

# Performance review

The 2016 business performance for the Group and our divisions are detailed in the following section. Also included is an overview of our business environment in addition to our risk management, compliance and regulatory.

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# Our value creation through financial performance and outcomes

Our business and financial performance measurement system helps us understand what drives value and what managers must have in place to measure performance and capture information on all aspects of the business.

## CHF 597 million

Free cash flow

Our free cash flow position is in line with the average financial targets we aim to achieve by 2020.

## CHF 56

proposed cash dividend per share

This proposed cash return for 2016 will be the 16<sup>th</sup> consecutive increase in earnings distributed to shareholders since the Company's listing on the Swiss stock exchange, if approved at the Annual General Meeting in March 2017.



# Business environment and markets

## Operating in a fast-changing landscape

We operate in a landscape of fast-changing demographics; shifting consumer preferences that are driven by influences such as an ageing population, rising urbanisation and increased demand for natural and healthy products; and continuous change from new technologies and digitalisation.

### Economic and regulatory environment

Givaudan is the leading company in the flavour and fragrance industry with approximately 25% market share. We create and sell flavours for the food and beverage industry, and fragrances for personal, home and laundry care brands. We are expanding these traditional segments to include active cosmetic ingredients.

We have a global presence with over 10,000 employees in 49 countries at 98 sites, 39 of which are production sites. In Group sales, 52% are in Flavour Division and 48% are in Fragrance Division; 45% of our sales are in the high growth markets of Asia, Latin America, Africa, the Middle East and Eastern Europe, while 55% are in the mature markets of Western Europe, North America and Oceania.

Through targeted investments, we focus our efforts on best serving our customers and maximising our growth opportunities. Acquisitions are an important part of our growth model, with our acquisition in 2016 of Spicetec following those of Soliance and Induchem in 2014 and 2015 respectively.

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The flavour and fragrance industry has grown steadily for at least the past four years and is estimated to be worth approximately CHF 18 billion. The largest companies, which include Givaudan, Firmenich, IFF and Symrise, make up more than two-thirds of the market while the rest of the industry is fragmented with many smaller players. Local taste preferences and consumer behaviours influence our industry, but there are also trends that affect the demand for products and services in which flavours and fragrances are used. In the following section we describe three megatrends that we see as the most relevant for our business: the growing consumer base, people's longer and more responsible lives, and the increasingly connected world.

### Market developments, industry trends and competitive environment

The world's population is to rise by 2020 to an estimated 7.7 billion, of whom 55% will live in cities. In a complex and volatile world, we see growth for our industry in Africa and Asia, increased relevance for local and regional companies in emerging markets, and more demand for convenience products. In the fragrance industry, an evolution in retailing is being seen with the development of speciality retailers and the growth of e-commerce. Local brands are also quickly gaining more relevance with consumers, and innovation is moving at a faster pace. Growth in flavours will come mostly from high growth markets, where local and regional brands are gaining relevance with consumers.

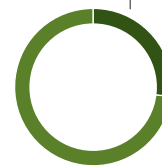
A second megatrend influencing the flavour and fragrance industry is the fact that we are all living longer and more responsibly. By 2020, almost 20% of the population will be over 60, yet 50% of adults are expected to be overweight or obese.

Consumers are more aware of healthier products and are questioning labels, and transparency is a growing expectation. The sustainability agenda continues to gain momentum and people are concerned about the environment and want to identify with companies taking a lead. For fragrances, this megatrend will mean strong demand for cosmetic products in high growth markets, and significant growth in the cosmetics market where the ageing population seeks to look beautiful for longer. In flavours, it means the role of food is changing with a focus on health and well-being, a growing popularity for functional foods, and an increased demand for healthier products.

## By 2020, 50% of adults are expected to be overweight or obese.

We live in an increasingly interconnected world, and this is the third megatrend that is shaping the future. About 40% of the world's population uses the internet, and two-thirds of these users are in the developing world. Increased digitalisation is driving big data, which can be used to understand consumers' habits and preferences more fully and can lead to changes in offerings to customers. Consumers also have easier access to information, and social media is changing the way knowledge is shared. For the food and beverage industry, this trend also means increased consumer empowerment and a desire for transparency and authenticity as customers move towards more natural and clean label products. In fragrances, consumers are empowered in seeking more knowledge about what is in their products and can 'vote with a click', and bloggers have a growing role in shaping fine fragrances, beauty care and cosmetics.

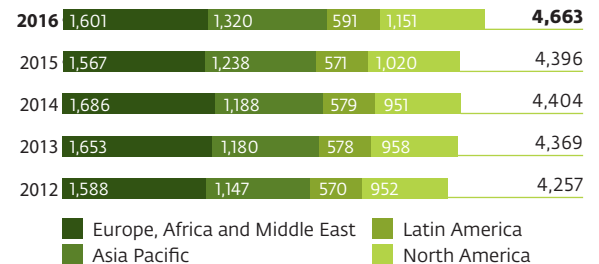
**Market share**  
in %



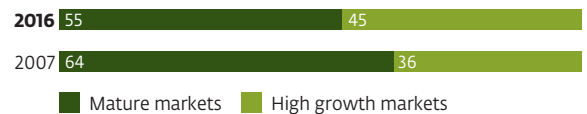
~25%

of the the market value which is estimated at approximate CHF 18 billion

**Givaudan sales development by region**  
in CHF million



**Givaudan sales: mature vs high growth markets**  
in %



# Business performance – Group

## Solid financial performance – in line with 2020 guidance

### Sales

Givaudan Group full year sales were CHF 4,663 million, an increase of 4.2% on a like-for-like basis and 6.1% in Swiss francs when compared to 2015.

Fragrance Division sales were CHF 2,230 million, an increase of 5.6% on a like-for-like basis and 6.4% in Swiss francs.

Flavour Division sales were CHF 2,433 million, an increase of 3.0% on a like-for-like basis and 5.8% in Swiss francs.

### Gross margin

The gross margin declined to 45.6% from 46.2% in 2015, mainly as a result of the lower gross margin on the acquired Spicetec Flavors business.

### Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

The EBITDA increased to CHF 1,126 million in 2016 from CHF 1,070 million in 2015, an increase of 5.2% in Swiss francs and 3.7% in local currency. The EBITDA margin declined slightly to 24.1% in 2016 from 24.3% in 2015. In 2016 the Group recognised one-off non-cash gains of CHF 62 million, mainly following a change in pension plans. As a reminder, in 2015 the Group recognised a net one-off non-cash gain of CHF 20 million, mainly following a change in pension plans.

