Givaudan

ANNUAL & FINANCIAL REPORT 2007

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FINANCIAL REVIEW

in millions of Swiss francs, except for per share data	Actual		Pro forma [a]	
	2007	2006	2007	2006
Sales	4,132	2,909	4,366	4,249
Gross profit	1,941	1,436	2,057	2,018
as % of sales	*47.0%*	*49.4%*	*47.1%*	*47.5%*
EBITDA at comparable basis [b, c, d]	874	660	911	838
as % of sales	*21.2%*	*22.7%*	*20.9%*	*19.7%*
EBITDA [b]	680	628	911	792
as % of sales	*16.5%*	*21.6%*	*20.9%*	*18.6%*
Operating profit at comparable basis [c, d]	530	550	521	452
as % of sales	*12.8%*	*18.9%*	*11.9%*	*10.6%*
Operating profit	322	514	521	402
as % of sales	*7.8%*	*17.7%*	*11.9%*	*9.5%*
Income attributable to equity holders of the parent	94	412	236	238
as % of sales	*2.3%*	*14.2%*	*5.4%*	*5.6%*
Earnings per share – basic (CHF)	13.26	58.62	33.29	33.86
Earnings per share – diluted (CHF)	13.20	58.22	33.15	33.63
Operating cash flow	532	449		
as % of sales	*12.9%*	*15.4%*		

a) Prepared on an adjusted pro forma basis, reflecting the combined activity of Givaudan and Quest International over the periods ended 31 December, excluding one-off expenses incurred in connection with the combination with Quest International, reorganisation charges and charges resulting from the accounting treatment of the transaction, and assuming that the combination had taken place as of 1 January 2006. Details to the pro forma adjustments are disclosed in the notes to the pro forma consolidated income statement on page 51 at the end of the document.

*b) 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, amortisation and impairment of long-lived assets.*

c) Comparable EBITDA and operating profit for 2006 excludes: restructuring charges, a one time gain on land disposal and the net cost of the butter flavours litigation case settlement.

d) Comparable EBITDA and operating profit for Actual 2007 excludes acquisition related restructuring expenses.

in millions of Swiss francs, except for employee data	31 December 2007	31 December 2006
Total assets	7,898	4,700
Total liabilities	5,215	1,904
Total equity	2,683	2,796
Number of employees	8,776	6,056

Foreign exchange rates

Foreign currency to Swiss francs exchange rates

	ISO code	Units	31 Dec 2007	Average 2007	31 Dec 2006	Average 2006	31 Dec 2005
Dollar	USD	1	1.14	1.20	1.22	1.25	1.32
Euro	EUR	1	1.66	1.64	1.61	1.57	1.56
Pound	GBP	1	2.25	2.40	2.39	2.31	2.26
Yen	JPY	100	1.02	1.02	1.02	1.08	1.11

On 2 March 2007 Givaudan closed the acquisition of Quest International. The 2007 consolidated financial statements reflect this transaction as of this date. In order to evaluate the operating performance on a like-for-like basis we have prepared pro forma consolidated financial statements, which reflect the combined activities of Givaudan and Quest International over the periods ending 31 December 2006 and 2007 assuming the acquisition had taken place on 1 January 2006.

Sales

Sales in actual terms reached CHF 4,132 million, increasing 42% in Swiss francs compared to the previous year. On a pro forma basis, sales increased by 2.8% in local currencies as well as in Swiss francs. Excluding the impact of the ongoing streamlining of commodity ingredients in the Flavour division, the sales growth was 4.0% both in local currencies and in Swiss francs.

The Fragrance Division recorded sales in actual terms of CHF 1,899 million, a growth of 55.3% in Swiss francs. On a pro forma basis sales growth reached 3.9% in local currencies and 4.2% in Swiss francs. This above market growth was based on an excellent performance of the Consumer Products business in all regions and strong sales of specialty ingredients. The Fine Fragrance business declined slightly against strong comparables in 2006.

Sales of the Flavour Division in actual terms reached CHF 2,233 million, a growth of 32.4% in Swiss francs. On a pro forma basis, sales increased by 1.8% in local currencies and 1.5% in Swiss francs. The streamlining of commodity ingredients impacted sales by CHF 52 million. Excluding this effect, the underlying pro forma growth was 4.2% in local currencies and 3.9% in Swiss francs.

Operating Performance

In a challenging environment and during a transition year with a strong focus on the seamless integration of the acquired Quest International business, Givaudan delivered a strong operating performance. The effective execution of the numerous integration projects delivered first savings of CHF 50 million.

The actual gross profit margin declined from 49.4% to 47.0% reflecting the lower profitability of the acquired Quest International business. The pro forma gross profit margin decreased slightly from 47.5% to 47.1%, mainly due to the impact of rising raw material costs, which were partly offset by an improved product mix, targeted price increases, tight cost control and efficiency gains.

The Earnings before Interest (and other financial income), Tax, Depreciation and Amortisation (EBITDA) in actual terms increased from CHF 628 million in 2006 to CHF 680 million in 2007. It is to be noted that the 2007 EBITDA was impacted by CHF 194 million one time integration related cash costs.

The EBITDA on a comparable pro forma basis increased from CHF 838 million to CHF 911 million, resulting in an increase of the EBITDA margin from 19.7% to 20.9%, reflecting the achievement of the first integration savings.

The operating profit in actual terms declined from CHF 514 million to CHF 322 million. Compared to the previous year the operating profit was impacted by one time integration related costs of CHF 208 million (cash costs CHF 194 million, fixed asset impairment CHF 14 million) as well as an additional CHF 206 million costs for the amortisation of intangible assets linked to the Quest International acquisition. The comparable pro forma operating profit improved from CHF 452 million to CHF 521 million. The margin increased from 10.6% to 11.9%. This reflects the above mentioned achievement of integration synergies.

Financial Performance

In actual terms, financial expenses, net of income, increased by CHF 151 million to CHF 157 million mainly as a result of higher interest and hedging expenses resulting from the financing of the Quest International acquisition. The Group's average expected tax rate increased from 19% to 23% as a result of the Quest International acquisition. The effective tax rate reached 42% compared to 19% in the previous year. Excluding a one time, non cash tax adjustment of CHF 28 million the effective tax rate was 25%.

Net Profit

In actual terms, the net profit declined to CHF 94 million from CHF 412 million in the previous year. The main reasons for the decline are the above mentioned integration related one time costs and the amortisation of intangible assets, as well as the higher financial expenses and the one time tax adjustment impact.

Basic earnings per share consequently declined to CHF 13.26 from CHF 58.62 in the previous year, impacted by integration costs representing CHF 22.43 per share, acquisition related intangible amortisation representing CHF 23.84 per share and non cash tax adjustment representing CHF 3.95 per share.

Cash Flow

Givaudan delivered an operating cash flow of CHF 532 million. This was CHF 83 million above 2006, despite the negative cash effect of the Quest International integration costs.

Total net investments in property, plant and equipment and intangibles of CHF 251 million increased by CHF 109 million compared to 2006, mainly due to some large investment projects such as the new Fragrance Consumer Products sales, creation and development centre and the expansion of fragrance production in the USA, the new flavours distribution centre in Switzerland, first integration related investments as well as higher development costs for the new ERP system.

The operating cash flow after investments reached CHF 281 million.

During 2007 Givaudan returned CHF 134 million in cash to its share holders in the form of a dividend.

Balance Sheet

The Givaudan balance sheet remains solid. At the end of 2007, the leverage ratio, defined as net debt divided by total equity plus debt, reached 43% compared to 21% in 2006. In this calculation the mandatory convertible securities are defined as equity equivalent.

The Quest International acquisition was financed through CHF 1,886 million of bank debt, CHF 735 million of mandatory convertible securities and CHF 194 million of available cash.

As a result of the acquisition financing the net debt increased to CHF 2,621 million at the end of 2007 from CHF 740 million in the previous year.

Dividend

The Board of Directors will propose to the Annual General Meeting of March 26, 2008 the payment of an ordinary dividend of CHF 19.50 per share. This represents an increase of 3.7% over 2006.

Integration progress & ERP software implementation

Ten months after the closing of the Quest International acquisition all integration milestones set for 2007 have been fully achieved. Assumptions and key drivers for the acquisition, such as the strong business complementarities, the synergy potential and the opportunities to achieve long term, sustainable growth and profitability of Givaudan's business have been confirmed. The original synergy target of CHF 150 million has been increased to CHF 200 million.
CHF 50 million of savings have been achieved in 2007. Givaudan is well on track to achieve the overall savings target by 2010.

The global business transformation project to implement a SAP based system supporting the supply chain, regulatory and finance processes is on time and on budget. The scope of the project has been expanded to include the former Quest International sites. The project has successfully entered the pilot phase and the roll-out is scheduled to begin in the first European sites in the second quarter of 2008.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the Year Ended 31 December

in millions of Swiss francs, except for per share data	Note	2007	2006
Sales	5	4,132	2,909
Cost of sales		(2,191)	(1,473)
Gross profit		1,941	1,436
as % of sales		*47.0%*	*49.4%*
Marketing, development and distribution expenses	6	(1,013)	(730)
Administration expenses		(138)	(114)
Amortisation of intangible assets	19	(224)	(19)
Other operating income/(expenses), net	9	(244)	(59)
Operating profit		322	514
as % of sales		*7.8%*	*17.7%*
Financing costs	10	(127)	(44)
Other finance income/(expenses), net	10	(30)	38
Income before taxes		165	508
Income taxes	12	(70)	(95)
▶ Income for the period		95	413
▶ Attribution:			
Income attributable to minority interest	13	1	1
Income attributable to equity holders of the parent		94	412
as % of sales		*2.3%*	*14.2%*
▶ Earnings per share – basic (CHF)	14	13.26	58.62
▶ Earnings per share – diluted (CHF)	14	13.20	58.22

Consolidated Balance Sheet at 31 December

in millions of Swiss francs	Note	2007	2006
Cash and cash equivalents	3	359	424
Available-for-sale financial assets	3, 15	159	261
Accounts receivable – trade	3, 16	748	485
Inventories	17	780	535
Current income tax assets	12	19	5
Derivative financial instruments	3, 21	25	62
Derivatives on own equity instruments	23	39	42
Other current assets	3	113	106
Current assets		2,242	1,920
Property, plant and equipment	18	1,588	1,140
Intangible assets	19	3,676	1,331
Deferred income tax assets	12	157	116
Assets for post-employment benefits	7	21	20
Other long-term assets	3, 15	214	173
Non-current assets		5,656	2,780
▶ Total assets		7,898	4,700
Short-term debt	20	228	189
Provisions	22	41	10
Accounts payable – trade and others		381	173
Current income tax liabilities	12	57	43
Derivative financial instruments	3, 21	4	7
Financial liability: own equity instruments	23	15	-
Accrued payroll & payroll taxes		135	107
Accrued and other current liabilities		152	90
Current liabilities		1,013	619
Long-term debt	20	3,491	975
Provisions	22	91	35
Liabilities for post-employment benefits	7	188	106
Deferred income tax liabilities	12	355	101
Other non-current liabilities		77	68
Non-current liabilities		4,202	1,285
▶ Total liabilities		5,215	1,904
Share capital	24	73	72
Retained earnings and reserves	24	3,182	3,180
Hedging reserve	24	9	52
Own equity instruments	24	(178)	(136)
Fair value reserve for available-for-sale financial assets		18	19
Cumulative translation differences		(428)	(394)
Total equity attributable to equity holders of the parent		2,676	2,793
Minority interest	13	7	3
▶ Equity		2,683	2,796
▶ Total liabilities and equity		7,898	4,700

