

Annual report 2016/17
(Financial year September 1, 2016 – August 31, 2017)

Chr. Hansen A/S
Bøge Allé 10-12
DK-2970 Hørsholm

Business registration no. 12 51 64 79

The Annual General Meeting adopted the annual report on December 6, 2017

Chairman of the General Meeting: _____

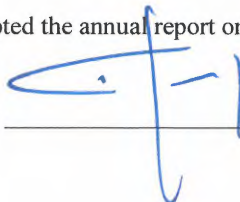
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Company information

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Business registration no.: 12 51 64 79

Board of Directors: Cornelis de Jong, Chairman
Søren Westh Lonning, Vice Chairman
Winnie H. Bügel
Lisbeth Grubov, Employee representative
Kim Ib Sørensen, Employee representative

Executive Board: Winnie H. Bügel, CEO
Alice Hjørdis Larsen, CVP HR

Auditors: PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Management commentary

Chr. Hansen A/S is a company within the Chr. Hansen Group, and it is 100% owned by Chr. Hansen Holding A/S.

The financial year 2016/17 has been another good year for Chr. Hansen A/S. A sustainable business model combined with an adaptable organisation has secured Chr. Hansen yet another year with growth – both in the most important business areas and financially.

Business structure

Chr. Hansen A/S is organized into two business units. The business units Food Cultures & Enzymes and Health & Nutrition.

Food Cultures & Enzymes

Chr. Hansen is the market leader on the cultures and enzymes market. Our goal is to deliver innovative solutions of the highest quality on the culture and enzymes market. It is an important part of Chr. Hansen's strategy to continuously enable our customers to improve their business with new concepts which create value in dairy products and processes and at the same time optimize food safety.

Health & Nutrition

Besides the animal and feed industry, the division is developing new products for the food supplement industry and the pharmaceutical industry, first and foremost based on probiotic cultures. Chr. Hansen is one of the global leaders within the areas. The business area within microbiome has continued its development in the financial year 2016/17.

Creative and committed employees

As a knowledge-based company Chr. Hansen is very dependent on having committed and motivated employees, as well as skilled managers. Chr. Hansen therefore invests in the development of competences through ambitious development programs for employees and managers. Besides this competence based platform, we are ready to further develop our activities within our existing business areas.

A sustainable business

In the Chr. Hansen Group, we take our responsibility to do business in a sustainable way very seriously. We have constant focus on creating value while keeping our impact on the surrounding society to a minimum and securing a good working environment for all our employees.

Statutory report on social responsibility pursuant to ÅRL 99a

The management commentary does not include a full review of corporate social responsibility. Instead we refer to the separate report on Chr. Hansen Group's sustainability, which constitutes Chr. Hansen Groups reporting on the progress towards FN's Global Compact and is in accordance with the Danish Financial Statements Act regarding corporate social responsibility. The report can be found on:

https://www.chr-hansen.com/_/media/files/chrhansen/home/sustainability/reporting-and-disclosure/2016-17/sustainability_report_16-17.pdf.

Statutory diversity report pursuant to ÅRL 99b

Chr. Hansen A/S complies with the group strategy for Diversity and Inclusion (D&I) with focus on gender, age and nationality. Chr. Hansen's definition of a diverse team is having at least one woman and at least one non-local as a part of the team.

The diversity within the Board of directors is 1 woman and 2 men which again is diverse with 2 Danes and 1 Dutchman. Thereby, Chr. Hansen A/S has equal representation of men and women on the Board of Directors in accordance with the Danish Financial Statements Act section 99 (b). The policy can be found on:

https://www.chr-hansen.com/_media/files/chrhansen/home/investors/policies-and-charters/diversity-and-inclusion.pdf

Research and development

For the Chr. Hansen Group, innovation is an important contributor to business growth. More than 500 people, which exceeds 10% of the total number of employees, are working with research and development.

The Chr. Hansen Group generally patents all new products of commercial value. The patents protect our investments in research and development and increase the value of our business. In addition, we make sure that our product technology and application methods are protected by a wide patent portfolio.

Risk management

In the Chr. Hansen Group, we view risk management as an integrated part of managing the business. We strive to make sure that we do business in a prudent way where we assess and manage both financial and non-financial risks to protect our employees, assets and reputation. At least once a year, the Board of Directors reviews the risk exposure associated with the activities of the Chr. Hansen Group. Guidelines are adopted for areas of risk, and the development is monitored to secure that identified risks are accounted for, including strategic, operational and financial risks.

Risk

Risks relate to future events or developments that may have an influence on the company achieving its targets. Relevant risks are identified, monitored and reported to the Executive Board and the Board of Directors through an Enterprise Risk Management process following an annual cycle. Furthermore, the identified risks are presented to and discussed by Management on a quarterly basis. The purpose of this process is to identify risks as early as possible and enable Management to proactively adapt business processes and controls to meet, manage or mitigate these risks.

Identified risks are evaluated based on their possible safety, business or financial impact and the likelihood of the risk materializing. Clear roles and responsibilities are assigned for major risks, and mitigation initiatives are identified, prioritized and launched. The most significant risks identified and reported to the Board of Directors are described below, including measures taken to mitigate these.