### Operating income

The operating income increased by 10.2% to CHF 875 million from CHF 794 million for the same period in 2015. When measured in local currency terms, the operating income increased by 8.1%. The operating margin increased to 18.8% in 2016 from 18.1% in 2015.

### Financial performance

Financing costs in 2016 were CHF 51 million, versus CHF 61 million for the same period in 2015. In 2016 the Group continued to refinance at lower interest rates. Other financial expense, net of income, was CHF 40 million in 2016, up versus the CHF 37 million reported in 2015, as a result of increased

hedging costs and exchange losses in markets where currencies could not be hedged.

The income tax expense as a percentage of income before taxes was 18%, flat when compared to the underlying rate in 2015. As a reminder, in 2015 income tax expense was impacted by one-time items following changes in Swiss Accounting Law and the Group's operating structure.

### Net income

The net income increased to CHF 644 million in 2016 from CHF 625 million in 2015, an increase of 3.1%. This results in a net profit margin of 13.8%, versus 14.2% in 2015. Basic earnings per share increased to CHF 69.95 versus CHF 67.89 for the same period in 2015.

### Cash flow

Givaudan delivered an operating cash flow of CHF 805 million in 2016, compared to CHF 915 million in 2015. The decrease was mainly as a result of higher working capital and taxes paid. As a percentage of sales, working capital was flat when compared to 2015.

Total net investments in property, plant and equipment were CHF 135 million, compared to CHF 125 million in 2015. During 2016 the Group continued its investments to support growth in high growth markets, most notably the start of a new flavours savoury facility in Pune, India and the investment in the Zurich Innovation Centre (ZIC).

Intangible asset additions were CHF 40 million in 2016 compared to CHF 35 million in 2015 as the Company continued to invest in its IT platform. Total net investments in tangible and intangible assets were 3.8% of sales in 2016, compared to 3.6% in 2015.

Operating cash flow after net investments was CHF 630 million in 2016, versus the CHF 756 million recorded in 2015. Free cash flow, defined as operating cash flow after investments and interest paid, was CHF 597 million in 2016, versus

CHF 720 million for the comparable period in 2015. As a percentage of sales, free cash flow in 2016 was 12.8%, compared to 16.4% in 2015.

### Financial position

Givaudan's financial position remained solid at the end of the year. Net debt at December 2016 was CHF 930 million, compared to CHF 677 million at December 2015. At the end of December 2016 the leverage ratio was 19%, compared to 15% at the end of 2015.

### Dividend proposal

At the Annual General Meeting on 23 March 2017, Givaudan's Board of Directors will propose a cash dividend of CHF 56.00 per share for the financial year 2016, an increase of 3.7% versus 2015. This is the 16<sup>th</sup> consecutive dividend increase following Givaudan's listing at the Swiss stock exchange in 2000.

### 2020 guidance – Responsible growth. Shared success

The Company's 2020 ambition is to create further value through profitable, responsible growth. Capitalising on the success of the 2011 – 2015 strategy, Givaudan's 2020 ambition is built on the three strategic pillars of growing with its customers; delivering with excellence; and partnering for shared success.

Ambitious financial targets are a fundamental part of Givaudan's strategy. We aim to outpace the market with 4 – 5% sales growth and a free cash flow of 12 – 17% of sales, both measured as an average over the five-year period of our strategy cycle. It is Givaudan's intention to maintain its current dividend practice as part of this ambition.

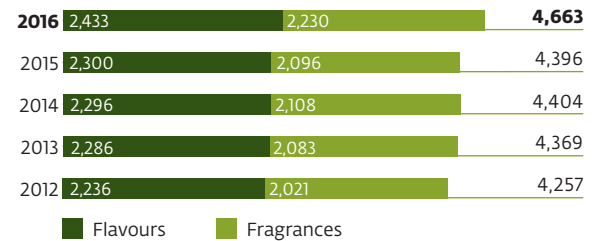
Future results may be affected by a range of factors, for example political conditions; local or global economic changes, including financial risks; interruptions to supply and production; R&D project withdrawals; product recalls; information technology security issues; exposures to product liability; changes in law; inability to recruit and retain skilled employees; and failures to maintain a culture of compliance.

Givaudan is in continuous dialogue with frameworks and standard setters. We feel well prepared to meet these sorts of uncertainties and challenges and have in place detailed instructions in the different risk areas, along with experienced employees and well-developed internal control systems to mitigate risks and conduct remedial actions to contain impacts where required.

**Note:** Like-for-like excludes the impact of currency, acquisitions and disposals

### Group sales

in millions of Swiss francs



### Gross profit

in millions of Swiss francs



### EBITDA

in millions of Swiss francs



### Operating income

in millions of Swiss francs



# Business performance

## Flavour Division

Flavour Division sales increased by 3.0% on a like-for-like basis, including Spicetec, the growth was 6.0% in local currencies.

### Sales

Flavour Division sales were CHF 2,433 million, an increase of 3.0% on a like-for-like basis and 5.8% in Swiss francs. Including Spicetec, which was acquired on 1 August and contributed CHF 71 million of sales, the growth was 6.0% in local currency.

From a segment perspective, Sweet Goods, Dairy and Snacks were strong contributors to the division growth. Beverages was slightly positive and Savoury was flat. Asia Pacific provided a robust growth while Latin America sales expanded rapidly. Europe, Africa and the Middle East was flat with reductions in Savoury and Beverages compensated by the other segments. All regions delivered a high level of new wins in the key segments. In line with our strategy, sales in Health and Well-being increased double-digit on a like-for-like basis.

Sweet goods, dairy and snacks were strong contributors to the Flavour Division's growth.

EBITDA decreased by 8.7% to CHF 523 million from CHF 572 million in 2015. The EBITDA margin was 21.5% in 2016, down from 24.9% in 2015. As a reminder, in 2015 the division recognised a one-off non-cash gain of CHF 32 million following a change in pension plans.

The operating income decreased by 9.2% to CHF 382 million in 2016 from CHF 420 million for the same period in 2015. The operating margin decreased to 15.7% in 2016 from 18.3% in 2015.

