Givaudan

# Half Year Report 2001

Creating Sensory Advantage™

# Healthy Growth in Sales and Net Profit

Givaudan maintained a healthy growth momentum in the first half of 2001 while further improving operating and net margins. Sales grew by 5% in both Swiss Francs and local currencies. Key growth drivers were the overall good performance of the Flavour Division and the Fragrance Consumer Products segment. Our efforts to focus on our core customers, while further improving operational efficiency, were sucessful. Our new online product offering, GivaudanAccess™, which was launched mid-July in North America, will enable Givaudan to efficiently serve a broader customer base and thereby generate accelerated profitable sales.

GivaudanAccess™ operates as a focused self-contained unit. Despite increasing price pressure in a highly competitive market, the operating profit margin improved in pro forma terms by 0.2 percentage points to 17.6% of sales. Thanks to the good operating performance and the improvements in financial results, net income in pro forma terms rose by 16% to CHF 149 million. Barring unforeseen events Givaudan expects an overall good result for the full year 2001.

# Key Figures

Six months ended 30 June

| *in millions of Swiss francs* | 2001 | 2000[1] | % Change |
|---|---|---|---|
| Sales | 1,259 | 1,203 | 5 |
| Operating profit | 222 | 209 | 6 |
| Operating profit margin | 17.6% | 17.4% | |
| Net income | 149 | 129 | 16 |
| EBITDA[2] | 295 | 276 | 7 |
| Earnings per share – basic and diluted (CHF)[3] | 17.91 | 14.99 | |

| | 30 June 2001 | 31 December 2000 | |
|---|---|---|---|
| Total assets | 4,624 | 4,114 | |
| Total liabilities | 1,734 | 1,432 | |
| Total equity and minority interest | 2,890 | 2,682 | |
| Number of employees at 30 June | 5,168 | 4,996 | |

*1) On 8 June 2000, the Fragrance and Flavour Division of the Roche Group was spun off as an independent company under the name of Givaudan. The 2000 income statement key figures shown in the table above are pro forma information which are derived from the Consolidated Income Statement as if the spin-off had occurred on 1 January 1999.*

*2) EBITDA: **E**arnings **B**efore **I**nterest (and other financial income), **T**ax, **D**epreciation and **A**mortisation. This corresponds to operating profit before depreciation and amortisation.*

*3) The 2000 pro forma weighted average number of shares outstanding assumed an unchanged share capital of 8,605,327 shares for the first semester 2000. The weighted average number of shares outstanding is 8,320,990 in 2001 (see Note 6 of the notes to the Interim Condensed Consolidated Financial Statements).*

# Business Overview

In the first semester 2001, Givaudan recorded sales of CHF 1,259 million compared to CHF 1,203 million in 2000, with both divisions showing a healthy increase both in Swiss Francs and local currencies. On a regional basis, Asia Pacific outperformed all other regions, showing double-digit growth in both divisions, followed by Latin America. North America and Europe also showed positive growth in both divisions.

In mid-July, GivaudanAccess™ – the new Givaudan Internet initiative to broaden its customer base – was successfully launched in North America. More than 1000 potential customers have already enrolled. Givaudan expects rapidly accelerated sales which by the year 2005 should result in a 10% market share in this CHF 5 billion fragrance and flavour market of midsize and small customers.

Capitalising on our global purchasing leverage and efficient management of our production facilities the gross profit margin was maintained at 47.9%. Major investments in our operating base and in our IT-based business systems over the last few years have led to sustainable supply chain improvements. Thanks to our state-of-the-art operating asset base no major new investment projects in fixed assets were initiated.

Research, development, marketing and distribution costs increased to CHF 289 million. This includes part of the set-up expenses for our new Fine Fragrance creation centers in New York and Paris, which will be opened respectively this autumn and in early 2002. It also reflects our new investments in research and in new technologies. Building on innovation is vital to expand our competitive edge as an industry leader. The innovation rate of our two fundamental research centres in Dübendorf (Zurich, Switzerland), for Fragrances, and in Cincinnati (Ohio, USA), for Flavours, remained high with a total of 27 new patent applications in the first half of this year.