Chr. Hansen A/S continues to work on identifying and evaluating relevant risks, and the list does not include all risks that could ultimately affect the Company.

Production risk

Chr. Hansen A/S has two main production sites in Denmark; these sites together with the group's sites in Germany, France and US represent the core of Chr. Hansen's business, and each site carefully monitors product safety and delivery performance to manage all potential risks. This consolidation of production allows capacity to be optimized in order to reduce production costs. To minimize the risk of production breakdowns or failures, Chr. Hansen has implemented a risk prevention program where regular audits are conducted, which ensures preventive maintenance and replacements. The company also maintains idle capacity for key processes. As production processes are optimized and automated,

dependence on robust IT systems and infrastructure increases. Chr. Hansen continues to reduce complexity in IT systems and conduct regular restore tests.

With this concentrated production setup, there is a risk of a production breakdown interrupting the company's operations and leading to a loss of income in both the short term and the longer term due to long lead times on the replacement of key equipment.

The causes might be contamination of production equipment, key equipment breakdown, fire, terrorism and natural disasters.

The risk and effect of a production breakdown are mitigated through maintenance, insurance, fire safety measures, behavior-based training, continuous improvements to operational processes and business continuity plans including alternative production possibilities.

Product safety

The majority of Chr. Hansen's products are sold to the food & beverage, human health, animal health and plant protection industries. Most products are components in customers' end products that are consumed as food, beverages or dietary supplements.

To ensure the highest product safety, Chr. Hansen has an extensive quality assurance and food safety program covering the entire value chain, from the sourcing of raw materials until the finished products are delivered to customers. The risk assessment performed in the food safety program includes an evaluation of the use of our products in customers' end products. Chr. Hansen's food safety program is certified according to internationally recognized food safety standards. The Danish production sites are FSSC 22000 certified.

Health, safety & security

Chr. Hansen is committed to continuously improving both the physical and psychological working environment for its employees. The company has implemented several initiatives to underline the importance of a safe working environment. Monitoring and follow-up of incidents have been strengthened from departmental level to the Executive Board. There is also focus on behavior in relation to IT security due to the increased risk of cybercrime.

Financial risk

As an international business, Chr. Hansen A/S is exposed to a number of financial risks relating to currency and interest rate fluctuations, funding, liquidity, credit and counterparty risks.

Legal risk

Chr. Hansen A/S is from time to time a party to legal proceedings arising in the ordinary course of business. The legal department is focused on analyzing possible risks in a timely manner and mitigating them in an appropriate way using both internal and, if necessary, external capabilities. Despite the focus from Chr. Hansen on these matters, the outcome of legal proceedings cannot be predicted with certainty.

Results

Chr. Hansen A/S achieved revenue in 2016/17 of DKK 5,531 million, equal to a revenue growth of 15%. The net revenue growth is caused by a mix of the development in exchange rates and actual sales.

In total, DKK 525 million, equal to a share of 9% of total revenue, was spent on research and development expenditure, of which DKK 82 million was capitalized in 2016/17 (DKK 98 million in 2015/16). Thereby, research and development spending has grown by DKK 91 million compared with the previous financial year.

Chr. Hansen A/S's results before tax present a profit of DKK 1,701 million, against DKK 1,460 million in the previous financial year. The result after tax amounts to DKK 1,330 million in financial year 2016/17, compared to DKK 1,140 million in 2015/16.

The number of employees amounts to 1,199 at the end of the financial year, compared to 1,036 for 2015/16

Management regards the results for the financial year as satisfactory and in accordance with expectations.

Investments

The investment activities amounted to DKK 1,102 million in 2016/17, compared to DKK 1,537 million in 2015/16. The high investment level in 2016/17 is reflected both by the acquisition of LGG and also upgrades of the Danish sites, the decrease is primarily related to intangible assets from the large NPC acquisition in 2015/16. For further details about the LGG acquisition, we refer to the Annual Report 2016/17 for Chr. Hansen Holding A/S.

Capital structure

On August 31, 2017 equity amounts to DKK 2,961 million, equal to an equity ratio of 52%. A dividend of DKK 1,000 million has been paid out to the parent company.

Outlook

The results for the financial year 2016/17 are in accordance with our expectations. Revenue and operating profit are expected to increase in the financial year 2017/18. Cash flows are expected to stay at the same level as in 2016/17.

Events after the balance sheet date

After the balance sheet date until today's date, no events have occurred, which could influence the evaluation of this annual report.