### Asia Pacific

Sales in Asia Pacific grew 5.1% on a like-for-like basis. India delivered strong double-digit performance whilst Indonesia and Thailand delivered a high single-digit increase. Despite challenging market conditions, China reported good growth in the second half of the year. Growth in the mature markets was fuelled by strong double-digit growth in South Korea, with positive performance coming from Japan and Oceania. Sweet goods, Dairy and Snacks contributed significantly to the overall growth followed by Savoury and Beverages. Local and regional customers continued to grow strongly.

India delivered strong double-digit performance.

### Europe, Africa and Middle East

Sales in Europe, Africa and Middle East were flat. Sales performance in the high growth markets of Russia and Ukraine improved, however Africa and the Middle East declined slightly due to the difficult economic conditions. Maghreb, Egypt and South Africa achieved good performance fuelled by new wins. Mature market sales declined versus prior year driven mainly by France, Germany and UK. Low single-digit increases in Italy, Iberia and Benelux compensated for the downturn in those Western European markets.

## North America

On a like-for-like basis, sales in North America declined 1.0% in 2016. The overall performance was as a result of the softness in the US food and beverage market coupled with a strong prior year comparable.

## Strong performance in Latin America in all segments.

### Latin America

Latin America delivered a strong sales performance with an increase of 17.1% on a like-for-like basis. All segments grew double-digit fuelled by strong new wins. Double-digit growth in Guatemala, Colombia and Peru largely compensated a decline in Venezuela. Argentina and Brazil realised double-digit growth driven by new wins and existing volume growth, supported by good growth in Mexico.

### Sales

in millions of Swiss francs



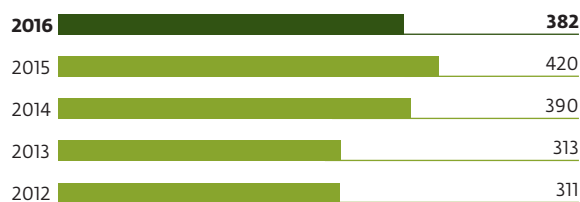
### EBITDA

in millions of Swiss francs



### Operating income

in millions of Swiss francs



# Business performance

## Fragrance Division

**Fragrance Division sales increased 5.6% on a like-for-like basis, all business units contributed to this growth.**

### Sales

Fragrance Division sales were CHF 2,230 million, an increase of 5.6% on a like-for-like basis and 6.4% in Swiss francs. Including Induchem, the growth was 6.4% in local currency.

Total sales for Fragrance Compounds (Fine Fragrances and Consumer Products combined) increased by 6.3% on a like-for-like basis. In Swiss francs, sales of compounds increased to CHF 1,933 million from CHF 1,823 million in 2015.

Fine Fragrances sales grew 7.2% on a like-for-like basis, driven by both strong new business and low erosion.

Consumer Products sales increased by 6.1% on a like-for-like basis, mainly driven by a double-digit growth with local and regional customers and sustained by a solid increase with international customers.

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**Consumer Products increased by 6.1% on a like-for-like basis, driven by double-digit growth with local and regional customers.**

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Sales of Fragrance Ingredients and Active Beauty increased by 1.0% on a like-for-like basis. The sales of Induchem, which was acquired on 31 August 2015, amounted to CHF 24 million for 2016. Including Induchem, the growth of Fragrance Ingredients and Active Beauty was 6.7% in local currency.

The EBITDA increased to CHF 603 million in 2016 from CHF 498 million in 2015. In 2016 the division recognised one-off non-cash gains of CHF 62 million following a change in pension plans. As a reminder, the division incurred a one-off non-cash charge of CHF 12 million in 2015. The EBITDA margin increased to 27.0% in 2016 from 23.7% in 2015, mainly as a result of the one-off non cash gains.

The operating income increased by 32.1% to CHF 493 million in 2016, versus CHF 374 million for the same period in 2015. The operating margin increased to 22.1% in 2016 from 17.8% in 2015.

### Fine Fragrances

Fine Fragrances sales grew 7.2% on a like-for-like basis with strong growth delivered in both high growth and mature markets. Growth in high growth markets was driven by Latin America and the Middle East which saw a combination of new business and volume gains at a number of customers. In mature markets, strong double-digit growth in North America was delivered by new business and the continued solid performance of existing fragrances. These gains more than compensated for a slight sales decrease in Western Europe where new business was not sufficient to offset erosion.

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**A number of Givaudan fine fragrances recognised in major award ceremonies.**

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At the major award ceremonies in the USA and Europe a number of Givaudan fragrances were recognised including: Tom Ford Noir Pour Femme, Tom Ford Venetian Bergamot, Valentino Donna, Narciso Rodriguez L'Absolu, James Bond 007 for Women, Bottega Veneta Pour Homme Extreme, Armani Privé Ambre Eccentrico, La Collection 34 and Prada Infusion d'Oeillet.

### Consumer products

The Consumer Products Business increased by 6.1% on a like-for-like basis with strong growth in both high growth and

mature markets. This performance was supported by a double-digit growth with local and regional customers and sustained by a solid increase with international customers.

Latin America continued to deliver a double-digit growth across all customer groups and all sub-regions against strong comparables. Fabric care, personal care and home care segments posted double-digit sales growths in the region. The growth in Asia was across all product segments, with local and regional customers growing double-digit, led in particular by North Asia sub-region.

In Europe, Africa and Middle East, sales growth was reported on all customer groups and led by the fabric care segment. Both Africa-Middle East and Europe sub-regions posted strong growth against last year. Sales in North America increased compared to prior year thanks to all customer groups and a strong performance in the home care segment.

On a product segment basis the growth was led by a double-digit increase in the fabric care and home care segments, whilst personal care and oral care segments also contributed to the growth.

### Fragrance Ingredients and Active Beauty

Sales of Fragrance Ingredients and Active Beauty increased by 1.0% on a like-for-like basis. The Cosmetic Ingredients business showed good growth with the recent launches, but faced strong comparables with the established product portfolio. Sales of Fragrance Ingredients increased slightly in most regions with the exception of Latin America.

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**The joint venture in China and the plant in Mexico enables the Group to meet demand and improve the Company's competitive position in the manufacture of fragrance ingredients.**

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Proportionally more of the fragrance ingredients produced in 2016 were from the Mexican plant and the joint venture in China, allowing the Group to remain competitive in the fragrance ingredients market.