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

in millions of Swiss francs – 2007	Note	Share Capital	Restricted retained earnings and reserves	Unrestricted retained earnings and reserves	Own equity instruments	Hedging reserve	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 2007		72	280	2,900	(136)	52	19	(394)	2,793	3	2,796
Available-for-sale financial assets											
- Movement on fair value, net							(1)		(1)		(1)
- Movement on deferred taxes on fair value adjustments	12						1		1		1
- Removed from equity and recognised in the income statement							(1)		(1)		(1)
Cash flow hedges											
- Fair value adjustments in year						(6)			(6)		(6)
- Transfer to investment in Quest International						(37)			(37)		(37)
- Removed from equity to the income statement (financing costs)						-			-		-
Minority interest arising on business combination	13									3	3
Change in currency translation								(34)	(34)		(34)
▶ Net gains (losses) not recognised in the income statement						(43)	(1)	(34)	(78)	3	(75)
Net income				94					94	1	95
▶ Total recognised income and expenses for the year				94		(43)	(1)	(34)	16	4	20
Cancellation of shares	24										
Capital increase from conditional capital	24	1	42		(43)						
Dividends paid	24			(134)					(134)		(134)
Transfer from restricted reserves			3	(3)							
Movement on own equity instruments, net					1				1		1
▶ Net changes in other equity items		1	45	(137)	(42)				(133)		(133)
▶ Balance at 31 December 2007		73	325	2,857	(178)	9	18	(428)	2,676	7	2,683

in millions of Swiss francs – 2006	Note	Share Capital	Restricted retained earnings and reserves	Unrestricted retained earnings and reserves	Own equity instruments	Hedging reserve	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 2006		74	273	2,737	(318)		18	(349)	2,435	2	2,437
Available-for-sale financial assets											
- Movement on fair value, net							(12)		(12)		(12)
- Movement on deferred taxes on fair value adjustments	12						(2)		(2)		(2)
- Removed from equity and recognised in the income statement							15		15		15
Cash flow hedges											
- Fair value adjustments in year						38			38		38
- Transfer to investment in Quest International											
- Removed from equity to the income statement (financing costs)						14			14		14
Change in currency translation								(45)	(45)		(45)
▶ Net gains (losses) not recognised in the income statement						52	1	(45)	8		8
Net income				412					412	1	413
▶ Total recognised income and expenses for the year				412		52	1	(45)	420	1	421
Cancellation of shares	24	(2)		(149)	151						
Capital increase from conditional capital	24	-	33		(33)						
Dividends paid	24			(126)					(126)		(126)
Transfer from restricted reserves			(26)	26							
Movement on own equity instruments, net					64				64		64
▶ Net changes in other equity items		(2)	7	(249)	182				(62)		(62)
▶ Balance at 31 December 2006		72	280	2,900	(136)	52	19	(394)	2,793	3	2,796

Consolidated Cash Flow Statement for the Year Ended 31 December

in millions of Swiss francs	Note	2007	2006
▶ **Cash flows from (for) operating activities**	26	**532**	**449**
Increase (decrease) in long-term debt, net		2,547	14
Increase (decrease) in short-term debt, net		41	6
Interest paid		(124)	(45)
Dividends paid		(134)	(126)
Purchase and sale of own equity instruments, net		20	(194)
Proceeds from share buy back (restricted cash)			141
Others, net		(1)	13
▶ **Cash flows from (for) financing activities**		**2,349**	**(191)**
Purchase of property, plant and equipment and intangible assets	18,19	(252)	(169)
Acquisition of subsidiary, net of cash acquired	4	(2,815)	
Proceeds from the disposal of property, plant and equipment and intangible assets		1	27
Interest received		7	3
Dividends received		1	1
Purchase and sale of available-for-sale financial assets, net		112	47
Purchase and sale of derivative financial instruments, net		14	5
Others, net		(40)	(36)
▶ **Cash flows from (for) investing activities**		**(2,972)**	**(122)**
▶ **Net increase (decrease) in cash and cash equivalents**		**(91)**	**136**
Net effect of currency translation on cash and cash equivalents		26	(1)
▶ **Increase (decrease) in cash and cash equivalents**		**(65)**	**135**
Cash and cash equivalents at the beginning of the year		424	289
▶ **Cash and cash equivalents at the end of the year**		**359**	**424**

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 over 8,700 people. A list of the principal Group companies is shown in Note 29 to the consolidated financial statements.

On 2 March 2007 Givaudan acquired 100% control of the UK based Imperial Chemical Industries PLC fragrance and flavour business, Quest International, for CHF 2,8 billion. This combination will extend Givaudan's leadership position in all strategic segments of the fragrance and flavour industry. Quest International was one of the leading players in the global flavour and fragrance market.

The Group is listed on the SWX Swiss Exchange (GIVN).

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 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) and with Swiss law. They are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, trading financial instruments and on own equity instruments classified as derivatives.

Givaudan SA's Board of Directors approved these consolidated financial statements on 15 February 2008.

Critical accounting estimates and judgements

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.

a) Critical accounting estimates and assumptions

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 impairment of goodwill requiring estimations of the value in use of the cash-generating units to which goodwill is allocated (see Note 19), to the calculation of the present value of defined benefit obligations requiring financial and demographic assumptions (see Note 7), to the determination and provision for income taxes requiring estimated calculations for which the ultimate tax determination is uncertain (see Note 12) and to the provisions requiring assumptions to determine reliable best estimates (see Note 22). 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.

b) Critical judgment in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- *Insurance reimbursement:* in 2006 the Group achieved a full and final out of court settlement with 51 plaintiffs involved in the butter flavours litigations. The Group has determined that amounts to be received from the insurer are highly probable and meets the criterion of an asset.
- *Enterprise Resource Planning business transformation:* in 2006 the Group initiated a project to implement a new ERP system to deploy world-wide best in class business processes and implement a harmonized set of data. The project will lead to a business transformation, changing the way the business is currently running in the areas of Finance, Supply Chain and Compliance. The Group has determined that this ERP business transformation will provide future economic benefits to the Group and meets the criterion of an intangible asset (see Note 19).

Standards, amendments and interpretations effective in 2007

In the preparation of these financial statements, the Group applied the same accounting principles and policies as applied in the 2006 annual financial report. The Group reviewed the accounting principles regarding the Mandatory Convertible Securities and as such has adjusted the accounting treatment vis-à-vis the 2007 interim financial report, without any impact on the annual consolidated financial statements.

IFRS 7 Financial Instruments Disclosures and the amendment to IAS 1 Capital Disclosures are mandatory for accounting periods beginning on or after 1 January 2007.

As a result of the adoption of IFRS 7, additional disclosures are made providing information about the nature and extent of risks arising from financial instruments. As a result of the adoption of the amendment to IAS 1, additional disclosures are made providing information about the capital management. The standard and the amendment do not have any impact on the classification and valuation of the Group's financial instruments.

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations; IFRIC 7 Restatement approach under IAS 29 "Financial Reporting in Hyperinflationary Economies", IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives and IFRIC 10 Interim Financial Reporting and Impairment.

IFRS and IFRIC issued but not yet effective

New and revised standards and interpretations, issued but not yet effective, have been reviewed to identify the nature of the future changes in accounting policy and to estimate the effect of any necessary changes in the consolidated income statement and financial position upon their adoption.

a) *Issued and effective for 2008:*
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group will apply these interpretations from 1 January 2008. They are not expected to have any impact on the Group's consolidated financial statements.

b) *Issued and effective for 2009:*
- IAS 23 (revised) Borrowing Costs
- IFRS 8 Operating Segments
- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IFRS 2 Share-based Payment Vesting Conditions and Cancellations

The Group has not yet evaluated the impact on its consolidated financial statements.

- IFRIC 13 Customer Loyalty Programmes

The Group will apply this interpretation from 1 January 2009. It is not expected to have any impact on the Group's consolidated financial statements.

c) *Issued and effective for 2010:*
- IFRS3 Business Combinations
- Amendments to IAS 27 Consolidated and Separate Financial Statements

The Group has not yet evaluated the impact on its consolidated financial statements.

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 to the acquirer.

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 acquired, 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 2.17). The excess of the cost of acquisition over the fair value of the Group's share of 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 acquired subsidiary, a reassessment of the net identifiable assets and the measurement of the cost are made, and then any excess remaining after the reassessment is recognised immediately in the income statement.

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

Balances, income and expenses resulting from inter-company transactions, are eliminated.

2.3 Interest in a joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, which exists when the strategic financial and operating decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where the Group has an interest in a joint venture which is a jointly controlled entity, the Group recognises its interest using the equity method of consolidation until the date on which the Group ceases to have joint control over the joint venture. Adjustments are made where necessary to bring the accounting policies in line with those adopted by the Group. Unrealised gains and losses on transactions between the Group and a jointly controlled entity are eliminated to the extent of the Group's interest in the joint venture.

2.4 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 functional currency"). 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 rates of exchange between the beginning and the end of the year and the difference between net income translated at the average year and year-end rates of exchange 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.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions, or using a rate that approximates the exchange rates at the dates of the transactions. 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.

2.5 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. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

2.6 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.

2.7 Research and product development costs

The Group is active in research and in formulas, technologies and product developments. In addition to its internal scientific efforts, the Group collaborates with outside partners.

Internal research and formulas, technologies 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.

Research and development obtained through agreements with outside partners, or separate purchases are capitalised as intangible assets only when there is an identifiable asset that will generate probable economic benefits and when the cost can be measured reliably.

2.8 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 an employee years of service and remuneration at retirement. Plans are usually funded by payments from the Group and by the employees to financially independent trusts. The liability recognised in the balance sheet is the aggregate of the present value of the defined benefits obligation 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 not yet recognised. If the aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. The present value of the defined benefits obligation 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 recognised over the estimated average remaining working lives of employees.

Where a plan is unfunded, a liability is recorded in the balance sheet. A portion, representing 10% of the present value of the defined benefit obligation, of the differences between assumptions and actual experiences, as well as the effects of changes in actuarial assumptions are recognised over the estimated average remaining working lives of employees. 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.

2.9 Share-based payments

The Group has 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.

2.10 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 and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. 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.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise 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. Cash equivalents are held for the purpose of meeting short-term cash commitments (original maturity of 3 months or less) and are subject to an insignificant risk of changes in value.

2.12 Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognised at the settlement date i.e. the date that the asset is delivered to or by the Group. Financial assets are classified as current assets, unless they are expected to be realised beyond twelve months of the balance sheet date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Information on financial risk management of the Group is described in the Note 3.2. Detailed disclosures can be found in Note 15 to the consolidated financial statements.

Dividends and interest earned are included in the line financial income.

a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired for the purpose of selling in the near term. Derivatives are classified as held for trading unless they are designated and effective hedging instruments. When recognised initially, they are measured at fair value, and transaction costs are expensed in the income statement. For held for trading investments, gains or losses are recognised in the income statement.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest method. For loans and receivables, gains or losses are recognised in the income statement when derecognised, impaired, or through the amortisation process. Loans and receivables are classified as accounts receivable – trade (see Note 2.14) and other current assets in the balance sheet.

c) Held-to-maturity investments
Debt securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. These investments are measured at amortised cost using the effective interest method, less any impairment losses. For held-to-maturity investments, gains or losses are recognised in the income statement when derecognised, impaired, or through the amortisation process.

d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as such or not classified in any of the other categories. They are measured initially at fair value, plus directly attributable transaction costs. At the end of each period, the book value is adjusted to the fair value with a corresponding entry in a separate component of equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. When denominated in a foreign currency, any monetary item is adjusted for the effect of any change in exchange rates with unrealised gain or loss booked in the income statement.

For quoted equity instruments, the fair value is the market value being calculated by reference to share exchange quoted selling prices at close of business on the balance sheet date. For non-quoted financial assets, they are re-valued at fair value based on observable market transactions and if not available based on prices given by reputable financial institutions or on the price of the latest transaction.

An available-for-sale instrument 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 the financial income line of the consolidated income statement. Impairment losses recognised on equity instruments are not reversed in the income statement. Impairment losses recognised on debt instruments shall be reversed through the income statement if the increase of the fair value of available-for-sale debt instrument objectively relates to an event occurring after the impairment charge.

2.13 Derivative financial instruments and hedging activities

Most derivative instruments are entered into for providing economic hedges. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either, hedges of the fair value of recognised items (fair value hedge), or hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Information on financial risk management of the Group is described in the Note 3.2. Movements on the hedging reserve in shareholders' equity are shown in the statement of changes in equity.

The fair value of a hedging derivative is classified a current asset or liability unless the maturity of the hedge item is expected to be more than twelve months of the balance sheet date.

a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For fair value hedges relating to items carried at amortised cost, for which the effective interest method is used, the adjustment to carrying value is amortised to the income statement over the time to maturity.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity, while the gain or loss relating to the ineffective portion is recognised immediately in the line other financial income/(expenses), net of the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

When the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the ultimate forecast transaction occurs. If the forecast transaction is no longer expected to occur, any cumulative gain or loss existing in equity is immediately taken to the income statement.

c) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting and are accounted at fair value through profit or loss. 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.

d) Compound financial instruments
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. Changes in the fair value of separable embedded derivatives are recognised immediately in the income statement.