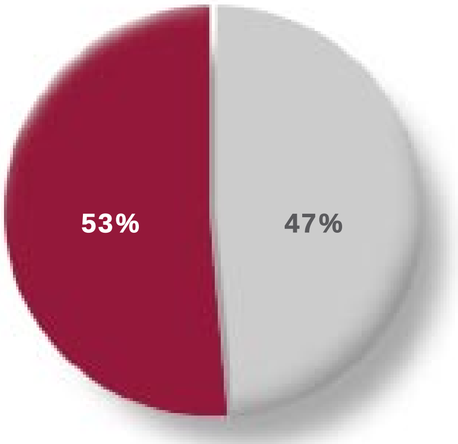
The increase in marketing and research spending was partly offset by the decrease in other operating expenses. Thus, operating profit grew by 6% to reach CHF 222 million, representing 17.6% of sales compared to 17.4% in 2000.

For the six months ended 30 June net income improved by 16% to CHF 149 million representing 11.8% of sales compared to 10.7% in 2000.

## Sales by Division

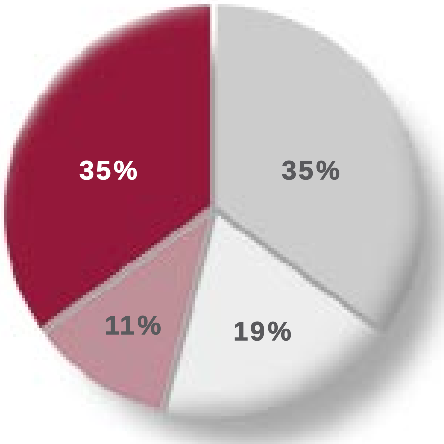
**Sales Flavours**
CHF 671 million
+6% in Swiss francs
+7% local currencies

**Sales Fragrances**
CHF 588 million
+3% in both Swiss francs and local currencies




**Total sales**
CHF 1,259 million
+5% in both Swiss francs and local currencies

## Sales by Region




Sales are stated by destination

# Fragrance Division

| Six months ended 30 June | 2001 | 2000 | |
|---|---|---|---|
| *in millions of Swiss francs* | Actual | Pro forma[1] | Actual |
| Sales to third parties | 588 | 572 | 572 |
| EBITDA | 116 | 109 | 99 |
| *as % of sales* | *19.7%* | *19.1%* | *17.3%* |
| Operating Profit | 97 | 93 | 83 |
| *as % of sales* | *16.5%* | *16.3%* | *14.5%* |

*1) On 8 June 2000, the Fragrance and Flavour Division of the Roche Group was spun off as an independent company under the name of Givaudan. The 2000 segment information figures shown in the table above are pro forma information which are derived from the Consolidated Income Statement as if the spin-off had occurred on 1 January 1999.*

In the first half year 2001, the Fragrance Division recorded sales of CHF 588 million, which represents a growth of 3% in both Swiss francs and local currencies compared to the first half 2000. EBITDA grew by 6% to CHF 116 million whereas operating profit increased by 4% to reach CHF 97 million.

## Fine Fragrances

Fine Fragrance sales in local currencies slightly decreased, due to eroding quantities of older wins which were not totally off-set by new wins. Sales to niche and smaller independent players, bringing innovation to the luxury perfume market, showed a good increase. Several new wins in the fourth quarter of 2000 and in the first half 2001 should translate into sales growth in the second half of 2001.

At the 29th Annual FiFi Awards on 5 June 2001 in New York, Givaudan's Virtual Aroma Synthesizer (VAS) won the prize for the Technological Breakthrough of the Year. This creation tool enables perfumers and flavourists to speed up their creation process and allows interactive creation with clients. Gucci's Rush for Men, created by Givaudan, won the FiFi Award for the best men's introduction.

The preparatory work to open two new Fine Fragrance creation centres in downtown Paris and New York was started. They will enable closer contact with our main customers in order to better serve their needs for new creations and market trend knowledge.

## Consumer Products

The Consumer Products business unit recovered from last year's flat development and showed good growth in local currencies, particularly in Asia Pacific with double-digit growth and in Europe. Latin America remained flat and North America showed promising signs of recovery.

Significant wins in the toiletries, laundry and personal wash segments contributed to the good growth of the business unit. The household segment remained flat, but important new wins should translate into growth in the second half of the year. The portfolio of new projects won in the first half year, together with a strong project pipeline should enable the Consumer Products segment to maintain the growth momentum in the second half of the year.

## Fragrance Ingredients

Sales in the Fragrance Ingredients Business Unit remained flat despite a double-digit increase in sales of aroma chemicals. The strong growth of aroma chemicals could not compensate for the continuing decrease in sales of cosmetic ingredients and pharmaceutical intermediates.

