶ Earnings per share – basic (CHF) | 56.57 | 44.64 |

### Diluted earnings per share

For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted to assume conversion of all dilutive potential shares.

| | 2005 | 2004 |
|---|---|---|
| Net income adjusted for elimination of interest, net of tax of CHF 0 million in 2004 (2005: nil) for dilutive convertible instruments (CHF million) | 406 | 337 |
| Weighted average number of shares outstanding adjusted for executives share options plans of 52,020 (2004: 32,216) and for shares on assumed conversion of dilutive convertible instruments in 2004 of 23,831 (2005: nil). | 7,228,592 | 7,605,023 |
| ▶ Earnings per share – diluted (CHF) | 56.17 | 44.31 |

## 14. Available-for-sale financial assets

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Equity securities [a] | 187 | 350 |
| Bonds and debentures | 249 | 91 |
| ▶ Total available-for-sale financial assets | 436 | 441 |
| Current assets | 285 | 318 |
| Non-current assets | 151 | 123 |
| ▶ Total available-for-sale financial assets | 436 | 441 |

*a) No equity securities are restricted for sale (2004: CHF 7 million restricted until first quarter 2005).*

## 15. Accounts receivable – trade

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Accounts receivable | 479 | 406 |
| Notes receivable | 6 | 8 |
| Less: allowance for doubtful accounts | (14) | (13) |
| ▶ Total accounts receivable – trade | 471 | 401 |

No significant impairment charge has been recorded in the income statement in 2005 or 2004.

## 16. Inventories

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Raw materials and supplies | 306 | 252 |
| Work in process | 22 | 23 |
| Finished goods | 240 | 202 |
| Less: allowance for slow moving and obsolete inventories | (20) | (19) |
| ▶ Total inventories | 548 | 458 |

At year-end, no significant inventory was valued at net realisable value (2004: CHF 4 million).

## 17. Property, plant and equipment

| *in millions of Swiss francs – 2005* | Land | Buildings and building improvements | Machinery, equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| Net book value | | | | | |
| ▶ Balance at 1 January | 56 | 454 | 452 | 66 | 1,028 |
| Additions | | 6 | 24 | 131 | 161 |
| Disposals | | (1) | (9) | | (10) |
| Transfers | | 28 | 78 | (106) | |
| Impairment | | (14) | (17) | | (31) |
| Depreciation | | (16) | (71) | | (87) |
| Currency translation effects | 4 | 31 | 29 | 5 | 69 |
| ▶ Balance at 31 December | 60 | 488 | 486 | 96 | 1,130 |
| Cost | 60 | 777 | 1,206 | 96 | 2,139 |
| Accumulated depreciation | | (275) | (703) | | (978) |
| Accumulated Impairment | | (14) | (17) | | (31) |
| ▶ Balance at 31 December | 60 | 488 | 486 | 96 | 1,130 |

The decision to undertake a restructuring programme in the USA to consolidate its flavour operating asset base and to streamline its Savoury product portfolio indicated the need to conduct an impairment test on the related assets. The test for impairment resulted in an impairment loss of CHF 16 million being recognised in the consolidated financial statements (see Note 28).

In addition, impairment tests were required on assets related to previous sites closures initiated in 2004 (Netherlands and France), resulting in an impairment loss of CHF 15 million being recognised in the consolidated financial statements, of which CHF 10 million were accrued in 2004.

| *in millions of Swiss francs – 2004* | Land | Buildings and building improvements | Machinery, equipment and vehicles | Construction in progress | Total |
|---|---|---|---|---|---|
| Net book value | | | | | |
| ▶ Balance at 1 January | 60 | 442 | 425 | 85 | 1,012 |
| Additions | | 8 | 28 | 113 | 149 |
| Disposals | (2) | (5) | (3) | (1) | (11) |
| Transfers | | 44 | 85 | (129) | |
| Depreciation | | (17) | (69) | | (86) |
| Currency translation effects | (2) | (18) | (14) | (2) | (36) |
| ▶ Balance at 31 December | 56 | 454 | 452 | 66 | 1,028 |
| Cost | 56 | 705 | 1,072 | 66 | 1,899 |
| Accumulated depreciation | | (251) | (620) | | (871) |
| ▶ Balance at 31 December | 56 | 454 | 452 | 66 | 1,028 |

At year-end, the Group had operating lease commitments for the following future minimum payments under non-cancellable operating leases:

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Within one year | 10 | 11 |
| Within two to five years | 21 | 18 |
| Thereafter | 28 | 16 |
| ▶ Total minimum payments | 59 | 45 |

The total rental for all operating leases was CHF 30 million (2004: CHF 27 million).

The Group has capital commitments for the purchase or construction of property, plant and equipment totalling CHF 31 million (2004: CHF 12 million).