2.14 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. Accounts receivable – trade are impaired when significant financial difficulties of the debtor, such as probability that the debtor will enter bankruptcy or need financial reorganisation, default or delinquency in payments occurs.

2.15 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.

2.16 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 2.20).

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.

2.17 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.

2.18 Leases

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

When substantially 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 the line financing costs in the consolidated income statement. The Group has no significant finance leases.

2.19 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 recorded in the local currency at the effective date of the transaction and translated at year-end exchange rates. 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.

Internally generated intangible assets that are directly associated with the development of identifiable and unique software products and systems controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include system licences, external consultancies, and employee costs incurred as a result of developing software as well as an appropriate portion of relevant overheads.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Such intangible assets are recorded at cost, being their fair value at the acquisition date, and are 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. As part of the Quest acquisition the Group identified and measured separately client relationships, formulas, technology, a deed of restrictive covenant and software (see Note 4).

Other intangible 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:

Deed of restrictive covenant	1.5 years
Software/ERP system	4-7 years
Intellectual property rights	5-20 years
Process-oriented technology	5-8 years
Clients' relationships	15 years

An impairment charge of intangible assets is booked when the carrying amount is lower than its recoverable amount being the higher of the value in use and fair value less costs to sell. An impairment loss in respect of goodwill or intangible assets is not reversed. Gains or losses arising from de-recognition are measured as the difference between the net disposal proceeds and the carrying amount and are reported within other operating income (expenses), net in the consolidated income statement.

2.20 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 fair value less cost to sell 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 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A previously recognised impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

2.21 Debt

The proceeds of straight bonds and of private placements of debt issued are recognised as 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 bonds or the private placements. They are de-recognised at redemption date.

The Mandatory Convertible Securities (MCS) instrument issued by the Group is a contract that will be settled by way of a variable number of the Group's own equity instruments and meets the recognition criteria of a financial liability. The proceeds, net of expenses, of the MCS are accounted for as non-current liability. The debt discount arising from the difference between the net proceeds and the par value is recognised using the effective interest method over the life of the MCS. The charge equivalent to the market interest rate is recorded as interest expense in the consolidated income statement, while the mandatory conversion feature of the coupon is recognised separately in the line other financial (income) expenses, net (see Note 10). The MCS is de-recognised in equity at the time of option exercise or at redemption date.

Debt is classified within 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.

2.22 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.

2.23 Own equity instruments

Own equity instruments are own shares and derivatives on own shares. Purchases and sales are accounted for at 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 derivatives 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 a forward contract to buy and written puts which are recorded as a financial liability. When the contract assumes the settlement either net in cash or net in treasury shares or in the case of option of settlement, the contract is recorded as a derivative. Instruments recognised in equity are recorded at acquisition cost including transaction costs. Instruments recognised as financial liabilities are recorded 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 finance costs of the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivative, with realised gain or loss booked in equity. At the end of each period, instruments recorded as derivatives are re-valued at fair value based on quoted market prices at the balance sheet date, with any unrealised gain or loss booked in the line other financial income (expenses), net in the consolidated income statement. They are de-recognised when the Group has lost control of the contractual rights of the derivatives, with any realised gain or loss booked in the line other financial income (expenses), net in the consolidated income statement.

More detailed information is provided in Note 23 of the consolidated financial statements.

2.24 Dividend distributions

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

3. Financial risk management

3.1 Capital risk management

The objective of the Group when managing capital is to maintain the ability to continue as a going concern in order to maximise shareholder value through an optimal balance of debt and equity.

In order to maintain or adjust the capital structure, the management may increase or decrease leverage by issuing or reimbursing debt, and may propose to adjust the dividend amount, return capital to shareholders, issue new shares and cancel shares through share buy back programs.

The Group monitors its capital structure on the basis of a leverage ratio, defined as: net debt divided by the total equity plus net debt. Net debt is calculated as the total of the consolidated short-term and long-term debt, excluding the Mandatory Convertible Securities (MCS), less cash and cash equivalents. Equity is calculated as total equity attributable to equity holders of the parent plus minority interest and MCS.

The Group entered into several private placements and into a syndicated loan which contain various covenants with externally imposed capital requirements. The Group complied with externally imposed capital requirements at year-end.

The leverage ratio at 31 December was as follows:

in millions of Swiss francs	Note	2007	2006
Short-term debt	20	228	189
Long-term debt (excluding MCS)	20	2,752	975
Less: cash and cash equivalents		(359)	(424)
Net debt		2,621	740
Total equity attributable to equity holders of the parent	24	2,676	2,793
Mandatory Convertible Securities	20	739	
Minority interest	13	7	3
Equity (including MCS)		3,422	2,796
▶ Net debt plus Equity		6,043	3,536
▶ Leverage ratio		43%	21%

As a consequence of the acquisition of Quest International, the leverage ratio increased to 43%. It is the Group's mid-term objective to target a leverage ratio below 30%.

3.2 Financial risk management

The Group corporate treasury function monitors and manages financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To manage the interest rate and currency risk arising from the Group's operations and its source of finance, the Group enters into derivative transactions, primarily interest rate swaps, forward currency contracts and options.

Risk management is carried out by the Group treasury under the risk management policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group generally enters into financial derivative transactions for hedging underlying business related exposures.

The accounting policies for financial instruments have been applied to the line items below:

Assets as per balance sheet date 31 December 2007 *in millions of Swiss francs*	Note	Loans and receivables	Derivatives at fair value through profit or loss	Derivatives used for hedge accounting	Available-for-sale	Total
Available-for-sale financial assets	15				329	329
Accounts receivable – trade	16	748				748
Derivative financial instruments	21		18	7		25
Cash and cash equivalents		359				359
Other current assets		113				113
▶ Total		1,220	18	7	329	1,574

Liabilities as per balance sheet date 31 December 2007 *in millions of Swiss francs*	Note		Derivatives at fair value through profit or loss	Derivatives used for hedge accounting	Other financial liabilities	Total
Short-term debt	20				228	228
Long-term debt	20				3,491	3,491
Derivative financial instruments	21		1	3		4
▶ Total			1	3	3,719	3,723

Assets as per balance sheet date 31 December 2006 *in millions of Swiss francs*	Note	Loans and receivables	Derivatives at fair value through profit or loss	Derivatives used for hedge accounting	Available-for-sale	Total
Available-for-sale financial assets	15				423	423
Accounts receivable – trade	16	485				485
Derivative financial instruments	21		24	38		62
Cash and cash equivalents		424				424
Other current assets		106				106
▶ Total		1,015	24	38	423	1,500

Liabilities as per balance sheet date 31 December 2006 *in millions of Swiss francs*	Note		Derivatives at fair value through profit or loss	Derivatives used for hedge accounting	Other financial liabilities	Total
Short-term debt	20				189	189
Long-term debt	20				975	975
Derivative financial instruments	21		3	4		7
▶ Total			3	4	1,164	1,171

Except where mentioned in the relevant notes, the carrying amount of each classes of financial assets disclosed in the above tables approximates the fair value. The fair value of each class of financial assets, except loans and receivables, are determined by reference to published price quotations.

3.2.1 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates and foreign currency risk including:

- Currency derivatives including forward foreign exchange contracts and options to hedge the exchange rate risk
- Interest rate swaps to mitigate the risk of interest rate increases
- Forward foreign exchange contracts to hedge the exchange rate risk arising on translation of the Group's inter-company loans (affiliates local currencies against the Group holding company functional currency in Swiss francs)

3.2.2 Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position. Hence, exposures to foreign exchange rate fluctuations arise from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

The Group is exposed to transaction and translation foreign exchange risks. Transaction risk arises when monetary assets and liabilities, denominated in a currency different from the functional currency, are recognised in the balance sheet. Translation risk arises from the conversion of net assets of the Group's foreign operations to the presentation currency. Group treasury regularly reviews the foreign currency forecasts and adjusts the hedging accordingly.

The following table summarises the Group's sensitivity to transactional currency exposures of the main currencies at 31 December.

The sensitivity is based on the exposure at 31 December based on assumptions, which have been deemed reasonable by the management, showing the impact on profit or loss before tax. To determine the reasonable change, the Group used historical volatilities of the below currency pairs.

Currency risks 2007 expressed in CCY1/CCY2 [a] *in millions of Swiss francs*	EUR/CHF	USD/CHF	GBP/EUR	GBP/CHF	GBP/USD	EUR/USD
Reasonable shift	5%	10%	7.5%	10%	10%	10%
Impact on profit or loss if CCY1 strengthens against CCY2	1	(4)	(7)	9	(2)	(5)
Impact on profit or loss if CCY1 weakens against CCY2	(1)	4	7	(9)	2	5

Currency risks 2006 expressed in CCY1/CCY2 [a] *in millions of Swiss francs*	EUR/CHF	USD/CHF	GBP/CHF	EUR/USD
Reasonable shift	5%	10%	10%	10%
Impact on profit or loss if CCY1 strengthens against CCY2	4	3	2	(1)
Impact on profit or loss if CCY1 weakens against CCY2	(4)	(3)	(2)	1

a) CCY = currency

The Group manages its currency exposures on current and forecasted transactions. Group treasury centrally monitors the exposures on a regular basis and takes appropriate actions. The Group has set up currency limit for the current exposure for each individual affiliate and limits for the forecasted transactions on each foreign currency. In addition, Group treasury regularly calculates the risk sensitivities per currency applying a 5% instantaneous shift.

It is the Group's policy to enter into derivative transactions to hedge current and forecasted foreign currency transactions. While these are hedges related to underlying business transactions, the Group generally does not apply hedge accounting.

3.2.3 Interest rate risk

The Group is exposed to fair value and cash flow interest rate risks. The Group is exposed to cash flow interest rate risk where the Group invests or borrows funds with floating rates. In addition, the Group is exposed to fair value interest rate risks where the Group invests or borrows with fixed rates.

The following tables show the sensitivity of the Group to interest rate changes:

in millions of Swiss francs, 31 December 2007	CHF interest rate
Reasonable shift	75 basis points
Impact on profit or loss if interest rate increase	(3)
Impact on profit or loss if interest rate decrease	3
Impact on equity if interest rate increase	33
Impact on equity if interest rate decrease	(33)

in millions of Swiss francs, 31 December 2006	CHF interest rate
Reasonable shift	75 basis points
Impact on profit or loss if interest rate increase	-
Impact on profit or loss if interest rate decrease	-
Impact on equity if interest rate increase	25
Impact on equity if interest rate decrease	(25)

The sensitivity is based on the exposure at 31 December based on assumptions, which have been deemed reasonable by the management, showing the impact on profit or loss before tax and equity.

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align interest rate views and defined risk limits. Hedging strategies are applied, by either positioning the balance sheet or protecting interest expenses through different interest cycles. In addition, Group treasury regularly calculates the sensitivity to interest rate change on a 1% basis.

3.2.4 Price risk

The Group is exposed to equity securities price risk due to investments held by the Group and classified on the consolidated balance sheet as available-for-sale. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits approved by the Board of Directors.

The Group measures the aggregate sensitivity of the Group's financial instruments to pre-defined stock market scenarios. After having calculated the price (shares) exposure of each equity-related position, the revaluation effect of a sudden movement of stock markets of +/-10% for each product is calculated.

The Group has a portfolio of own shares to cover the outstanding Executive Option Rights (Long Term Incentive Plan for the employees / management of the company). It is the Group's policy to trade in its own shares for underlying business reasons.

Sensitivity analysis:

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

The equity portfolio of the Group is composed of Swiss and US shares. The benchmark for the reasonable change is the SMI index historical volatility (14% for the last 3 years) and an average of historical volatility of US indexes (12% for the last 3 years).

If equity prices had been 14% higher/lower (for the Swiss portfolio) and 12% higher/lower (for the US portfolio), the total value would have respectively increased or decreased by CHF 20 million (CHF 24 million in 2006).

3.2.5 Credit risk

Credit risk is managed by affiliates and controlled on a Group basis. 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.

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.

In addition, the Group is mainly exposed to credit risk on liquid funds, derivatives and monetary available-for-sale financial assets. Most of the credit exposures of the above positions are against financial institutions with high credit-ratings, generally above "A", assigned by international credit-rating agencies.

The following table presents the Group's credit risk exposure to individual financial institutions:

	Rating	2007	2006
Bank A	AA-	+120	+164
Bank B	AA+		+141
Bank C	AA	+46	+41
Bank D	AA	+44	+46

The maximum exposure to credit risks is limited to the carrying amount of the monetary financial assets.