In aroma chemicals, over-capacity still have a negative influence on prices. The strategy to promote sales of specialities developed by Givaudan's research was rewarded by sizeable sales of new molecules like Peonile or the powerful Labienoxime. The rich pipeline of new patented ingredients will allow us to continue with this success. The expansion of our distributor network in Asia Pacific and Latin America had a positive impact on sales in these regions.

## Fragrance Research

Fragrance Research kept its innovation rate at the same high level as last year. In the first half year, 16 new patent applications were filed whereas in the same period 17 patents were granted to Givaudan.

With the installation of a granulator the investment for the set-up of a dedicated pilot plant for the development of encapsulated fragrances was completed, representing an important step into expanding our expertise in delivery systems.

This year's first ScentTrek™ mission was carried out in Papua New Guinea. It was the first time that natural scents from this island were scientifically investigated. They are in the form of reconstitutions already available to Givaudan's perfumers.

# Flavour Division

| Six months ended 30 June | 2001 | 2000 | |
|---|---|---|---|
| *in millions of Swiss francs* | **Actual** | **Pro forma[1]** | **Actual** |
| Sales to third parties | 671 | 631 | 631 |
| EBITDA | 179 | 167 | 156 |
| *as % of sales* | *26.7%* | *26.5%* | *24.7%* |
| Operating Profit | 125 | 116 | 105 |
| *as % of sales* | *18.6%* | *18.4%* | *16.6%* |

*1) On 8 June 2000, the Fragrance and Flavour Division of the Roche Group was spun off as an independent company under the name of Givaudan. The 2000 segment information figures shown in the table above are pro forma information which are derived from the Consolidated Income Statement as if the spin-off had occurred on 1 January 1999.*

In the first half 2001, the Flavour Division recorded sales of CHF 671 million, which represents a growth of 6% in Swiss Francs and 7% in local currencies compared to first half 2000. EBITDA grew by 7% to CHF 179 million whereas operating profit increased by 8% to reach CHF 125 million.

All regions recorded good growth with Asia Pacific leading the way with a double-digit increase. Major project wins in all segments: beverages, confectionery, diary and savoury as well as new business in the food service area contributed to this success.

## Asia Pacific

In Asia Pacific Givaudan posted double-digit growth in local currency terms, solidifying the strong position in this fast growing area. Good growth was also achieved in the more mature markets of Japan and Australia.

Major wins in beverages, the largest business segment, contributed to this result. The confectionery segment showed good growth in the whole region and posted a strong double-digit growth in China. The dairy segment grew in line with the regional market, but outperformed in the Chinese market with double-digit growth. Efforts were intensified to develop the savoury business, including food service, to serve this rapidly evolving market segment.

## Latin America

Latin America continued its solid growth established in the second half of 2000 by recording strong growth despite unfavourable economic conditions in the southern part. Mexico and Brazil delivered double-digit growth. This was driven by new wins from the beverage, confectionery and dairy segments.

## North America

Sales in North America (USA and Canada) continued their favourable trend from the first quarter by posting solid growth in the second quarter and for the half year. The commercial organisation in North America was further strengthened and the interface between the North American production centres improved. The confectionery, dairy and savoury segments posted strong year on year gains, driven by new business wins and new sales from the food service segment. A substantial number of projects with core customers and in food service gives us confidence in the future.

## Europe, Africa and the Middle East

European sales grew versus last year despite slow economic growth. The beverage and confectionery segments delivered strong growth for the region as important new wins had a major impact in the second quarter. The project portfolio continues to develop favourably and the production set-up at our European compounding centres was further optimised.

## Flavour Research

Flavour Research in Cincinnati continued to expand its activities in the domain of flavour and sensory science as well as in flavour delivery and natural products discovery. In the reporting period, 11 patents were filed for various flavour-related processes, applications and technologies.

In the area of external collaboration, Givaudan strengthened its links with the Monell Chemical Senses Center in Philadelphia (USA) to investigate aroma and taste molecular biology. A further TasteTrek™ Asia was undertaken to analyse and recreate different ethnic cuisine.