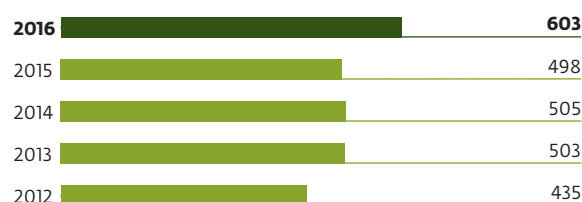
### Sales

in millions of Swiss francs



### EBITDA

in millions of Swiss francs



### Operating income

in millions of Swiss francs



# Capital markets

## Creating shareholder value

Givaudan's strong financial performance since 2000, has resulted in both a rising share price and a year-on-year dividend pay-out to shareholders.

We are proud of the value we have created over the last 16 years and we work to ensure that this success continues.

### Shares

Givaudan has created over CHF 15 billion in value for shareholders in the form of dividend payments and share price appreciation since the Company's spin-off in 2000 and the end of 2016.

At the end of 2016, Givaudan had approximately 27,514 registered shareholders owning 63% of the capital.

The top 20 registered and non-registered shareholders owned 58% of the capital. Swiss and US shareholders held approximately 59% of all shares.

### Market capitalisation

Givaudan's market capitalisation amounted to CHF 17,229,871,476 as at 31 December 2016 which was the last trading day of the year. This corresponds to an increase of 2.4% compared to the previous year.

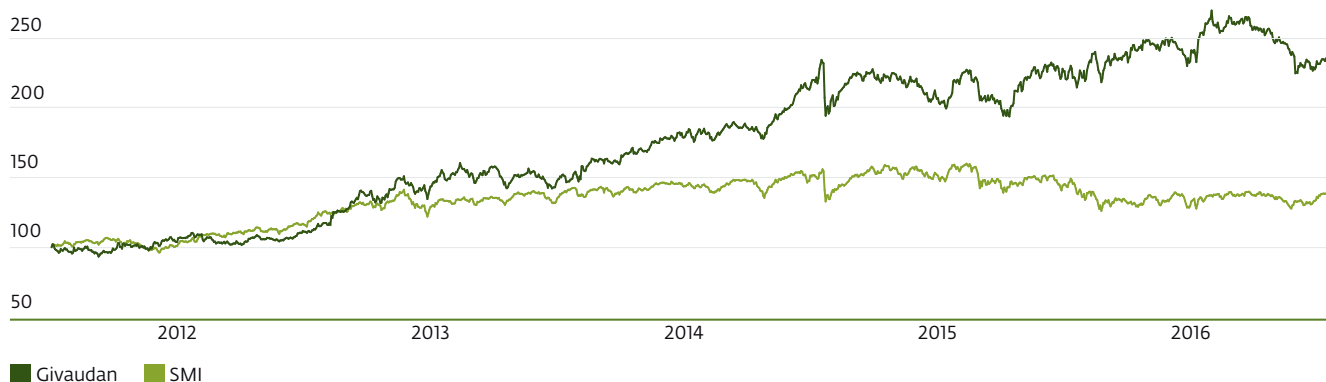
Market capitalisation refers to the value of the Company's outstanding shares. The calculation is based on the number of shares issued and the share price on the last trading day of the year which was CHF 1,866.

### Key share figures

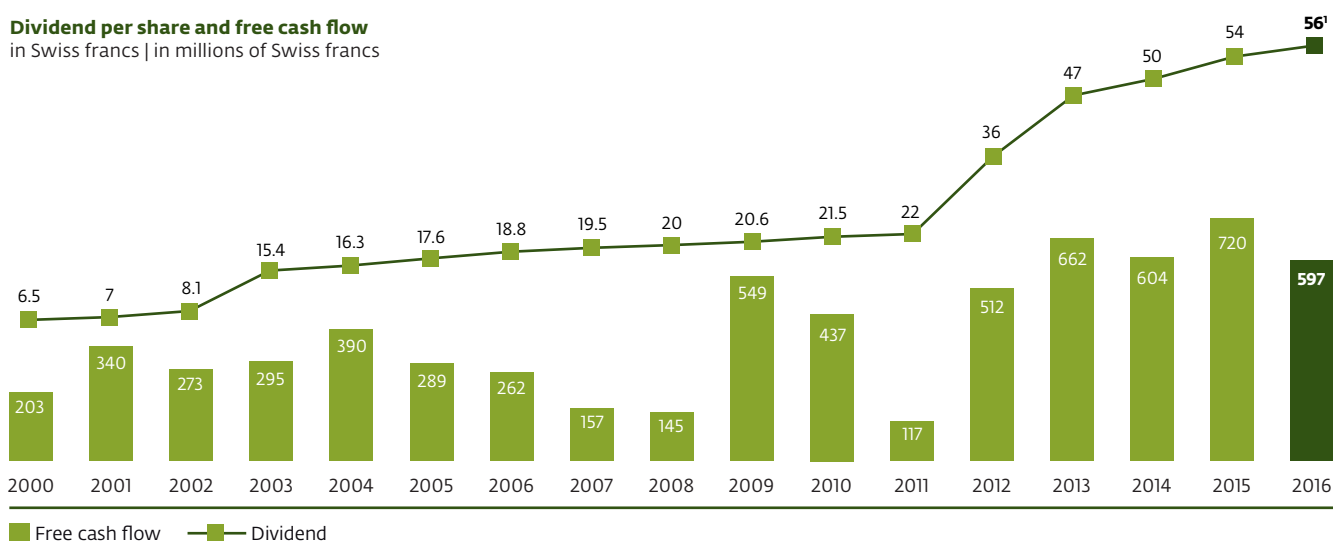
For the year ended 31 December. In Swiss francs except for number of shares	2016	2015
Share capital (in millions)	17,230	16,833
Number of issued shares	9,233,586	9,233,586
Share price as at 31 December	1,866	1,823
Share price, highest	2,106	1,829
Share price, lowest	1,674	1,511
Earnings per share – basic	69.95	67.89
Total shareholder return	5.32%	2.86%

**Share price development – 5 years**

in %

**Dividend per share and free cash flow**

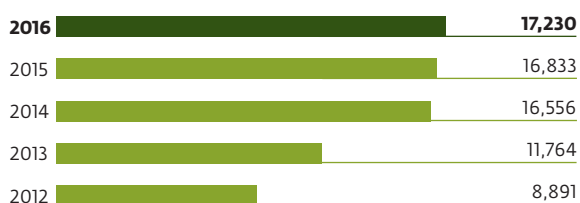
in Swiss francs | in millions of Swiss francs