3.2.6 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funds through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining availability under committed and uncommitted credit lines.

Group treasury monitors and manages cash at Group level and defines the maximum cash level at affiliate level. If necessary, inter-company loans within the Group provide for short-term cash needs; excess local cash is repatriated in the most appropriate manner.

The following table analyses the Group's remaining contractual maturity for financial liabilities and derivative financial instruments. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is obliged to pay. The table includes both interest and principal cash flows.

in millions of Swiss francs, 31 December 2007	Up to 6 months	6–12 months	1–5 years	Over 5 years
Short-term debt (excluding bank overdraft)	(178)	(2)		
Accounts payable – trade and others	(210)			
Net settled derivative financial instruments		1	6	
Gross settled derivative financial instruments – outflows	(821)			
Gross settled derivative financial instruments – inflows	835			
Long-term debt	(88)	(52)	(2,654)	(515)
▶ Total	(462)	(53)	(2,648)	(515)

in millions of Swiss francs, 31 December 2006	Up to 6 months	6–12 months	1–5 years	Over 5 years
Short-term debt (excluding bank overdraft)	(141)	(7)		
Accounts payable – trade and others	(108)			
Net settled derivative financial instruments				
Gross settled derivative financial instruments – outflows	(194)			
Gross settled derivative financial instruments – inflows	194			
Long-term debt	(21)	(16)	(357)	(817)
▶ Total	(270)	(23)	(357)	(817)

4. Business Combinations

Effective 2 March 2007 Givaudan acquired 100% control of UK based Imperial Chemical Industries PLC fragrance and flavour business, Quest International, for an equivalent of CHF 2,8 billion. This combination will extend Givaudan's leadership position in all strategic segments of the fragrance and flavour industry. Quest International was one of the leading players in the global flavour and fragrance market. Goodwill at 31 December 2007 amounted to CHF 1,268 million. See note 19 for disclosures regarding the business combination intangible assets and goodwill.

Information on Quest and Givaudan profit or loss, after 2 March 2007 (closing date), taken separately, cannot be provided due to the rapid integration of both organisations. The integration of Givaudan and Quest involved all aspects of the business activities such as commercial development, manufacturing, commercial, finance and IT; which rendered the separate disclosure of the activities impracticable. If the acquisition had occurred on 1 January 2007, Group revenue would have been CHF 4,366 million, and net income would have been CHF 77 million (including the integration costs of CHF 159 million net of taxes). These amounts have been calculated using the Group's accounting policies and by adjusting the results to reflect the additional amortisation of intangible assets that would have been charged assuming fair value adjustments to intangible assets had applied from 1 January 2007; together with consequential tax effects and the additional interest expense as a result of the debt necessary to finance the acquisition.

The Group accounted for the acquisition of Quest International applying the purchase method of accounting as defined by IFRS 3 "Business Combination". At the date of acquisition, the 2 March 2007 (closing date), the Group has allocated the cost of the business combination by recognising Quest International's identifiable assets and liabilities that satisfy the recognition criteria at their fair value at that date. The goodwill remaining after the purchase price allocation was recognised from the premium paid for the acquisition. Apart from general synergies in processes and infrastructures, this includes also significant savings in marketing, research & development, assembled work force, and production functions. In addition, the acquisition of Quest International strengthens the Group's global market position in fragrance and flavour industry.

Details of net assets acquired and goodwill are as follows:

in millions of Swiss francs	
Cash paid	2,801
Acquisition related direct costs	20
▶ Total cash paid	2,821
Purchase price adjustment	58
▶ Total cash consideration	2,879
Assumed debt	(255)
▶ Total purchase cost	2,624
Cash in subsidiaries acquired	64
Fair value of net identifiable assets acquired	1,209
▶ Goodwill	1,351

The assets and liabilities arising from the acquisition are as follows:

in millions of Swiss francs	Acquiree's carrying amount	Fair value
Cash and cash equivalents	74	74
Accounts receivable – trade	238	236
Inventories	181	194
Property, plant and equipment	374	415
Software	*15*	*13*
Deed of restrictive covenant		*142*
Technology: Formulas		*403*
Technology: Other	*10*	*343*
Clients' relationships	*10*	*324*
▶ Total identified Intangible assets	35	1,225
Other assets	162	59
Accounts payable – trade and others	(273)	(275)
Debt	(244)	(255)
Liabilities for post-employment benefits	(196)	(100)
Provisions	(22)	(32)
Net deferred income tax (liabilities) assets	55	(232)
Accrued and other liabilities	(23)	(36)
▶ Net assets acquired	361	1,273

in millions of Swiss francs	
Purchase consideration settled in cash	2,879
Cash in subsidiaries acquired	(64)
▶ Cash outflow on acquisition	2,815

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	
	2007	2006	2007	2006	2007	2006
Segment sales	1,909	1,233	2,246	1,690	4,155	2,923
Less inter-divisional sales [a]	(10)	(10)	(13)	(4)	(23)	(14)
▶ Segment sales to third parties	1,899	1,223	2,233	1,686	4,132	2,909
EBITDA [b]	288	239	392	389	680	628
as % of sales	*15.2%*	*19.5%*	*17.6%*	*23.1%*	*16.5%*	*21.6%*
Depreciation	(59)	(43)	(61)	(48)	(120)	(91)
Amortisation	(104)	(1)	(120)	(18)	(224)	(19)
Impairment of long-lived assets	(7)		(7)	(4)	(14)	(4)
▶ Operating profit	118	195	204	319	322	514
as % of sales	*6.2%*	*15.9%*	*9.1%*	*18.9%*	*7.8%*	*17.7%*
Additions to restructuring provisions	36		43	6	79	6
Reversal of unused restructuring provisions	(1)		(2)	-	(3)	-
Operating assets [c]	2,811	1,022	3,981	2,469	6,792	3,491
Unallocated assets [d]					1,106	1,209
▶ Consolidated total assets					7,898	4,700
Operating liabilities [c]	(119)	(61)	(92)	(47)	(211)	(108)
Unallocated liabilities [d]					(5,004)	(1,796)
▶ Consolidated total liabilities					(5,215)	(1,904)
▶ Capital expenditures [e]	139	63	113	106	252	169
▶ Number of employees	3,664	2,566	5,112	3,490	8,776	6,056

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]	
	2007	2006	2007	2006	2007	2006
Switzerland	53	42	1,244	1,070	118	69
Other EAME	1,661	1,050	2,646	513	30	22
USA and Canada	1,086	916	1,615	1,254	72	49
Latin America	458	328	341	164	12	9
Asia Pacific	874	573	735	382	20	20
▶ **Total**	**4,132**	**2,909**	**6,581**	**3,383**	**252**	**169**

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 2007 amounted to CHF 371 million (2006: CHF 246 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	2007	2006
Wages and salaries	735	549
Social security costs	99	71
Post-employment benefits: defined benefit plans	48	35
Post-employment benefits: defined contribution plans	19	11
Equity-settled instruments granted to Directors and executives	7	6
Cash-settled instruments granted to Directors and executives	10	29
Other employee benefits	49	44
▶ **Total employees' remuneration**	**967**	**745**

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	
	2007	2006	2007	2006
Current service cost	49	29	3	2
Interest cost	66	47	5	4
Expected return on plan assets	(77)	(55)		
Effect of curtailment or settlement, net	(3)			
Net actuarial (gains) losses recognised	4	6	1	2
▶ **Total included in employees' remuneration**	**39**	**27**	**9**	**8**

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	
	2007	2006	2007	2006
Present value of funded obligations	(1,462)	(1,170)	(11)	
Fair value of plan assets	1,438	1,060	1	
Net present value of unfunded obligations	(24)	(110)	(10)	
Unrecognised actuarial (gains) losses	(29)	113		
Recognised asset (liability) for funded (unfunded) obligations, net	(53)	3	(10)	
Present value of unfunded obligations	(49)	(39)	(78)	(80)
Unrecognised actuarial (gains) losses	8	10	15	20
Recognised (liability) for unfunded obligations	(41)	(29)	(63)	(60)
▶ Total defined benefit liability	(94)	(26)	(73)	(60)
Deficit recognised as liabilities for post-employment benefits	(115)	(46)	(73)	(60)
Surplus recognised as part of other long-term assets	21	20		
▶ Total net asset (liability) recognised	(94)	(26)	(73)	(60)

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	
	2007	2006	2007	2006
▶ Balance at 1 January	1,209	1,205	80	92
Net current service cost	49	29	3	2
Interest cost	66	47	5	4
Employee contributions	9	8		
Benefit payment	(65)	(53)	(4)	(3)
Curtailments	(3)			(3)
Actuarial (gains) losses	(150)	(11)	(4)	(6)
Acquisition of subsidiaries	419		14	
Currency translation effects	(23)	(16)	(5)	(6)
▶ Balance at 31 December	1,511	1,209	89	80

The effect of a 1% movement in the assumed medical cost trend rate is as follows:

in millions of Swiss francs	Increase	Decrease
Effect on the aggregate of the current service cost and interest cost	1	(1)
Effect on the defined benefit obligation	10	(8)

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	
	2007	2006	2007	2006
▶ Balance at 1 January	1,060	1,031		
Expected return on plan assets	77	55		
Actuarial gains (losses)	(15)	(3)		
Employer contributions	55	33	4	3
Employee contributions	9	8		
Benefit payment	(65)	(53)	(4)	(3)
Acquisition of subsidiaries	339		1	
Currency translation effects	(22)	(11)		
▶ Balance at 31 December	1,438	1,060	1	

The actual return on plan assets in 2007 was CHF 65 million (2006: CHF 52 million).

The plan assets do not include Givaudan registered shares. They do not include any property occupied by, or other assets used by the Group.

in millions of Swiss francs	2007		2006	
Debt	459	32%	414	39%
Equity	357	25%	395	37%
Other	623	43%	251	24%
Total	1,439	100%	1,060	100%

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to post-employment benefit plans for the year ending 31 December 2008 are CHF 55 Million.

in millions of Swiss francs	2007	2006
Present value of defined benefit obligation	1,600	1,289
Fair value of plan asset	1,439	1,060
Deficit / (surplus)	161	229
Experience adjustments on plan liabilities	2	6
Experience adjustments on plan assets	(12)	(3)

The Group operates defined benefit plans 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:

Weighted percentage	2007	2006
Discount rates	5.0%	4.2%
Projected rates of remuneration growth	2.6%	2.4%
Expected rates of return on plan assets	6.4%	5.4%
Healthcare cost trend rate	5.0%	4.8%

The overall discount rate and the overall projected rates of remuneration growth are calculated by weighting the individual rates in accordance with the defined benefit obligation of the plans. 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.

8. Share-based payments

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 2007	Number of options 2006
2002	29 Jan 2007	28 Jan 2005	575.0	10:1	8.12		2,200
2003	17 Mar 2008	17 Mar 2005	509.7	10:1	5.67	18,150	42,700
2004	18 Mar 2009	18 Mar 2006	656.4	10:1	10.87	70,900	86,500
2005	21 Mar 2010	21 Mar 2007	805.0	10:1	10.74	288,050	522,100
2006	7 Mar 2011	6 Mar 2008	1,050.0	10:1	12.07	479,500	486,000
2007	5 Mar 2012	5 Mar 2009	1,250.0	10:1	14.18	588,500	

a) Strike prices 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 7 million (2006: CHF 6 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	2007	Weighted average exercised price	2006	Weighted average exercised price
▶ At 1 January	113,950	886.7	121,050	701.4
Granted	60,500	1,247.9	48,600	1,050.0
Sold	(27,640)	768.6	(55,700)	629.5
Lapsed/cancelled	(2,300)	1,137.0		
▶ At 31 December	144,510	1,056.5	113,950	886.7

For these plans, the Group has at its disposal either treasury shares or conditional share capital up to an amount of CHF 1,618,200 representing 161,820 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 and 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 2007	Number of options 2006
2002	29 Jan 2007	28 Jan 2005	575.0	10:1	8.12		12,850
2003	17 Mar 2008	17 Mar 2005	509.7	10:1	5.67	25,440	38,790
2004	18 Mar 2009	18 Mar 2006	656.4	10:1	10.87	83,300	114,800
2005	21 Mar 2010	21 Mar 2007	805.0	10:1	10.74	349,050	544,700
2006	7 Mar 2011	6 Mar 2008	1,050.0	10:1	12.07	552,300	550,800
2007	5 Mar 2012	5 Mar 2009	1,250.0	10:1	14.18	619,700	

a) Strike prices of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2005 and on 27 April 2006, to distribute extraordinary dividends.