## 18. Intangible assets

| *in millions of Swiss francs – 2005* | Goodwill | Intellectual property rights | Process-oriented technology and other | Total |
|---|---|---|---|---|
| Net book value | | | | |
| ▶ Balance at 1 January | 981 | 294 | 13 | 1,288 |
| Additions | | | | |
| Disposals | | | | |
| Impairment | | | | |
| Amortisation | | (17) | (2) | (19) |
| Currency translation effects | 98 | | 2 | 100 |
| ▶ Balance at 31 December | 1,079 | 277 | 13 | 1,369 |
| Cost | 1,079 | 339 | 17 | 1,435 |
| Accumulated amortisation | | (62) | (4) | (66) |
| ▶ Net book value at 31 December | 1,079 | 277 | 13 | 1,369 |

| *in millions of Swiss francs – 2004* | Note | Goodwill | Intellectual property rights | Process-oriented technology and other | Total |
|---|---|---|---|---|---|
| Net book value | | | | | |
| ▶ Balance at 1 January | | 1,027 | 311 | 15 | 1,353 |
| Changes in Group organisation; IBF acquisition | 4 | 6 | | | 6 |
| Additions | | | | | |
| Disposals | | | | | |
| Impairment | | | | | |
| Amortisation | | | (17) | (1) | (18) |
| Currency translation effects | | (52) | | (1) | (53) |
| ▶ Balance at 31 December | | 981 | 294 | 13 | 1,288 |
| Cost | | 981 | 339 | 16 | 1,336 |
| Accumulated amortisation | | | (45) | (3) | (48) |
| ▶ Net book value at 31 December | | 981 | 294 | 13 | 1,288 |

At year-end, the Group had no significant capital commitments for the purchase of intangible assets.

### Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the division of the primary segment, respectively CHF 3 million (2004: CHF 3 million) for the fragrance division and CHF 1,076 million (2004: CHF 978 million) for the flavour division.

The recoverable amount of the fragrance division has been determined based on value in use calculations. These calculations use cash flow projections based on financial business plans and budgets approved by management covering a five-year period. The basis of the key assumptions is market growth adjusted for estimated market share gains. Operating costs are based on past performance adjusted for expected efficiency improvements. The discount rate applied to cash flow projections is pre-tax and reflects specific risks relating to the Group and was determined at 8.6%.

The recoverable amount of the flavour division has been determined based on value in use calculations. These calculations use cash flow projections based on financial business plans and budgets approved by management covering a five-year period. The basis of the key assumptions is market growth adjusted for estimated market share gains. Operating costs are based on past performance adjusted for expected efficiency improvements. Cash flows beyond the five-year period are extrapolated using a 2.5% rate representing the expected market growth rate in the flavours industry. The discount rate applied to cash flow projections is pre-tax and reflects specific risks relating to the Group and was determined at 8.6%.

No impairment loss resulted from the impairment tests for goodwill.

### Intellectual property rights

As part of the acquisition of Food Ingredients Specialties (FIS), the Group acquired intellectual property rights predominantly consisting of know-how being inseparable processes, formulas and recipes.

### Process-oriented technology and other

This consists mainly to process-oriented technology acquired when the Group purchased IBF.

## 19. Debt

| *in millions of Swiss francs – 2005* | within two to three years | within four to five years | thereafter | Total long-term | Short-term within one year | Total |
|---|---|---|---|---|---|---|
| Amounts due to banks and other financial institutions | 2 | - | - | 2 | 190 | 192 |
| Private placements | 40 | 136 | 527 | 703 | | 703 |
| Straight bond | | | 297 | 297 | | 297 |
| ▶ Total debt at 31 December | 42 | 136 | 824 | 1,002 | 190 | 1,192 |

| *in millions of Swiss francs – 2004* | within two to three years | within four to five years | thereafter | Total long-term | Short-term within one year | Total |
|---|---|---|---|---|---|---|
| Amounts due to banks and other financial institutions | - | - | - | - | 192 | 192 |
| Private placements | | 124 | 505 | 629 | - | 629 |
| Straight bond | | | | | 300 | 300 |
| Exchangeable bond | 197 | | | 197 | | 197 |
| ▶ Total debt at 31 December | 197 | 124 | 505 | 826 | 492 | 1,318 |

At year-end, the fair value of long-term debt was CHF 1 billion (2004: CHF 1 billion).

On 29 December 2000, the Group issued a 4.25% straight bond 2000-2005 with a nominal value of CHF 300 million. This has been repaid on 29 December 2005.

On 7 June 2001 the Group issued a 1% exchangeable bond with a principal amount of USD 200 million comprising of 200,000 bonds of USD 1,000 denomination. The Group requested an early redemption which resulted to the exchange of all remaining bonds corresponding to 156,642 bonds (2004: 43,327 bonds converted) during 2005. The bond was issued by Givaudan United States, Inc., and was guaranteed by Givaudan SA (Holding company). The principal amount was accreted with a gross yield to maturity of 4% being 116.42% at maturity. The bond was exchangeable into ordinary registered shares of Givaudan SA. The total number of shares delivered upon early redemption were 622,383 shares. The original maturity of the bond was 7 June 2006 with the option for both bondholders and issuer to redeem the bonds before maturity under defined conditions. The net proceeds of the issue were USD 195 million (equivalent to CHF 339 million).

On 7 February 2003, the Group entered into a private placement for a total amount of CHF 50 million. The private placement was made by Givaudan SA. It is redeemable in 2009 with an annual interest rate of 2.9%.