1. Subject to shareholder approval at the AGM meeting on 23 March 2017.

**Market capitalisation\***

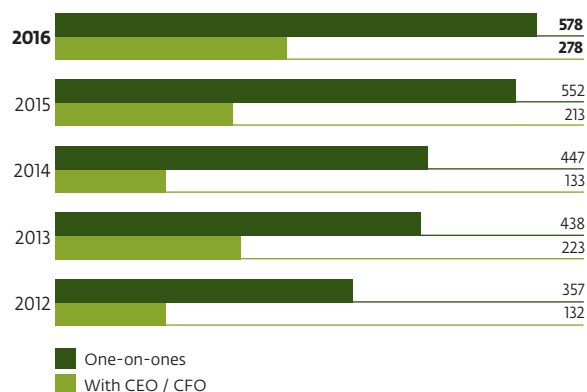
in millions of Swiss francs



\*At the last trading day of the year

**Investor relations meetings**

Number of meetings held



### Dividend policy and total shareholder return

Givaudan is strongly committed to return surplus cash to shareholders and year-on-year the dividend has risen since 2000. In 2016, Givaudan's free cash flow was CHF 597 million.

At the Annual General Meeting on 23 March 2017, Givaudan's Board of Directors will propose a cash dividend of CHF 56.00 per share for the financial year 2016, an increase of 3.7% versus 2015. If approved, this will be the 16<sup>th</sup> consecutive dividend increase following Givaudan's listing on the Swiss stock exchange.

### Investor relations

Givaudan adheres to good corporate governance and follows best practices consistent with those of major international companies. All information published in our Annual Report complies with the Swiss Code of Best Practice for Corporate Governance and the SIX Directives for Corporate Governance. Further information can be found in a separate section on Corporate Governance starting on page 76.

We use investor news, teleconferences and publications on our website to disseminate material information about our performance and activities, helping us to inform different stakeholders in a timely and responsible manner and ensuring transparency and equal treatment. The principles of our disclosure and information policy can be found on [www.givaudan.com](http://www.givaudan.com) – our company – corporate governance – rules and policies.

In 2016, the CEO, the CFO, the Group Controller and the Head of Investor Relations participated in roadshows and conferences in 23 financial centres globally, meeting existing and potential shareholders. Two conference calls and 33 Group presentations were held, attracting a total of over 1,500 participants. Over 500 individual meetings and conference calls with fund managers globally contributed to improved awareness about Givaudan. In addition, 12 visits to Givaudan sites globally, with a total of 100 participants, mainly fund managers, were organised to provide an in-depth view of our activities.

The 2016 site visit programme included a two-day investor event in Shanghai and Nantong, where we visited our new flavour facility. In Shanghai management explained our positive outlook on the Chinese market and its strong growth potential, especially with local customers.

In April, at our annual investor conference, held at our headquarters in Vernier, the Company presented its long-term strategy to serve local and regional customers. This strategy means that 50% of today's revenues are generated with these customers, compared to 30% ten years ago. An impressive display of products from these categories was displayed during the conference.

At our half year conference in Zurich at the end of August, we explained our strategy in Savoury and Beverage integrated solutions.

For the seventh consecutive year, Givaudan organised a presentation in our fragrance creation centre in Paris. The agenda and events for the financial community for 2017 are published on [www.givaudan.com](http://www.givaudan.com) – investors – shareholder information – investor calendar.

### Key significant shareholders

2016 in %	
Nortrust Nominees Ltd (nominee)	15.49
William H. Gates III - Cascades investment	13.86
Chase Nominees Ltd (nominee)	6.47
BlackRock Inc.	5.08
Messieurs Pictet & Cie (nominee)	4.17
MFS Investment Management	3.00

# Risk management

## Integral to Givaudan's business

We have robust structures and processes in place to ensure the effective management of risks to our business, and are committed to the highest ethical standards in the conduct of our business.

The pace of new legislation in our industry has increased markedly in recent years, and so it is critical that our efforts in risk management and compliance keep up with and even anticipate these changes. However, efficiency and effectiveness in these areas also allows us to identify business opportunities to the benefit of all stakeholders.

### Enterprise risk management

Managing risk is an integral part of Givaudan's business. The Company operates a structured system of identifying, assessing and deciding on responses to mitigate key risks at all levels. The reporting of the opportunities and threats that these risks create and how they might hinder the business in achieving its objectives is also part of the risk management process.

Risk management is one of the responsibilities of the Board of Directors, which mandates the Executive Committee to manage the overall Company risk management process. The Company promotes the continuous monitoring and management of risks at an operational level.

### Principles and responsibilities

Enterprise Risk Management (ERM) at Givaudan is based on our Enterprise Risk Management Charter. The charter describes the principles, framework and process of the Givaudan Enterprise Risk Management which ensures that material risks are identified, managed and reported. It defines

the associated roles and responsibilities which are reflected in the delegated authorities. ERM encompasses both the Flavour and Fragrance businesses, as well as Givaudan Group functions. It includes all types of risks in terms of their nature, their source or their consequences.

The Board of Directors is responsible for defining and approving the Givaudan Enterprise Risk Management approach as articulated in this Charter. Execution of the overall risk management process is delegated to the Executive Committee. The Givaudan ERM approach is compliant with applicable laws, SIX Directives, the Swiss Code of Best Practice for Corporate Governance and in line with best practice. Givaudan uses the COSO framework and ISO 31000 as references and adopts compatible processes and terminology.

The overall approach to risk management at Givaudan is based on the following principles:

- is pragmatic and tailored to the Company
- aims at value creation and protection
- is an integral part of processes and decision-making
- addresses uncertainty explicitly
- is structured, dynamic, iterative and responsive to change
- is based on the best available information.