The cost of the cash-settled instruments of CHF 10 million (2006: CHF 29 million) has been expensed in the income statement. The liability regarding the cash-settled instruments of CHF 32 million (2006: CHF 32 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	2007	Weighted average exercised price	2006	Weighted average exercised price
▶ **At 1 January**	**126,194**	**887.0**	**121,185**	**685.4**
Granted	63,770	1,248.4	55,700	1,046.7
Exercised	(25,135)	758.9	(49,891)	613.2
Lapsed	(1,850)	1,164.1	(800)	506.3
▶ **At 31 December**	**162,979**	**1,045.0**	**126,194**	**887.0**

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

9. Other operating (income) expenses, net

in millions of Swiss francs	2007	2006
Restructuring expenses	-	6
Impairment of long-lived assets	14	4
(Gains) losses on fixed assets disposals	1	(16)
Business related information management projects costs	9	13
Butter flavours litigation case settlement	-	44
Quest integration expenses	194	
Other business taxes	14	12
Other (income) expenses, net	12	(4)
▶ **Total**	**244**	**59**

In the year ended 31 December 2007, the Group incurred significant expenses in connection with the combination with Quest International. Integration related charges of CHF 194 million and assets impairment of CHF 14 million have been recognised in the line other operating (income) and expenses, net. Refer also to Note 18 on property, plant and equipment and Note 22 on provisions.

Following the site consolidation and product streamlining in the USA initiated in 2005, asset impairments of CHF 4 million and restructuring costs of CHF 6 million were recognised in 2006.

As communicated on 4 August 2006, the Group achieved a full and final out of court settlement with 51 plaintiffs involved in the US butter flavour litigation. The net charge recorded in the 2006 income statement was CHF 44 million. Approximately CHF 24 million (USD 20 million) is still under discussion with other insurers and the Group pursues the recovery of this amount.

In the year ended 31 December 2006, a one time income of CHF 18 million was recognised as a result of a net gain on disposal of land in Switzerland.

10. Financial income and financing costs

Financing costs

in millions of Swiss francs	2007	2006
Fair value and realised (gains) losses from interest rate derivatives, net	2	(2)
Interest expense	121	46
Amortisation of discount on debt instruments	4	-
▶ Total	127	44

Other finance (income) expenses, net

in millions of Swiss francs	2007	2006
(Gains) losses from available-for-sale financial assets, net	(10)	(22)
Interest income	(9)	(6)
Dividend income	(1)	(1)
Impairment of available-for-sale financial assets	1	1
Fair value and realised (gains) losses from derivative instruments, net (at fair value through income statement)	(27)	(5)
Fair value and realised (gains) losses from own equity instruments, net	2	(27)
Exchange (gains) losses, net	47	14
Mandatory conversion feature of the Mandatory Convertible Securities	14	
Capital taxes & Other non business taxes	7	2
Other (income) expenses, net	6	6
▶ Total	30	(38)

11. Jointly controlled entity

In March 2007, the Group entered into a joint venture agreement with ChemCom SA, a leader in the field of olfactory receptor technology. In 2006, Givaudan had no joint venture agreement.

Name of joint venture	Principal activity	Country of incorporation	Ownership interest
TecnoScent	Olfactory receptor research	Belgium	50%

Summarised financial information in respect of the Group's joint venture is set out below:

in millions of Swiss francs – As at 31 December	2007
Current assets	10
Non-current assets	10
Current liabilities	(1)
Non-current liabilities	-
▶ Net assets of joint venture	19

The joint venture's revenue and profit for the period are below CHF 1 million.

12. Income taxes

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

in millions of Swiss francs	2007	2006
Current income taxes	108	108
Adjustments of current tax of prior years	(2)	(7)
Deferred income taxes	(36)	(6)
▶ Total income tax expenses	70	95

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 applicable tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates, including tax credits and withholding tax on dividends, interests and royalties.

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

	2007	2006
Group's average applicable tax rate	23%	19%
Tax effect of		
- Income not taxable	(1)%	
- Expenses not deductible	8%	1%
- Adjustments of income taxes of prior years – Tastemaker	17%	
- Other adjustments of income taxes of prior years	(2)%	
- Other differences	(3)%	(1)%
▶ Group's effective tax rate	42%	19%

The variation in the Group's average applicable tax rate is caused by the effect of Quest International acquisition which had a higher average applicable tax rate than Givaudan, changes in volumes, product mix and profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in local statutory tax rates.

During the second quarter of 2007, the Company reached an agreement with the U.S. tax authorities that re-characterises the original U.S. tax position of the 1997 Tastemaker acquisition. Per the agreement, the tax bases of the Tastemaker assets were reallocated from short-life asset categories to long-life asset categories. This reallocation changed the annual depreciation charge. In addition, the agreement established tax amortisable goodwill. The agreement with the U.S. tax authorities is scheduled to be signed in the first quarter 2008. The impact of this agreement is an increase to income tax expenses of CHF 28 million at 31 December 2007.

Income tax assets and liabilities

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

in millions of Swiss francs – As at 31 December	2007	2006
Current income tax assets	19	5
Current income tax liabilities	(57)	(43)
▶ **Net current income tax asset (liability)**	**(38)**	**(38)**

in millions of Swiss francs – As at 31 December	2007	2006
Deferred income tax assets	157	116
Deferred income tax liabilities	(355)	(101)
▶ **Net deferred income tax asset (liability)**	**(198)**	**15**

Amounts recognised in the balance sheet for deferred taxes are reported as non-current assets and non-current liabilities, a portion of which are current and will be charged or credited to the income statement during 2008.

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. Deferred tax assets of CHF 11 million have been recognised in 2007 in loss making entities. To the extent that the utilisation of these deferred tax assets is dependent on future taxable profits in excess of the reversal of existing temporary differences, management considers it is probable that these tax losses can be used against additional future taxable profits based on its business projections for these entities. 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. The related temporary differences amount to CHF 73 million at 31 December 2007.

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

in millions of Swiss francs – 2007	Property, plant & equipment	Intangible assets	Pension plans	Tax loss carryforward	Other temporary differences	Total
Net deferred income tax asset (liability) at 1 January	(62)	15	54		8	15
(Credited) charged to income statement	(9)	4	9	11	21	36
(Credited) debited to equity					1	1
Acquisition of subsidiaries (see Note 4)	(32)	(247)	17		30	(232)
Currency translation effects	2	1	(5)		(16)	(18)
▶ **Net deferred income tax asset (liability) at 31 December**	**(101)**	**(227)**	**75**	**11**	**44**	**(198)**

in millions of Swiss francs – 2006	Property, plant & equipment	Intangible assets	Pension plans	Tax loss carryforward	Other temporary differences	Total
Net deferred income tax asset at 1 January	(69)	21	48		18	18
(Credited) charged to income statement	1	(5)	9		1	6
(Credited) debited to equity					2	2
Currency translation effects	6	(1)	(3)		(13)	(11)
▶ **Net deferred income tax asset (liability) at 31 December**	**(62)**	**15**	**54**		**8**	**15**

13. Minority interest

Minority interest represents the interests of third-party shareholders in the net results of the operations and the net assets of the subsidiaries in Thailand and in Venezuela (minority interest arising on business combinations) which are not fully owned by the Group, either directly or indirectly.

14. Earnings per share

Basic earnings per share

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

	2007	2006
Net income for the year (CHF million)	94	412
Weighted average number of shares outstanding		
Ordinary shares	*7,261,240*	*7,321,872*
Treasury shares	*(171,456)*	*(293,887)*
	7,089,784	7,027,985
▶ Earnings per share – basic (CHF)	13.26	58.62

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.

	2007	2006
Result attributable to equity holder of the parent (CHF million)	94	412
Weighted average number of shares outstanding adjusted for executives share options plans of 30,443 (2006: 48,106).	7,120,227	7,076,091
▶ Earnings per share – diluted (CHF)	13.20	58.22

15. Available-for-sale financial assets

in millions of Swiss francs – As at 31 December	2007	2006
Equity securities [a]	160	193
Bonds and debentures	169	230
▶ Total available-for-sale financial assets	329	423
Current assets	159	261
Non-current assets	170	162
▶ Total available-for-sale financial assets	329	423

a) In 2007 and 2006 no equity securities were restricted for sale

16. Accounts receivable – trade

in millions of Swiss francs – As at 31 December	2007	2006
Accounts receivable	759	488
Notes receivable	8	7
Less: allowance for doubtful accounts	(19)	(10)
▶ Total accounts receivable – trade	748	485

Ageing of past due but not impaired:

in millions of Swiss francs – As at 31 December	2007	2006
Neither past due nor impaired	588	393
Less than 30 days	129	81
30 – 60 days	22	13
60 – 90 days	8	4
Above 90 days	20	4
Less: allowance for doubtful accounts	(19)	(10)
▶ Total accounts receivable – trade	748	485

Movement of the allowance for doubtful accounts:

in millions of Swiss francs – As at 31 December	2007	2006
▶ Balance at 1 January	(10)	(14)
Increase in allowance recognised in profit or loss	(9)	
Amounts written off as uncollectible	3	4
Reversal of provision for doubtful accounts	4	
Acquisition of subsidiaries	(7)	
▶ Balance at 31 December	(19)	(10)

No significant impairment charge has been recorded in the income statement in 2007 or 2006, therefore the quality of not past due nor impaired loans is considered good. The carrying amount of accounts receivable trade corresponds to the fair value.

17. Inventories

in millions of Swiss francs – As at 31 December	2007	2006
Raw materials and supplies	446	304
Work in process	40	23
Finished goods	322	231
Less: allowance for slow moving and obsolete inventories	(28)	(23)
▶ Total inventories	780	535

At year-end 2007 and 2006 no significant inventory was valued at net realisable value.

18. Property, plant and equipment

in millions of Swiss francs – 2007	Land	Buildings and building improvements	Machinery, equipment and vehicles	Construction in progress	Total
Net book value					
▶ Balance at 1 January	58	508	514	60	1,140
Additions		6	28	160	194
Disposals	-	-	(2)		(2)
Transfers		54	79	(133)	
Impairment	(1)	(8)	(5)		(14)
Depreciation		(27)	(93)		(120)
Acquisition of subsidiaries (see Note 4)	107	142	140	26	415
Currency translation effects	(4)	(11)	(6)	(4)	(25)
▶ Balance at 31 December	160	664	655	109	1,588
Cost	162	1,004	1,519	109	2,794
Accumulated depreciation		(318)	(855)		(1,173)
Accumulated impairment	(2)	(22)	(9)		(33)
▶ Balance at 31 December	160	664	655	109	1,588

in millions of Swiss francs – 2006	Land	Buildings and building improvements	Machinery, equipment and vehicles	Construction in progress	Total
Net book value					
▶ Balance at 1 January	60	488	486	96	1,130
Additions		3	22	120	145
Disposals	(2)	(3)	(3)	(5)	(13)
Transfers	2	56	91	(149)	
Impairment	(1)	(2)	(1)		(4)
Depreciation		(19)	(72)		(91)
Currency translation effects	(1)	(15)	(9)	(2)	(27)
▶ Balance at 31 December	58	508	514	60	1,140
Cost	59	812	1,282	60	2,213
Accumulated depreciation		(289)	(753)		(1,042)
Accumulated impairment	(1)	(15)	(15)		(31)
▶ Balance at 31 December	58	508	514	60	1,140

In 2007 the Group invested a total amount of CHF 43 million to strengthen and expand its fragrance business. As part of project Nova, the Group invested CHF 31 million in the USA in a new commercial and creative centre in Teaneck, and CHF 12 million to expand the Groups facilities in Mount Olive, and the new flavours distribution centre in Switzerland for CHF 18 million.

In 2007, the Group started to integrate the Quest International business activities by concentrating resources and locations. These actions resulted in various asset impairment losses amounting to CHF 14 million.

In 2006, 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 4 million being recognised in the consolidated financial statements.

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	2007	2006
Within one year	16	11
Within two to five years	37	23
Thereafter	13	22
▶ Total minimum payments	66	56

The total rental for all operating leases was CHF 46 million (2006: CHF 29 million).

The Group has capital commitments for the purchase or construction of property, plant and equipment totalling CHF 9 million (2006: CHF 32 million).

Fire insurance value of property, plant and equipment amounted to CHF 3,654 million in 2007 (CHF 2,281 million in 2006).