On 28 May 2003, the Group entered into a private placement for a total amount of USD 220 million (equivalent to CHF 285 million). The private placement was made by Givaudan United States, Inc. It is redeemable by instalments at various times beginning on May 2008 through May 2015 with annual interest rates ranging from 3.65% to 5.00%. There are various covenants contained in the transaction covering conditions on net worth, indebtedness and disposition of assets of Givaudan United States, Inc. Until now, Givaudan United States, Inc has been fully in compliance with the covenants set.

On 9 July 2003, the Group entered into a private placement for a total amount of CHF 100 million. The private placement was made by Givaudan SA. It is redeemable in 2013 with an annual interest rate of 3.3%.

On 16 April 2004, the Group entered into a private placement for a total amount of USD 200 million (equivalent to CHF 259 million). The private placement was made by Givaudan United States, Inc. It matures at various times in instalments beginning May 2009 through May 2016 with annual interest rates ranging from 4.16% to 5.49%. There are various covenants contained in the transaction covering conditions on net worth, indebtedness and disposition of assets of Givaudan United States, Inc. Until now, Givaudan United States, Inc has been fully in compliance with the covenants set.

On 11 May 2005, the Group issued a 2.25% straight bond 2005-2012 with a nominal value of CHF 300 million. The bond was issued by Givaudan Finance SA and is guaranteed by Givaudan SA (holding company).

The weighted average effective interest rates at the balance sheet date were as follows:

| | 2005 | 2004 |
|---|---|---|
| Amounts due to banks and other financial institutions | 3.1% | 2.8% |
| Private placements | 4.5% | 4.5% |
| Straight bond | 2.3% | 4.3% |
| Exchangeable bond | | 4.3% |

## 20. Trading financial instruments

In appropriate circumstances the Group uses derivative financial instruments as part of its risk management and trading strategies. This is discussed in the financial risk management section in Note 3 to the consolidated financial statements.

The fair value of trading financial instruments held by the Group are as follows:

| *in millions of Swiss francs* | 2005 | | 2004 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| *Foreign currency derivatives* | | | | |
| - forward foreign exchange contracts | - | (1) | 9 | (8) |
| - options | | (1) | - | - |
| *Interest rate derivatives* | | | | |
| - swaps | | (2) | | (4) |
| - forward starting swaps | | (9) | | (11) |
| *Other derivatives* | | | | |
| - options on equity securities | | | 1 | - |
| - derivatives on debt securities | 10 | | | |
| - futures | | | 1 | |
| ▶ Total trading financial instruments | 10 | (13) | 11 | (23) |

Foreign currency derivatives are entered into for the purchase of currencies to settle liabilities within the Group.

In 2004, Givaudan entered into an interest rate swap contract with a notional principal value of CHF 300 million to convert the straight bond 2000 - 2005 with a nominal value of CHF 300 million from a 4.25% fixed rate bond to a floating rate bond bearing interest at Libor plus 3.2%. This interest rate swap contract has been closed during 2005.

In 2004, Givaudan entered into forward starting swap contracts with a notional principal value totalling CHF 400 million at a rate of 3.0%, for the period from 15 December 2005 to 15 December 2010. These interest rate swap contracts have been closed during 2005.

In 2005, Givaudan entered into a forward starting swap contract with a notional principal value totalling CHF 300 million at a rate of 3.0%, for the period from 30 November 2006 to 30 November 2011.

The notional principal amounts of the other outstanding interest rate swap contracts at 31 December 2005 were JPY 500 million (equivalent to CHF 6 million) (2004: JPY 1 billion equivalent to CHF 11 million) and USD 40 million (equivalent to CHF 53 million) (2004: USD 40 million equivalent to CHF 46 million). For the JPY swap contract, the fixed interest rates paid in 2005 was 2.0% (2004: 2.0% to 3.2%) and the average floating rate received was 0.1% (2004: 0.5%). For the USD swap contracts, the fixed interest rates paid in 2005 were from 4.8% to 5.1% (2004: 4.8% to 5.1%) and the average floating rate received was 3.3% (2004: 1.1%).

## 21. Provisions

| *in millions of Swiss francs – 2005* | Restructuring from FIS acquisition | Restructuring | Claims and litigation | Others | Total |
|---|---|---|---|---|---|
| ▶ Balance at 1 January | 1 | 52 | 16 | 4 | 73 |
| Additional provisions | | 1 | 4 | 21 | 26 |
| Unused amounts reversed | | (3) | (4) | - | (7) |
| Utilised during the year | | (42) | - | (2) | (44) |
| Currency translation effects | | 1 | 2 | - | 3 |
| ▶ Balance at 31 December | 1 | 9 | 18 | 23 | 51 |
| Current liabilities | | 8 | 3 | 5 | 16 |
| Non-current liabilities | 1 | 1 | 15 | 18 | 35 |
| ▶ Balance at 31 December | 1 | 9 | 18 | 23 | 51 |

| *in millions of Swiss francs – 2004* | Restructuring from FIS acquisition | Restructuring | Claims and litigation | Others | Total |
|---|---|---|---|---|---|
| ▶ Balance at 1 January | 6 | 50 | 17 | 6 | 79 |
| Additional provisions | | 21 | 2 | 4 | 27 |
| Unused amounts reversed | | - | (1) | - | (1) |
| Utilised during the year | (5) | (20) | (2) | (6) | (33) |
| Currency translation effects | | 1 | - | - | 1 |
| ▶ Balance at 31 December | 1 | 52 | 16 | 4 | 73 |
| Current liabilities | | 45 | | 2 | 47 |
| Non-current liabilities | 1 | 7 | 16 | 2 | 26 |
| ▶ Balance at 31 December | 1 | 52 | 16 | 4 | 73 |

Significant judgment is required in determining the various provisions. A range of possible outcomes are determined to make reliable estimates of the obligation that is sufficient for the recognition of a provision. Differences between the final obligations and the amounts that were initially recorded, impact the income statement in the period which such determination is made.