# Interim Condensed Consolidated Financial Statements

## Consolidated Income Statement for the Six Months Ended 30 June

| *in millions of Swiss francs, except per share data* | Note | 2001 Actual | 2000 Pro forma[a)] | 2000 Actual |
|---|---|---|---|---|
| Sales | 4 | 1,259 | 1,203 | 1,203 |
| Cost of sales | | (656) | (626) | (626) |
| **Gross profit** | | **603** | **577** | **577** |
| *as % of sales* | | *47.9%* | *48.0%* | *48.0%* |
| Marketing, development and distribution expenses | 5 | (289) | (271) | (271) |
| Administration expenses | | (44) | (44) | (40) |
| Amortisation of intangible assets | | (36) | (35) | (35) |
| Other operating income (expenses), net | | (12) | (18) | (43) |
| **Operating profit** | | **222** | **209** | **188** |
| *as % of sales* | | *17.6%* | *17.4%* | *15.6%* |
| Financial income (expenses), net | | (5) | (21) | (71) |
| **Result before taxes** | | **217** | **188** | **117** |
| Income taxes | | (67) | (58) | (42) |
| **Result after taxes** | | **150** | **130** | **75** |
| Minority interest | | (1) | (1) | (1) |
| **Net income** | | **149** | **129** | **74** |
| *as % of sales* | | *11.8%* | *10.7%* | *6.2%* |
| **Earnings per share – basic and diluted (CHF)** | 6 | **17.91** | **14.99** | **25.22** |

## Consolidated Balance Sheet

| *in millions of Swiss francs* | Note | 30 June 2001 | 31 December 2000 |
|---|---|---|---|
| Current assets | | 2,100 | 1,722 |
| Non-current assets | | 2,524 | 2,392 |
| **Total assets** | | **4,624** | **4,114** |
| **Current liabilities** | | **811** | **882** |
| **Non-current liabilities** | 10 | **923** | **550** |
| **Minority interest** | | **4** | **3** |
| *Share capital* | | *86* | *86* |
| *Retained earnings, reserves and other equity components* | | *2,800* | *2,593* |
| **Equity** | | **2,886** | **2,679** |
| **Total liabilities, minority interest and equity** | | **4,624** | **4,114** |

## Consolidated Statement of Changes in Equity for the Six Months Ended 30 June

| *in millions of Swiss francs* | Note | 2001 Actual | 2000 Pro forma[a] | 2000 Actual |
|---|---|---|---|---|
| **Share capital** | | | | |
| Balance at 1 January | | 86 | 86 | 6 |
| Issue of shares | | - | - | 80 |
| **Balance at 30 June** | | **86** | **86** | **86** |
| **Retained earnings, reserves and other equity components** | | | | |
| Balance at 1 January | | 2,593 | 2,488 | 725 |
| Cumulative effect of adoption of IAS39 | 3 | 15 | - | - |
| As restated | | 2,608 | 2,488 | 725 |
| Dividends paid | 7 | (54) | - | - |
| Net income | | 149 | 129 | 74 |
| Re-assignment of assets | 8 | - | - | 1,763 |
| Net movement of available-for-sale equity reserve | | (39) | - | - |
| Net movement of own equity instruments | 9 | 40 | (10) | (10) |
| Equity component of exchangeable bond | 10 | 11 | - | - |
| Currency translation differences | | 85 | (8) | 38 |
| **Balance at 30 June** | | **2,800** | **2,599** | **2,590** |
| **Total equity at 30 June** | | **2,886** | **2,685** | **2,676** |

## Consolidated Cash Flow Statement for the Six Months Ended 30 June

| *in millions of Swiss francs* | 2001 Actual | 2000 Pro forma[a] | 2000 Actual |
|---|---|---|---|
| **Cash flows from (for) operating activities** | **215** | **186** | **190** |
| **Cash flows from (for) financing activities** | **228** | **93** | **189** |
| **Cash flows from (for) investing activities** | **(315)** | **(89)** | **(89)** |
| Net effect of currency translation on cash | 2 | 15 | 15 |
| Increase (decrease) in cash | 130 | 205 | 305 |
| Cash at the beginning of the year | 280 | 215 | 115 |
| **Cash at the end of June** | **410** | **420** | **420** |

**[a] Pro forma information**

*Pro forma information for 2000 is presented for illustrative purposes only and, because of their nature, cannot give a complete financial picture of the Group. The pro forma information shows what the significant effects on the income statement might have been had the spin-off from the Roche Group occurred on 1 January 1999. The adjustments to the 2000 consolidated income statement include:*

- *increase in administrative expenses, reflecting estimated additional costs of being an independent publicly held company;*
- *decrease in operating expenses, reflecting one-time expenses related to the spin-off;*
- *decrease in financial expenses, reflecting stamp duty paid in connection with the spin-off, as well as a decrease in interest expense as a result of repayments of certain debt and of balances due to Roche companies;*
- *increase in income tax expenses due to the adjustments described above; and*
- *weighted average number of shares outstanding assumed an unchanging share capital of 8,605,327 shares.*

# Notes to the Interim Condensed Consolidated Financial Statements

## 1. Group organisation

Givaudan SA and its subsidiaries (hereafter 'the Group'), operate under the name Givaudan. 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 in more than 20 countries.