19. Intangible assets

in millions of Swiss francs – 2007	Goodwill	Intellectual property rights	Process-oriented technology and other	Software/ ERP system	Contracts	Clients relationships	Total
Net book value							
▶ Balance at 1 January	1,037	260	10	24			1,331
Additions			4	54			58
Acquisition of subsidiaries (see Note 4)	1,351		746	13	142	324	2,576
Disposals							
Impairment							
Amortisation		(17)	(104)	(6)	(79)	(18)	(224)
Currency translation effects	(68)		7	1		(5)	(65)
▶ Balance at 31 December	2,320	243	663	86	63	301	3,676
Cost	2,320	339	773	92	142	319	3,985
Accumulated amortisation		(96)	(110)	(6)	(79)	(18)	(309)
▶ Net book value at 31 December	2,320	243	663	86	63	301	3,676

in millions of Swiss francs – 2006	Goodwill	Intellectual property rights	Process-oriented technology and other	Software/ ERP system	Contracts	Clients relationships	Total
Net book value							
▶ Balance at 1 January	1,079	277	13				1,369
Additions				24			24
Disposals							
Impairment							
Amortisation		(17)	(2)				(19)
Currency translation effects	(42)		(1)				(43)
▶ Balance at 31 December	1,037	260	10	24			1,331
Cost	1,037	339	16	24			1,416
Accumulated amortisation		(79)	(6)				(85)
▶ Net book value at 31 December	1,037	260	10	24			1,331

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 726 million (2006: CHF 3 million) for the fragrance division and CHF 1,594 million (2006: CHF 1,034 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, plus a five year extrapolation and a terminal value.

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 5.0% rate representing the expected market growth rate in the fragrance industry. The discount rate applied to cash flow projections is pre-tax and reflects specific risks relating to the Group and was determined at 8.2%.

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, plus a five year extrapolation and a terminal value.

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 5.0% 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 8.2%.

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.

Contracts

As part of the acquisition of Quest International, the Group signed a deed of restrictive covenant.

Process-oriented technology and other

This consists mainly of process-oriented technology, formulas, molecules and delivery systems acquired when the Group purchased IBF and Quest International.

Software/ERP system

This consists of the future Group ERP system development costs incurred since September 2006 and Quest International ERP system.

Clients' relationship

As part of the acquisition of Quest International, the Group acquired client relationships of the flavour and fragrance divisions, mainly consisting of client relationships to key customers.

The residual useful lives of the acquired intangible assets carried at cost, being their fair value at acquisition date, are determined in accordance with the principles set in note 2.19.

Remaining useful lives of major classes of amortisable intangible assets are as follows:

Contracts	0.7 years
Software/ERP system	1.2 years
Intellectual property rights	19.2 years
Process-oriented technology	5.6 years
Clients' relationships	14.2 years

In 2007, The Group has entered into a research collaboration and licensing agreement with Redpoint Bio Corporation. The obligations and other commercial commitments, and the effect these obligations and commitments are expected to have on the Group's liquidity and cash flow in future periods, are summarised in the table below:

Payments due in millions of Swiss francs by period	2008	2009	2010	Total
Total contractual obligations	3	3	2	8

In addition to the research funding, the Group is committed to certain milestone payments upon identification of a lead, as well as ongoing royalties upon commercialisation of a molecule.

20. Debt

in millions of Swiss francs – 2007	within 1 to 3 years	within 3 to 5 years	thereafter	Total long-term	Short-term within 1 year	Total
Bank borrowings	12			12	181	193
Straight bonds		575		575		575
Private placements	125	36	429	590		590
Private placements linked to Quest International acquisition			50	50		50
Syndicated loan		1,525		1,525		1,525
Mandatory Convertible Securities (MCS)	739			739		739
Bank overdraft					47	47
▶ Total debt at 31 December	876	2,136	479	3,491	228	3,719
▶ Total debt at 31 December (excluding MCS)	137	2,136	479	2,752	228	2,980

in millions of Swiss francs – 2006	within 1 to 3 years	within 3 to 5 years	thereafter	Total long-term	Short-term within 1 year	Total
Bank borrowings	16			16	149	165
Straight bond			297	297		297
Private placements	129	79	454	662		662
Bank overdraft					40	40
▶ Total debt at 31 December	145	79	751	975	189	1,164

At year end, the fair value of long-term debt was CHF 3,483 million (2006: CHF 970 million). The fair value calculation of the debt is based on published price quotations in active markets for debt instruments

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 in full 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 in full 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).

On 1 March 2007, Givaudan Nederland BV issued the MCS. The principal amount of the MCS is CHF 750 million and bears interest at 5.375% with a maturity date of 1 March 2010. The MCS is mandatory convertible into registered Givaudan shares 30 trading days before the maturity date.

On 2 March 2007, the Group entered into a syndicated loan agreement for a total amount of CHF 1.9 billion through its holding company, Givaudan SA. The syndicated loan is structured in three tranches: CHF 300 million redeemable in 2008, CHF 1.4 billion and CHF 200 million redeemable in 2012.

As of 23 May 2007, the Group entered into a private placement for a total amount of CHF 50 million with maturity 21 May 2014, with an annual interest rate of 3.125%.

On 18 October 2007, the Group issued a 3.375% 4-year public bond (maturity 18 October 2011) with a nominal value of CHF 275 million. The bond was issued by the holding company Givaudan SA.

With the proceeds of the private placement and the public bond, the outstanding amount of the syndicated loan was reduced to CHF 1.575 billion; the total amount of the redeemable part in 2008 was reimbursed.

Another 50 million CHF of the syndicated loan was reimbursed in November 2007 with available liquidity. The outstanding amount of the syndicated loan at 31 December 2007 is CHF 1.525 billion. CHF 1.1 billion is based on a fixed rate of 2.84% in average (considering the hedge transactions, see Note 21), CHF 425 million is based on 1-month CHF Libor, the weighted average interest rate of the total syndicated loan borrowing is 3.45% at 31 December 2007.

The carrying amounts of the Group's debt are denominated in the following currencies:

in millions of Swiss francs	2007	2006
Swiss Franc	3,049	447
US Dollars	537	572
Euro	35	32
Other currencies	98	113
▶ Total debt at 31 December	3,719	1,164

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

	2007	2006
Amounts due to banks and other financial institutions	3.5%	4.7%
Private placements	4.4%	4.5%
Straight bonds	2.8%	2.3%
Mandatory Convertible Securities [a]	5.4%	

a) *An amount corresponding to the interest rate of 3.1125% is recorded as interest expenses in the consolidated income statement, while the mandatory feature of the coupon corresponding to 2.2625% is recognised separately in the line other financial (income) expenses, net (see note 10).*

21. Derivative 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 is as follows:

in millions of Swiss francs	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Foreign currency derivatives				
- forward foreign exchange contracts	14	(1)	2	(1)
- contingent forward foreign exchange contract – cash flow hedges			38	
- options				(1)
Interest rate derivatives				
- swaps	7			(1)
- forward starting swaps		(3)		
- contingent forward starting swaps – cash flow hedges				(4)
Other derivatives				
- derivatives on debt securities	4		22	
▶ Total derivative financial instruments	25	(4)	62	(7)

During the last quarter of 2006, the Group entered into two contingent forward interest rate swap transactions for a total amount of CHF 800 million in relation with the agreement to acquire Quest international. Upon grant of the syndicated loan (linked to the acquisition of Quest, see Note 20 Debt) to the holding company in March 2007, these swaps were changed to traditional interest rate swaps, where the Group pays fixed and receives floating interest rate until the final maturity of the syndicated loan (see Note 20 Debt).

In May 2007, the Group entered into an additional CHF 300 million interest rate swap in relation to the payment of an additional tranche of the syndicated loan.

The total outstanding notional principal amount of the interest rate swaps at 31 December 2007 is CHF 1.1 billion. The Group pays a weighted average fixed rate of 2.84% and receives 6-months CHF Libor until March 2012. The average floating rate received in 2007 was 2.55%.

Cash flow hedges happened not to be ineffective during the period.

22. Provisions

In millions of Swiss francs – 2007	Restructuring from Quest Int. acquisition	Other restructuring	Claims and litigation	Others	Total
▶ Balance at 1 January		8	15	22	45
Additional provisions	79	-	14	15	108
Acquisition of subsidiaries (see Note 4)		10	-	22	32
Unused amounts reversed		(3)		-	(3)
Utilised during the year	(30)	(8)	(6)	(5)	(49)
Currency translation effects		(1)	-	-	(1)
▶ Balance at 31 December	49	6	23	54	132
Current liabilities	24	2	10	5	41
Non-current liabilities	25	4	13	49	91
▶ Balance at 31 December	49	6	23	54	132

In millions of Swiss francs – 2006	Restructuring from FIS acquisition	Other restructuring	Claims and litigation	Others	Total
▶ Balance at 1 January	1	9	18	23	51
Additional provisions		6	6	7	19
Unused amounts reversed		-	(5)	(2)	(7)
Utilised during the year	(1)	(7)	(4)	(5)	(17)
Currency translation effects		-	-	(1)	(1)
▶ Balance at 31 December		8	15	22	45
Current liabilities		3	3	4	10
Non-current liabilities		5	12	18	35
▶ Balance at 31 December		8	15	22	45

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 Quest International acquisition

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

Restructuring provisions from FIS (Food Ingredients Specialties) acquisition

Provisions for the FIS (Food Ingredients Specialities) acquisition have been recognised for compensating FIS employees for terminating of their employment and closing FIS facilities.

Other 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 2006 by the Group. Refer to Note 9 other operating income (expense), net.
Other restructuring provisions, in the line acquisition of subsidiaries, correspond to former Quest International restructuring programmes.

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.

23. Own equity instruments

Details on own equity instruments are as follows:

31 December 2007	Settlement	Category	Maturity	Strike price[a] (CHF)	In equivalent shares	Fair value in millions CHF
Registered shares	n/a	Equity	n/a	n/a	171,831	187
Written calls	Gross shares	Equity	2008 - 2012	525.0 - 1,250.0	357,179	90
Purchased calls	Net cash	Derivative	2008 - 2012	509.7 - 1,250.0	163,374	39
Written puts	Gross shares	Financial liability	2008	1,000.0	15,000	15

a) Strike prices of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2005 and on 27 April 2006, to distribute extraordinary dividends.

31 December 2006	Settlement	Category	Maturity	Strike price[a] (CHF)	In equivalent shares	Fair value in millions CHF
Registered shares	n/a	Equity	n/a	n/a	173,512	196
Written calls	Gross shares	Equity	2007 - 2011	575.00 - 1,050.00	335,875	124
Purchased calls	Gross shares	Equity	2007 - 2009	509.70 - 656.40	900	-
Purchased calls	Net cash	Derivative	2008 - 2011	509.70 - 1,050.00	128,829	42

a) Strike prices of options have been adjusted consecutively to the approval by the shareholders, at the Annual General Meetings held on 16 April 2005 and on 27 April 2006, to distribute extraordinary dividends.

24. Equity

Share capital

At 31 December 2007, the share capital amounts to CHF 72,703,400 divided into 7,270,340 fully paid-up listed 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 11,000,000 that may be issued through a maximum of 1,100,000 registered shares, of which a maximum of CHF 2,000,000 can be used for executive share options plans. The Board of Directors was 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. At the Annual General Meeting on 7 April 2006, the shareholders approved the extension of the existing authorised capital of CHF 10,000,000 until 7 April 2008.

On 30 June 2003, the Group started a supplementary 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 reduced 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, before the issuance of shares from the conditional capital on 6 April 2006) is made through a second trading line on virt-x. On 3 May 2005, the Group had completed its second 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. At the Annual General Meeting on 7 April 2006, the shareholders agreed with the cancellation of a further 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.7%, from CHF 74,000,000 to CHF 72,000,000. The cancellation became effective on 26 June 2006.

On 6 May 2005, the Group started its third share buy back programme scheduled to last until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. At the end of 2006, Givaudan had resold all the 133,800 shares bought under the third buy back programme, in anticipation of the financing of Quest International. On 29 March 2007, 38,180 shares were issued as conditional capital in order to fulfil obligations relating to the executive share option plans.

In 2007 no additional shares were bought back and the programme expired on 31 May 2007.