### Restructuring provisions from FIS (Food Ingredients Specialties) acquisition

Provisions for the FIS acquisition have been recognised for compensating FIS employees for terminating of their employment and closing FIS facilities.

### Restructuring provisions

Restructuring provisions arise from re-organisations of the Group's operations and management structure. They include a large restructuring programme commenced in 2003 and extended until 2005 by the Group. Refer to Note 9 other operating income (expense), net.

### Claims and litigation

These provisions are made in respect of legal claims brought against the Group and potential litigations. Related estimated legal fees are also included in these provisions.

### Other provisions

These consist largely of provisions for environmental and similar matters.

## 22. Own equity instruments

Details on own equity instruments are as follows:

| *31 December 2005* | Settlement | Category | Maturity | Strike price[a] (CHF) | In equivalent shares | Fair value in millions CHF |
|---|---|---|---|---|---|---|
| Registered shares | n/a | Equity | n/a | n/a | 257,952 | 230 |
| Written calls | Gross shares | Equity | 2007-2010 | 509.70-805.00 | 360,100 | 100 |
| Purchased calls | Gross shares | Equity | 2006 | 510.32-628.13 | 100,590 | 30 |
| Purchased calls | Net cash | Derivative | 2006-2010 | 506.30-805.00 | 171,060 | 45 |
| Written puts | Gross shares | Financial liability | 2006 | 510.32-628.13 | 252,427 | - |

a) *Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.*

| *31 December 2004* | Settlement | Category | Maturity | Strike price[a] (CHF) | In equivalent shares | Fair value in millions CHF |
|---|---|---|---|---|---|---|
| Registered shares | n/a | Equity | n/a | n/a | 592,262 | 444 |
| Written calls | Gross shares | Equity | 2005-2009 | 512.90-665.00 | 356,090 | 72 |
| Purchased calls | Gross shares | Equity | 2005-2006 | 514.85-633.69 | 475,270 | 93 |
| Purchased calls | Net cash | Derivative | 2005-2008 | 512.90-665.00 | 181,171 | 31 |
| Written puts | Gross shares | Financial liability | 2005-2007 | 514.85-633.69 | 545,771 | 4 |

a) *Strike price of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2004 and on 27 April 2005, to distribute extraordinary dividends.*

## 23. Equity

### Share capital

At 31 December 2005, the share capital amounts to CHF 74,000,000 divided into 7,400,000 fully paid-up registered shares with a nominal value of CHF 10 each. Every share gives the right to one vote. The Board of Directors has at its disposal conditional capital of a maximum aggregate amount of CHF 10,000,000 that may be issued through a maximum of 1,000,000 registered shares, of which a maximum of CHF 1,000,000 can be used for executive share options plans. The Board of Directors is authorised until 16 April 2006 to increase the share capital by up to CHF 10,000,000 through the issuance of a maximum of 1,000,000 fully paid-in registered shares with a par value of CHF 10 per share (2004: no authorised share capital was available).

On 30 June 2003, the Group started a share buy back programme that was originally planned to last until 30 June 2004. On 14 June 2004, the Board of Directors resolved to extend this programme until 30 June 2005. The Group intends to reduce its share capital of 8,000,000 to 7,200,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 800,000 registered shares (representing 10% of the share capital) is made through a second trading line on virt-x. On 3 May 2005, the Group had completed its share buy back programme with the repurchase of 800,000 registered shares over a second trading line on virt-x. At the Annual General Meeting on 16 April 2004, the shareholders agreed with the cancellation of 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.5%, from CHF 80,000,000 to CHF 78,000,000. The cancellation became effective on 5 July 2004. At the Annual General Meeting on 27 April 2005, the shareholders agreed with the cancellation of a further 400,000 repurchased shares and with the corresponding reduction of the share capital by 5.1%, from CHF 78,000,000 to CHF 74,000,000. The cancellation became effective on 14 July 2005. The Group intends to cancel the remaining 200,000 repurchased shares, resulting in the corresponding reduction of the share capital by 2.7% from CHF 74,000,000 to CHF 72,000,000. The cancellation of these shares must be approved by the Group's shareholders and will be proposed to the Annual General Meeting on 7 April 2006.

On 6 May 2005, the Group started a further share buy back programme that will last until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. The Group intends to reduce its share capital of 7,200,000 to 6,480,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 720,000 registered shares (representing 10% of the share capital) is made through a second trading line on virt-x. The cancellation of the shares must be approved by the Group's shareholders. By 17 February 2006, the Group had repurchased 34,800 registered shares under this share buy back programme.