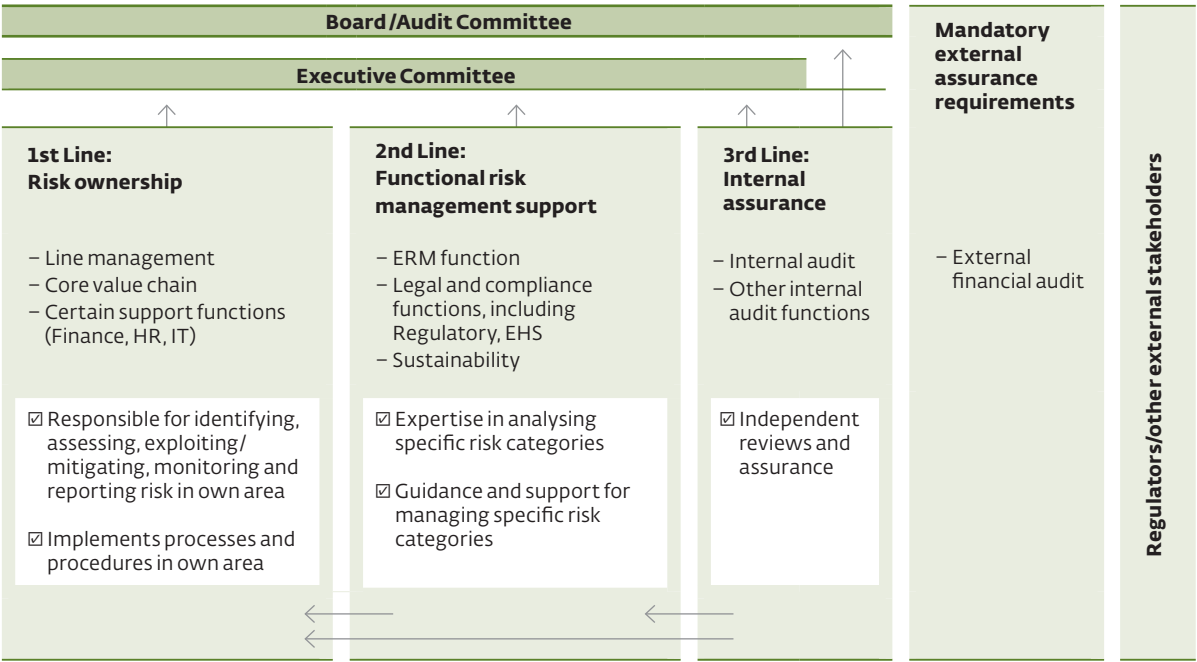
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**The Company operates a structured system of identifying, assessing and deciding on responses to mitigate risk at all levels.**

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The framework outlined on the opposite page describes the respective roles and responsibilities of each function. The ERM process, which is annual, includes the structured and continuous identification of risk on the basis of an overall risk universe, the analysis and assessment of the risks to understand the underlying drivers, the formulation of the

Enterprise Risk Management Framework



appropriate risk exploitation and/or mitigating responses and the tracking and reporting of risks and mitigation actions to provide comfort regarding the achievement of corporate objectives. The process aims to be comprehensive, organised and documented in order to improve compliance with corporate governance regulations, guidelines and good practices; better understand the risk profile of the business; and provide additional risk-based management information for decision-making.

The objectives of the ERM process are to continuously ensure and improve compliance with good corporate governance guidelines and practices.

The objectives of the ERM process are to continuously ensure and improve compliance with good corporate governance guidelines and practices as well as laws and regulations, where applicable; facilitate disclosure to key stakeholders of potential risks and the Company's approach to dealing with them. At the same time, the process creates the awareness of all key executives of the magnitude of risks; provides risk-based management information for effective decision-making; and safeguards the values

of the Company and its assets, and protects the interests of shareholders.

Givaudan's management, at all levels, is accountable for ensuring the appropriateness, timeliness and adequacy of the risk analysis. Mitigation decisions are taken at individual and combined levels. This management is also responsible for implementing, tracking and reporting the risk mitigation directives of the Executive Committee, including periodic reporting to the Board.

For further information about the risk management process, please refer to page 90.

Risk categories

Top Company risks

The Company has recognised a number of top risks that might prevent the Company from reaching its strategic targets. For each top-level Company risk a member of the Executive Committee is designated as the risk owner with the responsibility for managing the risk on a Group-wide basis. The assessment and management process, which is annual, is coordinated by the Corporate Compliance Officer. Corporate Internal Audit provides assurance on the effectiveness of the risk management process. The 2016 strategic risk management process re-evaluated and confirmed the top Company risks and focused on further

risk mitigation actions for the top Company risks on the basis of the work done in previous years.

### Financial risk

Please consult pages 136-144 of the Financial Report regarding our financial risk management.

### Operational risk

#### Risks of climate change

We have a comprehensive programme designed to minimise our impact on climate change by stabilising our CO<sub>2</sub> emissions by 2020 and then reducing our emissions thereafter, which is aligned with the 2015 United Nations Climate Change Conference, COP 21.

Please see page 72 for further details on the management of our climate change risks and activities to reduce the Company's carbon footprint.

#### Environment, Health and Safety and operational risk management

Environment, Health and Safety (EHS) regularly carries out comprehensive risk assessments at the Company's production and major commercial sites. In 2016, the EHS Centre of Expertise further enhanced our process risk analysis methodology and capabilities in line with leading industry standards in order to identify actions and manage them internally using a proprietary EHS Management System with formally documented solutions and closure records. Its main focus is the chemical and powder handling processes.

Please consult pages 72-73 for more information on our EHS activities.

#### Procurement and supply chain risk management

Please see pages 66-68 for management of procurement and supply chain risks.

#### Information technology risk

In a fast moving digital world, information and communication technologies are critical for Givaudan to address new consumer behaviours and to collaborate with its customers to give them the best experience. However, digitalisation also creates new threats and requires a permanent monitoring of information security risks and an extension of the risk assessment scope.

In addition to continuously adapting its information and network systems, Givaudan focuses on extensive awareness programmes to all employees as critical stakeholders in the protection of the digital space. There is also strong alignment with the top risk management process and with the work of the Givaudan Data Protection Officer. For more information about data protection activities, please refer to page 74.

### Legal and regulatory risks

#### Product safety risk

Our flavour and fragrance product safety assessment programme is designed to ensure that all products are safe

for consumer use. At the core of the programme is a systematic safety evaluation of the ingredients used in our flavour and fragrance products, and control of their use which is managed by our global IT systems. All new ingredients are evaluated for human and environmental safety, as required, prior to their use. Our flavour and fragrance products are created to comply with all appropriate end consumer product safety regulations in the markets in which they will be sold.