Movements in own shares are as follows:

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2007	173,512				136
Registered shares					
Purchases at cost	800	1,056.25	1,056.25	1,056.25	1
Sales and transfers at cost	(40,661)	1,125.00	1,124.08	1,110.00	(41)
Issuance of shares	38,180	1,125.00	1,125.00	1,125.00	43
(Gain) loss, net recognised in equity					(5)
Movement on derivatives on own shares, net					44
▶ Balance at 31 December 2007	171,831				178

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2006	257,952				318
Registered shares					
Purchases at cost	258,460	1,017.24	977.38	905.50	253
Sales and transfers at cost	(175,060)	1,163.00	920.18	906.00	(161)
Issuance of shares	32,160	1,038.00	1,038.00	1,038.00	33
Cancellation of shares	(200,000)	785.13	754.57	735.33	(151)
(Gain) loss, net recognised in equity					(25)
Transaction costs					3
Movement on derivatives on own shares, net					(134)
▶ Balance at 31 December 2006	173,512				136

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

At the Annual General Meeting held on 30 March 2007, the distribution of an ordinary dividend of CHF 18.80 gross per share (2006: ordinary dividend of CHF 17.60) was approved. The ordinary dividend was paid on 4 April 2007. The distribution to holders of outstanding shares amounted to CHF 134 million and has been charged to retained earnings in 2007.

25. 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.

26. Cash flows from operations

in millions of Swiss francs	2007	2006
Result attributable to equity holder of the parent	94	412
Non-operating income and expenses	228	102
Operating profit	322	514
Depreciation of property, plant and equipment	120	91
Amortisation of intangible assets	224	19
Impairment of long-lived assets	14	4
Other non-cash income and expenses	75	(15)
Adjustments for non-cash items	433	99
(Increase) decrease in inventories	(65)	(6)
(Increase) decrease in accounts receivable	(18)	(32)
(Increase) decrease in other current assets	5	(38)
Increase (decrease) in accounts payable	18	(14)
Increase (decrease) in other current liabilities	(18)	28
(Increase) decrease in working capital	(78)	(62)
Income taxes paid	(97)	(87)
Other operating cash flows, net	(48)	(15)
▶ Cash flows from (for) operating activities	532	449

27. 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 financial statements of Givaudan SA are available on pages 52 to 58.

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	2007	2006
Salaries and other short-term benefits	8	8
Post-employment benefits	1	1
Other long-term benefits		-
Share-based payments	3	10
▶ Total compensation	12	19

In 2007, the Group has entered into a joint venture agreement with ChemCom SA (see Note 11), a leader in the field of olfactory receptor technology. Givaudan invested CHF 10 million in this joint venture.

There are no other significant related party transactions.

28. Board and Executive compensation

Compensation of members of the Board

Compensation of Board members consists of Director Fees and Committee fees. These fees are paid shortly after the Annual General Meeting for year in office completed. In addition, each Board member is entitled to participate in the stock option plan of the company. With the exception of the Chairman, each Board member receives an amount for out-of-pocket expenses. This amount is paid for the coming year in office. The options are also granted for the same period.

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

in Swiss francs – 2007	Jürg Witmer	Andres F. Leuenberger	Dietrich Fuhrmann	André Hoffmann	Peter Kappeler	John Marthinsen	Henner Schierenbeck	Total
Director fees	320,000	80,000	80,000	80,000	80,000	80,000	80,000	800,000
Other cash compensation[a]	120,000							120,000
Committee fees	50,000	30,000	40,000	20,000	30,000	20,000	40,000	230,000
Total cash	490,000	110,000	120,000	100,000	110,000	100,000	120,000	1,150,000
Number of options granted[b]	26,800	6,700	6,700	6,700	6,700	6,700	6,700	67,000
Value at grant[c]	380,024	95,006	95,006	95,006	95,006	95,006	95,006	950,060
Total Compensation	870,024	205,006	215,006	195,006	205,006	195,006	215,006	2,100,060

a) Represents compensation for additional duties as indicated in the Annual Report.

b) Options vest on 5 March 2009

c) Economic value at grant based on the Black Scholes model, with no discount applied for the vesting period

Payment for Board members for out-of-pocket expenses amounted to CHF 60,000.

Other compensation, fees and loans to members or former members of the Board
No additional compensation or fees were paid to any member of the Board or former members of the Board.
No Board member had any loan outstanding as of 31 December 2007.

Special compensation of members of the Board who left the company during the reporting period
No such compensation was incurred during the reporting period.

Additional Fees and Loans
No additional fees and/or compensation were paid during the reporting period to any member of the Board. None of them had any loan outstanding as per 31 December 2007.

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

in Swiss francs - 2007	Gilles Andrier CEO	Executive Committee members (excl. CEO)[a]	Total remuneration
Base salary	795,416	2,168,275	2,963,691
Performance Incentive[b]	610,066	1,626,456	2,236,522
Total Cash	1,405,482	3,794,731	5,200,213
Pension benefits[c]	228,510	355,928	584,438
Other benefits[d]	265,382	483,413	748,795
Number of options granted[e]	60,000	180,000	240,000
Value at grant[f]	850,800	2,552,400	3,403,200
Total Compensation	2,750,174	7,186,472	9,936,646

a) Represents full year compensation of five Executive Committee members.

b) Annual incentive paid in March 2007 based on year 2006 performance.

c) Company contributions to broad-based pension and retirement savings plans and annualised expenses accrued for supplementary executive retirement benefit.

d) Represents annualised value of health and welfare plans, international assignment benefits and other benefits in kind. Contributions to compulsory social security schemes are excluded.

e) Options vest on 5 March 2009.

f) Economic value at grant based on a Black Scholes model, with no discount applied for the vesting period.

Other compensation, fees and loans to members or former members of the Executive Committee
An amount of CHF 1,560,000 has been accrued for one member of the Executive Committee who stepped down as of 31 December 2007. The amount represents full expense for compensation and supplementary retirement benefits to be paid in the future.

Compensation and supplementary retirement benefits were provided to one member of the Executive Committee who retired on 30 June 2006, for a total 2007 expense of CHF 1,138,521.

No additional compensation or fees were accrued for or paid to any other member or former member of the Executive Committee during the reporting period.

No member or former member of the Executive Committee had any loan outstanding as of 31 December 2007.

Special compensation of members of the Executive Committee who left the company during the reporting period
No such compensation was incurred during the reporting period.

Ownership of Shares and Shares options / Option rights
Details about the Givaudan stock option plan are described in note 8.

The following share options / option rights were granted during the corresponding periods and are still owned by the members of the Board, the CEO and members of the Executive committee as per 31 December 2007:

in number – 2007	Shares	Share-options / Option rights				
		Maturity 2009	Maturity 2010	Maturity 2011	Maturity 2012	Total
Jürg Witmer, Chairman	1,000		33,000	20,100	26,800	79,900
Andres F. Leuenberger	200			6,700	6,700	13,400
Dietrich Fuhrmann	5	6,000	6,000	6,700	6,700	25,400
André Hoffmann	136,170	6,000	6,000	6,700	6,700	25,400
Peter Kappeler	10		1,000	6,700	6,700	14,400
John Marthinsen	100	6,000	6,000	6,700	6,700	25,400
Henner Schierenbeck	100			6,700	6,700	13,400
▶ Total Board of Directors	137,585	18,000	52,000	60,300	67,000	197,300
Gilles Andrier, CEO			44,000	60,000	60,000	164,000
Matthias Währen			35,000	40,000	40,000	115,000
Mauricio Graber			11,500	27,500	40,000	79,000
Michael Carlos		40,000	40,000	40,000	40,000	160,000
Bruce Bachmeier				30,000	30,000	60,000
Adrien Gonckel	20		20,000	30,000	30,000	80,000
▶ Total Executive Committee	20	40,000	150,500	227,500	240,000	658,000

The company is not aware of any ownership of share options / option rights as per 31 December 2007 by persons closely connected to the Board of Directors and the CEO.

One person closely connected to a member of the Executive Committee owned 5,000 option rights (2,000 maturing in 2011 and 3,000 maturing in 2012) as per 31 December 2007.

Terms of Options granted

Givaudan's share options are fully tradable after vesting. Details about the Givaudan share option plan are described in note 8.

The following share options were granted to members of the Board during the corresponding periods and are still owned by them as per 31 December 2007.

Year of grant	Maturity date	Vesting date	Ticker	Strike price [a] (CHF)	Ratio (option: share)	Option value at grant date (CHF)	Number of options held
2004	18 Mar 2009	18 Mar 2006	GIVOV	656.4	10:1	10.87	18,000
2005	21 Mar 2010	21 Mar 2007	GIVAB	805.0	10:1	10.74	52,000
2006	7 Mar 2011	6 Mar 2008	GIVLP	1,050.0	10:1	12.07	60,300
2007	5 Mar 2012	5 Mar 2009	GIVCD	1,250.0	10:1	14.18	67,000

a) Strike prices 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 following share options are owned by the CEO, the other members of the Executive Committee and by persons closely connected to them per 31 December 2007.

Year of grant	Maturity date	Vesting date	Ticker	Strike price [a] (CHF)	Ratio (option: share)	Option value at grant date (CHF)	Number of options held
2004	18 Mar 2009	18 Mar 2006	GIVOV	656.4	10:1	10.87	40,000
2005	21 Mar 2010	21 Mar 2007	GIVAB	805.0	10:1	10.74	150,500
2006	7 Mar 2011	6 Mar 2008	GIVLP	1,050.0	10:1	12.07	229,500
2007	5 Mar 2012	5 Mar 2009	GIVCD	1,250.0	10:1	14.18	243,000

a) Strike prices 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.

29. 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	72,703
	Givaudan Suisse SA	CHF	4,000
	Givaudan Finance SA	CHF	300,000
	Givaudan International SA	CHF	100
Argentina	Givaudan Argentina SA	ARS	10
	Quest International Argentina SA	ARS	3,000
Australia	Givaudan Australia Pty Ltd	AUD	10
	Quest International Australia Pty Ltd	AUD	0.001
Austria	Givaudan Austria GmbH	EUR	40
Bermuda	FF Holdings (Bermuda) Ltd	USD	12
	Givaudan International Ltd	USD	12
	FF Insurance Ltd	CHF	170
Brazil	Givaudan do Brasil Ind e Com de Aromas e Fragrancias Ltda	BRL	80,233
	Givaudan Do Brasil Ltda	BRL	30,670
Canada	Givaudan Canada Co	CAD	12,901
Chile	Givaudan Chile Ltda	CLP	5,000
China	Shanghai Givaudan Ltd	USD	7,750
	Givaudan Flavors (Shanghai) Ltd	USD	10,783
	Quest International (Shanghai) Co Ltd	CNY	100% equity interest
	Givaudan Hong Kong Ltd	HKD	7,374
Colombia	Givaudan Colombia SA	COP	6,965,925
Czech Republic	Givaudan CR, S.R.O.	CZK	200
Denmark	Givaudan Scandinavia A/S	DKK	1,000
Ecuador	Givaudan Ecuador SA	USD	20
Egypt	Givaudan Egypt SAE	USD	2,000
France	Givaudan Participation SAS	EUR	41,067
	Givaudan France Fragrances SAS	EUR	12,202
	Givaudan France Arômes SAS	EUR	2,028
Germany	Givaudan Deutschland GmbH	EUR	4,100
India	Givaudan (India) Private Ltd	INR	770,000
	Vinarom Private Ltd	INR	80,334
	Givaudan Flavours (India) Private Ltd	INR	288,000
Indonesia	P.T. Givaudan Indonesia	IDR	1,215,600
	P.T. Quest International Indonesia	IDR	2,608,000
Italy	Givaudan Italia SpA	EUR	520
Japan	Givaudan Japan KK	JPY	1,000,000
Korea	Givaudan Korea Ltd	KRW	550,010
Malaysia	Givaudan Malaysia Sdn.Bhd	MYR	200
Mexico	Givaudan de Mexico SA de CV	MXN	51,760
	Quest International de Mexico SA de CV	MXN	1,852
Netherlands	Givaudan Nederland BV	EUR	4,050
	Givaudan Nederland Finance BV	CHF	40,718
	Quest International Nederland BV	EUR	402
	Quest International Services BV	EUR	18
New Zealand	Quest International New Zealand Ltd	NZD	71
Peru	Givaudan Peru SAC	PEN	25
Poland	Givaudan Polska Sp. Z.o.o.	PLN	50
Singapore	Givaudan Singapore Pte Ltd	SGD	24,000
South Africa	Givaudan South Africa (Pty) Ltd	ZAR	4
Spain	Givaudan Iberica, SA	EUR	8,020
Sweden	Quest International North Europe AB	SEK	120
Thailand	Givaudan (Thailand) Ltd (79%)	THB	15,400
Turkey	Givaudan Aroma Ve Esans Sanayi Ve Ticaret Limited Sirketi	TRL	34,375,000
UK	Givaudan UK Ltd	GBP	70
	Givaudan Holdings UK Ltd	GBP	317,348
USA	Givaudan United States, Inc.	USD	0.05
	Givaudan Flavors Corporation	USD	0.1
	Givaudan Fragrances Corporation	USD	0.1
	Givaudan Flavors, Inc.	USD	1.4
Venezuela	Givaudan Venezuela SA	VEB	4,500
	Quest International Venezuela CA (70%)	VEB	1,000

30. Subsequent event

On 14 February 2008, Givaudan announced that it has sold its St. Louis (USA) based food ingredient business and manufacturing facility to Performance Chemicals & Ingredients Company (PCI) for an undisclosed amount. The facility produces flavour bases and fruit preparations used by dairy companies in the production of ice cream. The divestiture does not include the vanilla extract and flavour business which will continue to be a part of the Givaudan product portfolio.