Movements in own equity instruments are as follows:

| | Note | Number | Price in Swiss francs | | | Total in millions of Swiss francs |
|---|---|---|---|---|---|---|
| | | | High | Average | Low | |
| ▶ Balance at 1 January 2005 as restated | | 592,262 | | | | 664 |
| Registered shares | | | | | | |
| Purchases at cost | | 701,996 | 840.00 | 771.50 | 735.33 | 542 |
| Sales and transfers at cost | | (636,306) | 833.99 | 779.01 | 745.60 | (496) |
| Cancellation of shares | | (400,000) | 771.75 | 734.25 | 646.60 | (294) |
| Realised (gain) loss, net | | | | | | 151 |
| Exchangeable bond obligation | | | | | | (3) |
| Movement on derivatives on own shares, net | 22 | | | | | (246) |
| ▶ Balance at 31 December 2005 | | 257,952 | | | | 318 |

| | Note | Number | Price in Swiss francs | | | Total in millions of Swiss francs |
|---|---|---|---|---|---|---|
| | | | High | Average | Low | |
| ▶ Balance at 1 January 2004 as restated | | 114,362 | | | | 292 |
| Registered shares | | | | | | |
| Purchases at cost | | 903,275 | 777.69 | 700.37 | 623.37 | 633 |
| Sales and transfers at cost | | (225,375) | 774.11 | 669.08 | 640.00 | (151) |
| Cancellation of shares | | (200,000) | 691.50 | 636.61 | 566.00 | (127) |
| Realised (gain) loss, net | | | | | | 17 |
| Exchangeable bond obligation | | | | | | (5) |
| Movement on derivatives on own shares, net | 22 | | | | | 5 |
| ▶ Balance at 31 December 2004 | | 592,262 | | | | 664 |

### Restricted retained earnings and reserves

Restricted retained earnings and reserves include reserves required by statute or other local law in order to give to creditors an added measure of protection from the effects of losses. They include also any amounts received in excess of the par or stated value of registered shares issued.

### Dividend distributions

On 27 April 2005, the shareholders approved the distribution of an ordinary dividend of CHF 9.80 gross per share and the distribution of an extraordinary dividend of CHF 6.50 gross per share. Both dividends were paid on 2 May 2005. The distribution to holders of outstanding shares amounted to CHF 117 million and has been charged to retained earnings in 2005.

On 16 April 2004, the shareholders approved the distribution of an ordinary dividend of CHF 8.90 gross per share and the distribution of an extraordinary dividend of CHF 6.50 gross per share. Both dividends were paid on 21 April 2004. The distribution to holders of outstanding shares amounted to CHF 118 million and has been charged to retained earnings in 2004.

At the Annual General Meeting on 7 April 2006, the Board of Directors will propose an ordinary dividend in respect of the 2005 business year of CHF 17.60 gross per share amounting to a total dividend of CHF 130 million.

## 24. Contingent liabilities

From time to time and in varying degrees, Group operations and earnings continue to be affected by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which it operates.

The industries in which the Group is engaged are also subject to physical risks of various kinds. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

## 25. Cash flows from operations

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Result attributable to equity holders of the parent | 406 | 337 |
| Non-operating income and expenses | 107 | 143 |
| Operating profit | 513 | 480 |
| Depreciation of property, plant and equipment | 87 | 86 |
| Amortisation of intangible assets | 19 | 18 |
| Long lived assets impairment | 21 | |
| Other non-cash income and expenses | 42 | 29 |
| Adjustments for non-cash items | 169 | 133 |
| (Increase) decrease in inventories | (52) | 23 |
| (Increase) decrease in accounts receivable | (27) | (2) |
| (Increase) decrease in other current assets | 4 | (1) |
| Increase (decrease) in accounts payable | 14 | 1 |
| Increase (decrease) in other current liabilities | 8 | 5 |
| (Increase) decrease in working capital | (53) | 26 |
| Income taxes paid | (92) | (24) |
| Other operating cash flows, net | (35) | (29) |
| ▶ Cash flows from (for) operating activities | 502 | 586 |

## 26. Related parties

Transactions between Givaudan SA and its subsidiaries, which are related parties of Givaudan SA, have been eliminated on consolidation and are not disclosed in this note. The statutory financial statements of Givaudan SA are available on page 40.

### Compensation of key management personnel

The compensation of the Board of Directors and the Executive Committee during the year was as follows:

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Salaries and other short-term benefits | 8 | 7 |
| Post-employment benefits | 1 | 1 |
| Other long-term benefits | - | - |
| Share-based payments | 7 | 5 |
| ▶ Total compensation | 16 | 13 |

There are no other significant related party transactions.