In addition, Givaudan supports, and in many cases leads, industry-wide programmes of the respective industry associations (the International Fragrance Association and the International Organization of the Flavor Industry) for assuring the safe use of flavours and fragrances in consumer products.

#### Legal and compliance risks

The Compliance function undertakes regular assessment of Givaudan's legal and compliance risks at local and global levels.



G4 – 14 Precautionary approach

## Compliance

# Being open, transparent and honest

Givaudan's good name and reputation has been built with our partners over a long and rich history.

To preserve it, we are committed to adhere to the highest ethical standards in the way we interact with all our stakeholders – customers, suppliers, shareholders, employees, competitors, government agencies and the communities in which we operate. Being open, transparent and honest in our dealings with these stakeholders allows us to grow responsibly and share our success.

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## We are committed to high ethical standards in business conduct.

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The Principles of Conduct, as well as the underlying policies, are available in 14 major company languages and can be found on: [www.givaudan.com](http://www.givaudan.com) – our company – corporate governance – rules and policies.

### Organisation and processes

Givaudan recognises different aspects of risk-based compliance management, from general compliance management to compliance management regarding specific areas of risk such as product safety/regulatory, trade affairs, environment, and occupational health and safety (EHS). For these specific areas, compliance is ensured by dedicated corporate functions, including the regulatory product safety team, the trade affairs team or the EHS team.

The Corporate Compliance Officer oversees measures to ensure compliance with the Principles of Conduct and coordinates with the dedicated functions for effective compliance management. The Corporate Compliance Officer

is assisted by a global compliance team and a network of local compliance officers and regional compliance coordinators to further enhance the function.

The Corporate Compliance Officer carries out regular compliance risk assessments with the help of the local compliance officers and corporate functions.

The Company has a Group-wide Compliance Helpline system, which allows employees to report suspected or actual misconduct or violations of the Company's policies on a confidential basis and without fear of retaliation. Other compliance processes include the process for selection and engagement of third-party agents and distributors and the global vendor selection process of the Procurement organisation.

### Focus 2016

#### Revised Principles of Conduct and Responsible Sourcing Policy

One of the main developments in 2016 was the adoption of a new Group Principles of Conduct by the Board of Directors. These principles replace our previous Principles of Business Conduct of 2009. The Principles of Conduct have been communicated to all employees by the Chief Executive Officer and are available in 14 major company languages. The new document updates our Principles taking into account the Company's stated values and DNA. It can be downloaded from our website: [www.givaudan.com](http://www.givaudan.com) – our company – corporate governance – principles of conduct.

In addition, the Group has issued its Responsible Sourcing Policy, a code of conduct for its suppliers, to ensure that the partners we are dealing with abide by the same high standards we do.

For more information on the Responsible Sourcing Policy and the related programme, please see page 67, or visit our website: [www.givaudan.com](http://www.givaudan.com) - our company - corporate governance.

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**Our Responsible Sourcing Policy demonstrates our commitment to providing safe products of consistent quality that meet or exceed our customers' expectations.**

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### **Compliance organisation**

2016 saw the Corporate Compliance team being reinforced and regional coordination functions established to support the existing corporate and local compliance officers.

To further support the Group's data protection policy and programme, the Group also appointed a Group Data Protection Officer reporting to the Corporate Compliance Officer. The Group Data Protection Officer oversees the implementation of a Group Data Protection strategy to address changes that will happen upon the entry into force of new legislation in the European Union as well as in Switzerland.

### **Training and monitoring**

New mandatory compliance training for all employees on the new Principles is currently being developed and is expected to be launched in 2017. The training material will be available in all 14 major company languages.

The existing mandatory training on the previous principles of business conduct was first rolled out to all locations outside of the US, who have their own programme, in 2012. Between 2012 and the end of 2016 the training was completed by 8,419 employees outside of the United States (out of 9,351 employees invited). All of the senior management of the Group completed the training.

Specific anti-bribery training also continued in 2016. Since 2013, 5,040 senior managers, including all members of the Executive Committee and other employees whose work involves regular and direct contact with external stakeholders, have completed this specific anti-bribery training (out of 5,164 who have been invited).

Also in 2016, the process for investigating and responding to compliance complaints was reviewed and the existing procedure updated.



G4 – 14 Precautionary approach

# Regulatory and public policy

## Ensuring compliance and safety

Our Regulatory and Product Safety teams support the two business divisions by ensuring globally compliant and safe products in markets around the world.

In addition, our Regulatory teams provide customers with critical information that enables them to use our products in over 200 countries around the world.

At over 25 locations we have more than 200 employees with a range of different skills, from toxicologists and environmental scientists to food chemists and regulatory affairs experts, who provide consumer safety reassurance, regulatory compliance and guidance for our flavour and fragrance customers, wherever they are.

Our experts also play a leading role in supporting industry efforts, as well as those of regulatory authorities, to continuously evaluate the materials we use, through the latest scientific methods, for consumer safety reassurance.

### Flavours

The flavour and food industry is undergoing significant regulatory changes on a scale not seen since the middle of the 20<sup>th</sup> century. Consumer perception and expectations are influencing the demand for greater healthiness and transparency of ingredients used in foods and the regulatory authorities around the world are responding to these consumer demands. This is clearly demonstrated in several key mature and high growth markets. In the USA, we saw the passing of the GMO food labelling bill that will require the US Department of Agriculture to develop requirements for distinguishing between GMO and non-GMO foods as well as associated labelling for consumer products. In addition, the FDA has been

asked to define 'natural' foods – a challenging task and one that will impact the overall food industry and provide us with additional opportunities in the area of natural flavours. In Asia and Africa, we have seen the continued interest in harmonising regulations to meet the CODEX standard for improved food safety standards. This trend will allow the flavour and food industry to more easily commercialise new technology and flavourings as local regulatory inconsistencies are reduced, and will ensure we are meeting the highest standards for food safety on a global scale.

Following the increased regulatory push on GMO and natural labelling, there continues to be increased activity by independent third party certifiers for speciality products such as organic certified. We have been active in supporting trade associations to educate and inform government authorities, NGO representatives and the general public about the safety and quality of flavours sold today. Our efforts are receiving positive responses from regulatory authorities around the world as new regulations are developed.