The sale of this facility and business is consistent with Givaudans strategy to focus on high value adding flavours and is part of its ongoing product streamlining. In 2007, the divested business had sales of CHF 40 million.

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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 (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) of Givaudan SA for the year ended 31 December 2007, included on pages 6 to 49.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the 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 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz
Auditor in charge

Pierre-Alain Dévaud

Geneva, 15 February 2008

PRO FORMA FINANCIAL INFORMATION RELATING TO THE QUEST ACQUISITION (UNAUDITED)

Pro forma Consolidated Income Statement for the Year Ended 31 December

in millions of Swiss francs, except for per share data	Note	2007	2006
Sales	2	4,366	4,249
Cost of sales	3	(2,309)	(2,231)
Gross profit		2,057	2,018
as % of sales		*47.1%*	*47.5%*
Marketing, development and distribution expenses		(1,081)	(1,095)
Administration expenses		(151)	(188)
Amortisation of intangible assets	4	(265)	(263)
Other operating income (expenses), net	5	(39)	(70)
Operating profit		521	402
as % of sales		*11.9%*	*9.5%*
Financing costs	6	(142)	(129)
Other financial income (expenses), net		(29)	21
Income before taxes		350	294
Income taxes	7	(113)	(55)
▶ Income for the period		237	239
▶ Attribution:			
Income attributable to minority interest		1	1
Income attributable to equity holders of the parent		236	238
as % of sales		*5.4%*	*5.6%*
▶ Earnings per share – basic (CHF)		33.29	33.86
▶ Earnings per share – diluted (CHF)		33.15	33.63

Notes to the Pro forma Condensed Consolidated Income Statement (unaudited)

1. Pro forma information

Due to the combination with Quest International, Givaudan's financial statements have undergone significant change, due in particular to the accounting treatment of the transaction in accordance with IFRS 3 "Business Combination".

The pro forma information does not purport to represent what the Group's results of operations would actually have been. It has been prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the Group. The pro forma information shows what the significant effects on the income statement for the year ended 31 December 2006 and 2007 might have been, had the acquisition of Quest International occurred on 1 January 2006. Pro forma adjustments include 12 months of Quest International activity for 2006 and 2 months activity for 2007 (January and February).

Additionally, pro forma adjustments include the following elements.

2. Sales

Sales to ICI realised by Quest International are reclassified as sales to third parties. Sales to Givaudan realised by Quest International and sales to Quest International realised by Givaudan are fully eliminated.

3. Cost of sales

Cost of sales is adjusted correspondingly to the sales adjustments.

4. Amortisation of intangible assets

Intangible assets amortisation is incorporated in the results as if the acquisition would have occurred on 1 January 2006.

5. Other operating expenses (income), net

One time integration related operating expenses and asset impairment are excluded.

6. Financial income (expenses), net

Adjustment reflects the additional interest expense as a result of the debt necessary to finance the acquisition as if the combination had occurred on 1 January 2006.

7. Income taxes

Adjustment reflects the income taxes effects related to above adjustments.

STATUTORY FINANCIAL STATEMENTS OF GIVAUDAN SA (GROUP HOLDING COMPANY)

Income Statement for the Year Ended 31 December

in millions of Swiss francs	2007	2006
Income from investments in Group companies	145	117
Royalties from Group companies	332	301
Interest income from Group companies	74	18
Other income	247	156
Total income	798	592
Research and Development expenses to Group companies	(144)	(128)
Interest expense to Group companies	(44)	(13)
Amortisation of intangible assets	(97)	(17)
Other financial expenses	(344)	(134)
Other expenses	(62)	(20)
Withholding taxes and capital taxes	(10)	(6)
Total expenses	(701)	(318)
▶ Income before taxes	97	274
Income taxes	-	(14)
▶ Net income	97	260

Balance Sheet at 31 December

in millions of Swiss francs	2007	2006
Cash and cash equivalents	120	287
Marketable securities	242	314
Accounts receivable from Group companies	120	26
Other current assets	62	86
Current assets	544	713
Investments in Group companies	2,903	1,434
Loans to Group companies	1,018	521
Other long-term investments	-	-
Intangible assets	397	284
Non-current assets	4,318	2,239
▶ Total assets	4,862	2,952
Accounts payable to Group companies	133	30
Other payables and accrued liabilities	153	159
Current liabilities	286	189
Loans from banks	1,998	150
Loans from Group companies	616	658
Non-current liabilities	2,614	808
▶ Total liabilities	2,900	997
Share capital	73	72
General legal reserve	142	99
Reserve for own equity instruments	174	171
Free reserve	1,364	1,165
Retained earnings		
Balance brought forward from previous year	112	188
Net profit of the year	97	260
▶ Equity	1,962	1,955
▶ Total liabilities and equity	4,862	2,952

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.

The Group has changed the presentation of prior year numbers where appropriate to ensure consistent presentation with this year's financial statements.

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 (2006: CHF 300 million).

4. Equity

At 31 December 2007, the share capital amounts to CHF 72,703,400 divided into 7,270,340 fully paid-up listed 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 11,000,000 that may be issued through a maximum of 1,100,000 registered shares, of which a maximum of CHF 2,000,000 can be used for executive share options plans. The Board of Directors was 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. At the Annual General Meeting on 7 April 2006, the shareholders approved the extension of the existing authorised capital of CHF 10,000,000 until 7 April 2008.

On 30 June 2003, the Group started a supplementary 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 reduced 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, before the issuance of shares from the conditional capital on 6 April 2006) is made through a second trading line on virt-x. On 3 May 2005, the Group had completed its second 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. At the Annual General Meeting on 7 April 2006, the shareholders agreed with the cancellation of a further 200,000 repurchased shares and with the corresponding reduction of the share capital by 2.7%, from CHF 74,000,000 to CHF 72,000,000. The cancellation became effective on 26 June 2006.

On 6 May 2005, the Group started its third share buy back programme scheduled to last until 31 May 2006. On 17 February 2006, the Board of Directors resolved to extend this programme until 31 May 2007. At the end of 2006, Givaudan had resold all the 133,800 shares bought under the third buy back programme, in anticipation of the financing of Quest International. On 29 March 2007, 38,180 shares were issued as conditional capital in order to fulfil obligations relating to the executive share option plans.

In 2007 no additional shares were bought back and the programme expired on 31 May 2007.

Movements in own shares are as follows:

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2007	173,512				171
Registered shares					
Purchases at cost	800	1,056.25	1,056.25	1,056.25	1
Issuance of shares	38,180	1,125.00	1,125.00	1,125.00	43
Sales and transfers at cost	(40,661)	1,009.02	1,007.44	983.13	(41)
▶ Balance at 31 December 2007	171,831				174

	Number	Price in Swiss francs			Total in millions of Swiss francs
		High	Average	Low	
▶ Balance at 1 January 2006	257,952				197
Registered shares					
Purchases at cost	258,460	1,017.24	977.38	909.50	253
Issuance of shares	32,160	1,038.00	1,038.00	1,038.00	33
Sales and transfers at cost	(175,060)	1,163.00	920.18	906.00	(161)
Cancellation of shares	(200,000)	785.13	754.57	735.33	(151)
▶ Balance at 31 December 2006	173,512				171

As 31 December 2007, there are no other companies controlled by Givaudan SA that hold Givaudan SA shares.

On 31 December 2007, Nestlé SA with 11.93%, Chase Nominees Ltd with 8.94% and Mellon Bank NA with 5.30% were the only shareholders holding more than 5% of 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 2007	72	99	171	1,165	448	1,955
Issuance of shares	1	43				44
Appropriation of available earnings						
Transfer to the general legal reserve				200	(200)	
Dividend paid relating to 2006				2	(136)	(134)
Transfer to/from the reserve for own equity instruments			3	(3)		
Net profit of the year					97	97
▶ Balance at 31 December 2007	73	142	174	1,364	209	1,962

in millions of Swiss francs	Share Capital	General legal reserve	Reserve for own equity instruments	Free reserve	Retained earnings	Total
▶ Balance at 1 January 2006	74	66	197	1,084	518	1,939
Cancellation of shares	(2)			(149)		(151)
Issuance of shares	-	33				33
Appropriation of available earnings						
Transfer to the general legal reserve				200	(200)	
Dividend paid relating to 2005				4	(130)	(126)
Transfer to/from the reserve for own equity instruments			(26)	26		
Net profit of the year					260	260
▶ Balance at 31 December 2006	72	99	171	1,165	448	1,955

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
	Quest International Argentina SA
Australia	Givaudan Australia Pty Ltd
Austria	Givaudan Austria GmbH
Brazil	Givaudan do Brasil Ind e Com de Aromas e Fragrancias Ltda
	Givaudan Do Brasil Ltda
Canada	Givaudan Canada Co
Chile	Givaudan Chile Ltda
China	Shanghai Givaudan Ltd
	Givaudan Flavors (Shanghai) Ltd
	Quest International (Shanghai) Co Ltd
	Givaudan Specialities (Shanghai) Ltd
	Givaudan Hong Kong Ltd
Colombia	Givaudan Colombia SA
Czech Republic	Givaudan CR, S.R.O.
Denmark	Givaudan Scandinavia A/S
Ecuador	Givaudan Ecuador SA
Egypt	Givaudan Egypt SAE
France	Givaudan Participation SAS
Germany	Givaudan Deutschland GmbH
India	Givaudan (India) Private Ltd
Indonesia	P.T. Givaudan Indonesia
Italy	Givaudan Italia SpA
Japan	Givaudan Japan KK
Korea	Givaudan Korea Ltd
Malaysia	Givaudan Malaysia Sdn.Bhd
Mexico	Givaudan de Mexico SA de CV
	Quest International de Mexico SA de CV
Netherlands	Givaudan Nederland B.V.
	Quest International Nederland B.V.
	Quest International Services B.V.
Peru	Givaudan Peru SAC
Poland	Givaudan Polska Sp. Z.o.o.
Singapore	Givaudan Singapore Pte Ltd
South Africa	Givaudan South Africa (Pty) Ltd
Spain	Givaudan Iberica, SA
Sweden	Quest International North Europe AB
Thailand	Givaudan (Thailand) Ltd (79%)
Turkey	Givaudan Aroma Ve Esans Sanayi Ve Ticaret Limited Sirketi
UK	Givaudan UK Ltd
	Givaudan Holdings UK Ltd
USA	Givaudan United States, Inc.
Venezuela	Givaudan Venezuela SA
	Quest International Venezuela CA (70%)

7. Board and Executive Compensation

Information required by Swiss law on the Board and Executive compensation are disclosed in the Givaudan consolidated financial statements, note 28.

APPROPRIATION OF AVAILABLE EARNINGS OF GIVAUDAN SA

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

in Swiss francs	2007	2006
Net profit of the year	96,511,591	260,495,247
Balance brought forward from previous year	112,921,484	188,390,845
▶ Total available earnings	209,433,075	448,886,092
Transfer to general legal reserve		
Distribution of an ordinary dividend of CHF 19.50 gross per share (2006: CHF 18.80)	141,771,630	135,964,608
Transfer to free reserve		200,000,000
▶ Total appropriation of available earnings	141,771,630	335,964,608
▶ Amount to be carried forward	67,661,445	112,921,484

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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 (balance sheet, income statement and notes) of Givaudan SA for the year ended 31 December 2007, included on pages 52 to 57.

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 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 Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers SA

Corinne Pointet Chambettaz
Auditor in charge

Pierre-Alain Dévaud

Geneva, 15 February 2008

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