## 27. List of principal Group companies

The following are the principal companies of the Group. The companies are wholly-owned unless otherwise indicated (percentage of voting rights). Share capitals are shown in thousands of currency units.

| | | | |
|---|---|---|---|
| Switzerland | Givaudan SA | CHF | 74,000 |
| | Givaudan Suisse SA | CHF | 4,000 |
| | Givaudan Finance SA | CHF | 300,000 |
| | Givaudan International SA | CHF | 100 |
| Argentina | Givaudan Argentina SA | ARS | 10 |
| Australia | Givaudan Australia Pty Limited | AUD | 10 |
| Bermuda | Givaudan International Ltd | USD | 12 |
| | FF Holdings (Bermuda) Ltd | USD | 12 |
| | FF Insurance Ltd | CHF | 170 |
| Brazil | Givaudan do Brasil Ltda | BRL | 26,184 |
| Canada | Givaudan Canada Co | CAD | 12,901 |
| China | Shanghai Givaudan Ltd | USD | 7,750 |
| Colombia | Givaudan Colombia SA | COP | 6,965,925 |
| France | Givaudan Participation SAS | EUR | 41,067 |
| | Givaudan France Fragrances SAS | EUR | 9,600 |
| | Givaudan France Arômes SAS | EUR | 1,714 |
| Germany | Givaudan Deutschland GmbH | EUR | 4,100 |
| India | Givaudan (India) Private Limited | INR | 115,000 |
| | Vinarom Private Limited | INR | 80,335 |
| Indonesia | P.T. Givaudan Indonesia | IDR | 1,215,600 |
| Japan | Givaudan Japan KK | JPY | 1,000,000 |
| Malaysia | Givaudan Malaysia Sdn Bhd | MYR | 200 |
| Mexico | Givaudan de Mexico SA de CV | MXN | 51,760 |
| Netherlands | Givaudan Nederland BV | EUR | 4,050 |
| Singapore | Givaudan Singapore Pte Ltd | SGD | 12,012 |
| South Africa | Givaudan South Africa (Pty) Ltd | ZAR | 2 |
| South Korea | Givaudan Korea Ltd | KRW | 550,010 |
| Spain | Givaudan Ibérica, SA | EUR | 8,020 |
| Thailand | Givaudan (Thailand) Ltd (79%) | THB | 15,400 |
| United Kingdom | Givaudan UK Ltd | GBP | 15,700 |
| U.S.A. | Givaudan (United States) Inc | USD | 0.05 |
| | Givaudan Fragrances Corporation | USD | 0.1 |
| | Givaudan Flavors Corporation | USD | 0.1 |
| | Givaudan Flavors, Inc | USD | 1.4 |

## 28. Subsequent event

On 10 January 2006, the Group publicly announced a restructuring programme in the USA to consolidate its flavour operating asset base and to streamline its Savoury product portfolio. It includes the closing of its US production sites in New Milford (Connecticut) and Oconomowoc (Wisconsin). The activities of these two sites will be transferred to Cincinnati (Ohio) and Devon (Kentucky). Asset impairments of CHF 16 million have been recognised in the 2005 consolidated financial statements and restructuring provisions of CHF 6 million have been created in 2006 to cover the estimated financial effects of this initiative. They are expected to be fully utilised by mid 2007.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA
Avenue Giuseppe-Motta 50
1211 Geneva
Switzerland
Telephone +41 58 792 91 00
Fax +41 58 792 91 10

Report of the Group Auditors
to the General Meeting of Givaudan SA
Vernier

As auditors of the Group, we have audited the Consolidated Financial Statements of the Givaudan Group on pages 4 to 38 for the year ended 31 December 2005. These Consolidated Financial Statements are the responsibility of the Board of Directors of Givaudan SA. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Consolidated Financial Statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation.
We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements of the Givaudan Group present fairly, in all material respects, the financial position at 31 December 2005, and the results of operations and the cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with relevant Swiss law.

We recommend that the Consolidated Financial Statements submitted to you be approved.

PricewaterhouseCoopers SA

Ralph R. Reinertsen Felix Roth

Geneva, 17 February 2006

# Statutory Financial Statements of Givaudan SA (Group Holding Company)

## Income Statement for the Year Ended 31 December

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Income from investments in Group companies | 372 | 101 |
| Royalties from Group companies | 337 | 281 |
| Interest income from Group companies | 9 | 5 |
| Other income | 139 | 166 |
| Total income | 857 | 553 |
| Research and development expenses to Group companies | (117) | (116) |
| Interest expense | (21) | (18) |
| Amortisation of intangible assets | (17) | (17) |
| Other financial expenses | (273) | (128) |
| Other expenses | (24) | (8) |
| Withholding taxes and capital taxes | (6) | (6) |
| Total expenses | (458) | (293) |
| ▶ Profit before taxes | 399 | 260 |
| Income taxes | (2) | (12) |
| ▶ Net profit | 397 | 248 |

## Balance Sheet at 31 December

| *in millions of Swiss francs* | 2005 | 2004 |
|---|---|---|
| Cash and cash equivalents | 93 | 140 |
| Marketable securities | 187 | 260 |
| Treasury shares allotted to share buy back programme | 178 | 308 |
| Accounts receivable from Group companies | 37 | 18 |
| Other current assets | 77 | 146 |
| Current assets | 572 | 872 |
| Investments in Group companies | 1,421 | 1,422 |
| Loans to Group companies | 545 | 414 |
| Other long-term investments | - | - |
| Intangible assets | 276 | 293 |
| Non-current assets | 2,242 | 2,129 |
| ▶ Total assets | 2,814 | 3,001 |
| Loans from banks | 152 | 152 |
| Accounts payable to Group companies | 19 | 45 |
| Other payables and accrued liabilities | 141 | 147 |
| Current liabilities | 312 | 344 |
| Loans from Group companies | 563 | 704 |
| Non-current liabilities | 563 | 704 |
| ▶ Total liabilities | 875 | 1,048 |
| Share capital | 74 | 78 |
| General legal reserve | 66 | 66 |
| Reserve for own equity instruments | 197 | 428 |
| Free reserve | 1,084 | 982 |
| Retained earnings | | |
| Balance brought forward from previous year | 121 | 151 |
| Net profit of the year | 397 | 248 |
| ▶ Equity | 1,939 | 1,953 |
| ▶ Total liabilities and equity | 2,814 | 3,001 |