## 2. Basis of preparation of financial statements

These financial statements are the interim condensed consolidated financial statements (hereafter 'the interim financial statements') of the Group for the six-month period ended 30 June 2001 (hereafter 'the interim period'). They are prepared in accordance with and comply with the International Accounting Standard 34, Interim Financial Reporting.

The interim financial statements include the operations of Givaudan SA and its controlled subsidiaries 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.

These interim financial statements should be read in conjunction with the Half Year 2000 report and the Annual Report 2000 as they provide an update of the most recent financial information available. These interim financial statements are not audited.

In the preparation of these interim financial statements, the Group has kept the same accounting policies used in the Annual Report 2000 except those related to the International Accounting Standard 39, Financial Instruments: Recognition and Measurement (see Note 3).

In addition to IAS39, the implementation of revised or new standards issued by the International Accounting Standards Board that became effective from 1 January 2001 was completed and did not result in any significant adjustments.

The Group operates in markets where no significant seasonal or cyclical variations in sales are experienced during the financial year.

Income tax expense is recognised based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

## 3. Changes in accounting policies

The accounting for most financial instruments held by the Group have been affected by the introduction of International Accounting Standard 39, Financial Instruments : Recognition and Measurement.

As from 1 January 2001, all marketable securities are initially recorded at acquisition cost and are generally treated as available-for-sale financial assets. At each period end the book value is adjusted to the current fair value with a corresponding entry in equity. Realised gain or loss is recognised in the income statement upon disposal of marketable securities. Previously, marketable securities were carried at the lower of either cost or market value.

Derivatives are entered into for providing effective economic hedges. Under the conditions set out in IAS39, they do not qualify for hedge accounting and are treated as held-for-trading financial instruments. They are initially recorded at cost. At period-end, the derivatives are re-valued at fair value 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.

As a result of the implementation of IAS39 the Group has increased by CHF 15 million its opening equity balance. The change in accounting policies will not affect the Group's future cash flows.

The proceeds, net of expenses, of debt securities with embedded derivatives are accounted by splitting the debt element recognised as a liability and conversion option recorded in equity in proportion to their fair market values at the time of issue.

## 4. Segment information

Segment information is included in the respective divisional comments. Sales to Roche are considered as third party from January 2000.

## 5. Marketing, development and distribution expenses

In the six months ended 30 June the expenses for product development and research activities amounted to CHF 98 million in 2000 and CHF 99 million in 2001. These expenses are included in the consolidated income statement under marketing, development and distribution expenses.

## 6. Earnings per share

Earnings per share amounts shown are for both basic and diluted. The diluted earnings per share are the same as the basic earnings per share as there are no dilutive potential options or dilutive potential ordinary shares. The actual 2000 weighted average number of shares outstanding is 2,934,679 and takes into account the shares split and the capital increase. The weighted average number of shares oustanding is 8,320,990 in 2001.

## 7. Dividends paid

At the Annual General Meeting held on 18 May 2001, the distribution of an ordinary dividend of CHF 6.50 gross per share was approved. The dividend was paid on 23 May 2001.

## 8. Re-assignment of assets

In accordance with the spin-off agreement, Roche contributed some CHF 1,763 million to Givaudan in 2000. This was done in the form of re-assignment of assets consisting of cash and cancellation of balances due to Roche companies.

## 9. Own equity instruments

The Group holds its own equity instruments to meet the anticipated obligations related to the executive share options plan and to the guaranteed exchangeable bonds issued on 7 June 2001. On 30 June 2001, the Group held 222,429 own shares.

## 10. Debt

On 7 June 2001 the Group issued a 1% exchangeable bond with a principal amount of USD 200 million. The bond was issued by Givaudan United States, Inc., and is guaranteed by Givaudan SA (Holding company). It is exchangeable into ordinary registered shares of Givaudan SA. The maturity of the bond is 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 (CHF 339 million).

# Givaudan Agenda

| | |
|---|---|
| 14 September 2001 | Research and Development Day |
| 11 October 2001 | Nine Months Sales |
| 6 March 2002 | Full Year Results |
| 10 April 2002 | First Quarter Sales |
| 26 April 2002 | Annual General Meeting |
| 14 August 2002 | Half Year Report |
| 10 October 2002 | Nine Months Sales |

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