In addition to potential changes in food labelling regulations, Givaudan maintains leadership positions within national, regional and international trade associations that have been effective in working with government authorities to ensure that new regulations and flavour requirements are harmonised around the world. This will enable a consistent approach to the commercialisation of new flavour technology and the free flow of flavours on a global basis. Through the efforts of the Flavor and Extract Manufacturers Association (FEMA), Givaudan continues to support the FEMA GRAS™ programme which has been identified by the FDA and NGOs as the 'gold standard' for GRAS (generally recognised as safe) determinations.

In Europe, 2016 saw successful approvals for an additional 12 flavourings that were provisionally accepted by the European Commission in 2012. These substances have been permanently added to the European positive lists of flavourings. Through our active support of the industry trade associations, we are working to gain approval of the remaining substances that are

under evaluation by the European Food Safety Authority. It is expected that the review and approval of the remaining substances will continue through 2018. In all regions, our science and advocacy efforts are focused on supporting a global, harmonised list of approved ingredients and we have seen positive gains in India and other Asian markets that are adopting or accepting the Global Reference List (GRL) of the International Organization of the Flavor Industry (IOFI) for approved flavourings.

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## Givaudan maintains leadership positions within trade associations that have been effective in working with government authorities to ensure new regulations are harmonised around the world.

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Another important aspect of our advocacy activities is the sharing of knowledge and expertise about the use of flavourings in foods with members of the broader food industry and regulatory authorities. Givaudan supports several associations including IOFI, the China Association of Fragrance Flavor and Cosmetic Industries (CAFFCI) and the European Flavour Association (EFFA) in meetings with regulatory authorities and international scientific organisations. The result of our advocacy programme has significantly improved the understanding of the use and safety of flavourings and has led to the adoption of more harmonised regulations around the world. Continuing advocacy activities focus on allowing the use of new technologies in the development and production of new flavouring ingredients.

The acquisition of Spicetec in 2016 expanded our product and ingredient portfolio and we have already begun the integration of the new business into the existing Givaudan platforms. From a regulatory perspective, the acquisition brings us new talent and knowledge of the spice and seasonings business that will complement our existing regulatory expertise. We are scheduled to complete the integration of the Spicetec product portfolio by the second quarter of 2017.

In 2016, we also completed the integration of a state-of-the-art SAP-based Flavours Compliance Engine, enabling us to rapidly evaluate the regulatory status of our flavour products created, produced and used anywhere in the world. Our Compliance Engine provides a consistent and seamless platform of regulatory knowledge that supports product development, from the initial stages of flavour creation to product certification at the operations level. With the completion of the Compliance Engine integration, we are entering our next phase of systems development that will provide seamless capabilities to rapidly respond to customer service requests for technical information on demand. This industry-leading capability will

provide a significantly improved customer experience as our customers' product development cycle times are reduced.

## Fragrances

Givaudan and the fragrance industry saw increasing pressure during 2016 on the use of specific raw materials because of regulatory actions in Europe, the USA and Asia. This was being driven mainly by REACH requirements, but also by emerging chemical controls in countries such as Korea as well as new regulations in China and Japan. This is also creating pressure on fragrance suppliers, particularly small and medium-sized enterprises (SMEs). In this environment of increasing scrutiny, the burden on the industry to demonstrate the safety of its products has escalated dramatically – certainly well beyond historical obligations.

However, Givaudan is determined to continue its support of industry efforts to defend materials and its leadership in the product stewardship and advocacy of materials in the market. We have seen recent success in defending key materials such as geraniol and citronellol following focused investment and support activities. As well as existing materials, we have been experiencing significant headwinds in new emerging concerns, particularly with regulations such as Korea REACH, which is based on European REACH. The industry is being required to invest in new testing and data generation to meet regulators' demands, an example of which is a renewed interest by the US Environmental Protection Agency (EPA) in the common perfume ingredient Iso E Super (OTNE). These heightened levels of interest from REACH, EPA and others require large investments for new molecule innovations as well as for the support of existing materials in commerce to ensure the continued support of their safe use in the market. Givaudan is committed to its active role in this.

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## Givaudan is determined to continue its support of industry efforts to defend materials and its leadership in the product stewardship and advocacy of materials in the market.

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In addition, we continue to invest in the development of sustainable new molecules, particularly in the replacement of materials where significant safety concerns are raised. For example, with a view to replacing Lilial we launched Nymphaeal™ in 2016. This product is a high-performing floral aldehydic with a lily-of-the-valley note that was developed using green chemistry principles to design-in safety, as well as developing improved performance versus its legacy counterpart Lilial. We will continue to focus on novel and strategic materials where we see threats to our portfolio and the industry.

We have completed the integration of the Induchem business from a regulatory point of view, and continue to harmonise our raw material platforms across our new Active Beauty business.

While we remain confident of meeting our REACH obligations by 2018, we are now seeing REACH evaluations being completed that will need us to further defend certain materials such as Aldehyde C12 MNA and cyclamen aldehyde. We are putting pressure on our supply chain to ensure suppliers are meeting their obligations in the final phase of REACH, where high numbers of registrations are expected.

Our support for the International Fragrance Association (IFRA) deepened in 2016 with our involvement in the restructuring of the organisation's technical programmes and committee organisation. The new structure will enable a more efficient and effective global organisation that will be integrated with IFRA's regional partners. As part of the new organisation, Givaudan will be playing a leading role in the newly formed Executive Technical Committee that advises the IFRA board. We also increased our financial support for IFRA during the year to help the organisation continue its important work of representing the industry and anticipating and managing issues that affect the industry globally and regionally.

Givaudan also continued to invest in the Research Institute for Fragrance Materials (RIFM) and ongoing programmes to re-evaluate fragrance material safety, and also to build a more transparent platform of publication for these evaluations to enable external stakeholders to understand the strong data supporting our raw materials.

## Public policy

Givaudan does not fund any political party in any country. We have an internal policy on charitable giving and community support that excludes any direct or indirect political donations or support. However, we support, and in many cases lead, the development of public policies that impact the flavour and fragrance industry.

We also support and often lead industry-wide programmes with international industry associations such as the International Fragrance Association (IFRA) and the International Organization of the Flavor Industry (IOFI). In addition, we work with many national associations to help ensure the safe use of flavours and fragrances in consumer products.

More details on our regulatory advocacy activities can be found in the preceding section on regulatory.



G4 – DMA Public policy  
G4 – SO6