## Notes to the Statutory Financial Statements

### 1. General

The financial statements of Givaudan SA, Vernier near Geneva in Switzerland, are prepared in accordance with the provisions of Swiss company law and accepted business principles.

### 2. Valuation methods and translation of foreign currencies

Investments in, and loans to and from, Group companies are stated respectively at cost and nominal value less appropriate write-downs. Marketable securities are shown at the lower of cost and market value. Derivatives are re-valued at fair value.

In the balance sheet, foreign currency assets and liabilities are re-measured at year-end exchange rates with the exception of investments in Group companies which are valued at historical exchange rates. Foreign currency gains and losses are recorded in the income statement except for unrealised foreign currency gains which are deferred in the balance sheet.

### 3. Guarantees

Guarantees issued in favour of Group companies amounted to CHF 300 million (2004: CHF 572 million).

### 4. Equity

At 31 December 2005, the share capital amounts to CHF 74,000,000 divided into 7,400,000 fully paid-up registered shares with a nominal value of CHF 10 each. Every share gives the right to one vote. The board of directors has at its disposal conditional capital of a maximum aggregate amount of CHF 10,000,000 that may be issued through a maximum of 1,000,000 registered shares, of which a maximum of CHF 1,000,000 can be used for executive share options plans. The Board of Directors is authorised until 16 April 2006 to increase the share capital by up to CHF 10,000,000 through the issuance of a maximum of 1,000,000 fully paid-in registered shares with a par value of CHF 10 per share (2004: no authorised share capital was available).

On 30 June 2003, the Group started a share buy back programme that was originally planned to last until 30 June 2004. On 14 June 2004, the Board of Directors resolved to extend this programme until 30 June 2005. The Group intends to reduce its share capital of 8,000,000 to 7,200,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 800,000 registered shares (representing 10% of the share capital) is made through a second trading line on virt-x. On 3 May 2005, the Group had completed its share buy back programme with the repurchase of 800,000 registered shares over a second trading line on virt-x. At the Annual General Meeting on 16 April 2004, the shareholders agreed with the cancellation of 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.5%, from CHF 80,000,000 to CHF 78,000,000. The cancellation became effective on 5 July 2004. At the Annual General Meeting on 27 April 2005, the shareholders agreed with the cancellation of a further 400,000 repurchased shares and with the corresponding reduction of the share capital by 5.1%, from CHF 78,000,000 to CHF 74,000,000. The cancellation became effective on 14 July 2005. The Group intends to cancel the remaining 200,000 repurchased shares, resulting in the corresponding reduction of the share capital by 2.7% from CHF 74,000,000 to CHF 72,000,000. The cancellation of these shares must be approved by the Group's shareholders and will be proposed to the Annual General Meeting on 7 April 2006.

On 6 May 2005, the Group started a further share buy back programme that will last until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. The Group intends to reduce its share capital of 7,200,000 to 6,480,000 registered shares with a subsequent cancellation of the shares bought back. The buying of a maximum of 720,000 registered shares (representing 10% of the share capital) is made through a second trading line on virt-x. The cancellation of the shares must be approved by the Group's shareholders. By 17 February 2006, the Group had repurchased 34,800 registered shares under this share buy back programme.

Movements in treasury shares are as follows:

| | Number | Price in Swiss francs | | | Total in millions of Swiss francs |
|---|---|---|---|---|---|
| | | High | Average | Low | |
| ▶ Balance at 1 January 2005 | 592,262 | 777.69 | 722.31 | 566.00 | 428 |
| Purchases at cost | 701,996 | 840.00 | 771.50 | 735.33 | 542 |
| Sales and transfers at cost | (636,306) | 833.99 | 752.94 | 745.60 | (479) |
| Cancellation of shares | (400,000) | 771.75 | 734.25 | 646.60 | (294) |
| ▶ Balance at 31 December 2005 | 257,952 | 840.00 | 762.18 | 646.60 | 197 |

| | Number | Price in Swiss francs | | | Total in millions of Swiss francs |
|---|---|---|---|---|---|
| | | High | Average | Low | |
| ▶ Balance at 1 January 2004 | 114,362 | 627.50 | 548.57 | 446.20 | 63 |
| Purchases at cost | 903,275 | 777.69 | 700.37 | 623.37 | 633 |
| Sales and transfers at cost | (225,375) | 774.11 | 669.08 | 640.00 | (141) |
| Cancellation of shares | (200,000) | 691.50 | 636.61 | 566.00 | (127) |
| ▶ Balance at 31 December 2004 | 592,262 | 777.69 | 722.31 | 566.00 | 428 |

As 31 December 2005, there are no other companies controlled by Givaudan SA that hold Givaudan SA shares.

According to the information available to the Board of Directors at 31 December 2005, Nestlé SA with 11.66% (2004: 11.06%) and Chase Nominees Ltd with 5.03% (2004: nil) of Givaudan shares, were the only shareholders registered with voting rights who held more than 5% of the total share capital.

## 5. Movements in equity

| *in millions of Swiss francs* | Share Capital | General legal reserve | Reserve for own equity instruments | Free reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| ▶ Balance at 1 January 2005 | 78 | 66 | 428 | 982 | 399 | 1,953 |
| Cancellation of shares | (4) | - | - | (290) | - | (294) |
| Appropriation of available earnings | | | | | | |
| Transfer to the general legal reserve | - | - | - | 150 | (150) | - |
| Dividend paid relating to 2004 | - | - | - | 11 | (128) | (117) |
| Transfer from the reserve for own equity instruments | | | (231) | 231 | | |
| Net profit of the year | - | - | - | - | 397 | 397 |
| ▶ Balance at 31 December 2005 | 74 | 66 | 197 | 1,084 | 518 | 1,939 |

| *in millions of Swiss francs* | Share Capital | General legal reserve | Reserve for own equity instruments | Free reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| ▶ Balance at 1 January 2004 | 80 | 66 | 63 | 1,316 | 424 | 1,949 |
| Cancellation of shares | (2) | - | - | (125) | - | (127) |
| Appropriation of available earnings | | | | | | |
| Transfer to the general legal reserve | - | - | - | 150 | (150) | - |
| Dividend paid relating to 2003 | - | - | - | 6 | (123) | (117) |
| Transfer to the reserve for own equity instruments | | | 365 | (365) | - | - |
| Net profit of the year | - | - | - | - | 248 | 248 |
| ▶ Balance at 31 December 2004 | 78 | 66 | 428 | 982 | 399 | 1,953 |

## 6. List of principal direct subsidiaries

The following are the principal direct subsidiaries of the company, which are wholly-owned unless otherwise indicated (percentage of voting rights).

| | |
|---|---|
| Switzerland | Givaudan Suisse SA |
| | Givaudan Finance SA |
| | Givaudan International SA |
| Argentina | Givaudan Argentina SA |
| Australia | Givaudan Australia Pty Limited |
| Brazil | Givaudan do Brasil Ltda |
| China | Shanghai Givaudan Ltd |
| Colombia | Givaudan Colombia SA |
| France | Givaudan Participation SAS |
| Germany | Givaudan Deutschland GmbH |
| India | Givaudan (India) Private Limited |
| Indonesia | P.T. Givaudan Indonesia |
| Japan | Givaudan Japan KK |
| Malaysia | Givaudan Malaysia Sdn Bhd |
| Mexico | Givaudan de Mexico SA de CV |
| Netherlands | Givaudan Nederland BV |
| Singapore | Givaudan Singapore Pte Ltd |
| South Africa | Givaudan South Africa (Pty) Ltd |
| South Korea | Givaudan Korea Ltd |
| Spain | Givaudan Ibérica, SA |
| Thailand | Givaudan (Thailand) Ltd (79%) |
| United Kingdom | Givaudan UK Ltd |

# Appropriation of Available Earnings of Givaudan SA

## Proposal of the Board of Directors to the General Meeting of Shareholders

| *in Swiss francs* | 2005 | 2004 |
|---|---|---|
| Net profit of the year | 397,447,090 | 247,905,715 |
| Balance brought forward from previous year | 121,183,755 | 150,418,040 |
| ▶ Total available earnings | 518,630,845 | 398,323,755 |
| Transfer to general legal reserve | - | - |
| Distribution of an ordinary dividend of CHF 17.60 gross per share (2004: CHF 9.80) | 130,240,000 | 76,440,000 |
| Distribution of an extraordinary dividend of CHF 6.50 gross per share in 2004 | | 50,700,000 |
| Transfer to free reserve | 200,000,000 | 150,000,000 |
| ▶ Total appropriation of available earnings | 330,240,000 | 277,140,000 |
| ▶ Amount to be carried forward | 188,390,845 | 121,183,755 |

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA
Avenue Giuseppe-Motta 50
1211 Geneva
Switzerland
Telephone +41 58 792 91 00
Fax +41 58 792 91 10

Report of the Statutory Auditors
to the General Meeting of Givaudan SA
Vernier

As statutory auditors, we have audited the accounting records and the financial statements on pages 40 to 45 of Givaudan SA for the year ended 31 December 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with relevant Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Ralph R. Reinertsen

Felix Roth

Geneva, 17 February 2006

# Contact


## Givaudan SA

Chemin de la Parfumerie 5
CH – 1214 Vernier, Switzerland
T + 41 22 780 91 11
F + 41 22 780 91 50
www.givaudan.com


# Credits


## Photos

Antoine Icard
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Givaudan SA Chemin de la Parfumerie 5, CH-1214 Vernier, Switzerland
T +41 22 780 91 11 • F +41 22 780 91 50 • www.givaudan.com