Statement by Management on the annual report

5 years' key figures and ratios for Chr. Hansen A/S

	2016/17	2015/16	2014/15	2013/14*	2012/13**
Key figures DKK'000					
Income statement					
Revenue	5.530.908	4.803.528	4.250.545	3.712.202	3.698.835
Gross profit	2.842.944	2.387.081	2.181.775	1.853.823	1.986.227
Operating profit	1.694.652	1.461.351	1.401.571	1.122.382	1.138.078
Net financials	6.161	15.556	13.338	29.779	4.251
Profit before tax	1.700.812	1.459.726	1.414.908	1.152.162	1.142.329
Net profit	1.330.210	1.140.262	1.064.163	884.306	892.903
Balance sheet					
Inventory	455.088	423.755	404.884	319.686	385.241
Receivables from group external sales	117.583	100.497	107.491	102.506	93.317
Equity	2.960.954	2.630.744	1.363.788	1.499.624	1.142.337
Total assets	5.895.271	5.183.335	3.570.447	3.373.281	3.000.207
Investments in intangible and tangible assets	1.102.168	1.536.633	306.227	349.054	408.524
Ratios %					
Gross margin (Gross profit * 100 / revenue)	51	50	51	50	54
Operating margin (Operating profit * 100 / revenue)	31	30	33	30	31
Return on invested capital (Operating profit * 100 / total assets end of year)	29	28	39	33	38
Return on equity (Net profit * 100 / equity end of year)	45	43	78	59	78
Equity ratio (Equity * 100 / total assets)	50	51	38	44	38
Growth					
Revenue	5.530.908	4.803.528	4.250.545	3.712.202	3.698.835
Growth in %	15%	13%	15%	0%	9%

* Ratios for financial year 2013/14 has been adjusted with regard to the demerger of the Natural Colors division.

**In relation section 101 of the Danish Financial Statements Act, it has turned out to be impossible to restate the comparative figures with regard to the demerger of the Natural Colors division. The organisation's cost structure has been gradually adapted over the years, thus a restatement of the comparative figures for 2012/13 has not been possible.

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and adopted the annual report of Chr. Hansen A/S for the financial year September 1, 2016 – August 31, 2017.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at August 31, 2017 and of the results of its operations for the financial year September 1, 2016 – August 31, 2017.


We believe that the management commentary contains a fair review of the affairs and a condition referred to therein, and describes the company's most significant risks and uncertainties.

We recommend adoption of the annual report at the Annual General Meeting.

Hørsholm, December 6, 2017

Executive Board


Winnie H. Bügel
CEO

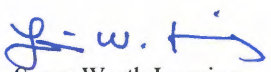

Alice Hjørdis Larsen
CVP HR

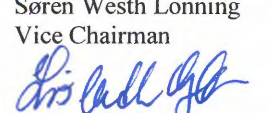
Board of Directors


Cornelis de Jong
Chairman


Winnie H. Bügel


Kim Ib Sørensen
Employee representative


Søren Westh Lonning
Vice Chairman


Lisbeth Grubov
Employee representative

Independent Auditor's Report

To the Shareholders of Chr. Hansen A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 August 2017, and of the results of the Company's operations for the financial year 1 September 2016 - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Chr. Hansen A/S for the financial year 1 September 2016 - 31 August 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 6 December 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 12 31


Kim Füehsel
State Authorised Public Accountant


Rasmus Friis Jørgensen
State Authorised Public Accountant

Accounting policies

Reporting class

The annual report of Chr. Hansen A/S for the financial year has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

In accordance with section 112(1) of the Danish Financial Statements Act, Chr. Hansen A/S has not prepared any consolidated financial statements. Chr. Hansen A/S is included in the consolidated financial statements of Chr. Hansen Holding A/S, business registration no. 28 31 86 77.

In accordance with section 86(4) of the Danish Financial Statements Act, Chr. Hansen A/S not prepared any cash flow statement. With reference to section 98c(3) of the Danish Financial Statements Act, separate information on transactions with associated companies has been omitted. Similarly, with reference to section 99a(6) of the Danish Financial Statements Act, no statement on corporate social responsibility has been prepared.

In accordance with section 98(b) of the Danish Financial Statements Act, Chr. Hansen A/S is not presenting the salary to the members of the executive board, as they are not employed in Chr. Hansen A/S.

The annual report for the financial year 2016/17 is presented in DKK 1,000.

Recognition and measurement

Income is recognized in the income statement when earned. This includes value adjustments of financial assets and liabilities which are measured at fair value or cost. All costs are recognized which have been incurred in order to achieve the results for the year, including amortization, depreciation, provisions and reversals that result from changes in accounting estimates previously recognized in the income statement.

Assets are recognized in the balance sheet when it is probable as a result of prior events that future economic benefits will flow to the company, and the value of the asset can be measured reliably.

Liabilities are recognized on the balance sheet when the company has a legal or constructive obligation, as a result of a prior event, and it is probable that future economic benefits will flow out of the company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Certain financial assets and liabilities are measured at amortized cost; thereby a constant effective discount rate is applied over the lifetime of the asset/liability. Amortized cost is measured as the initial cost less repayments and with addition/deduction of the accumulated amortization of the difference between cost and the nominal value. Thereby, capital gains or losses are allocated over the entire lifetime of the asset/liability.

Predictable risks or losses arising before the time of presentation of the annual report and which confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement. Danish kroner is used as the measurement currency, and all other currencies are considered foreign currencies.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange rate differences that arise between the rate at the transaction date and the rate in effect at the payment date or the rate of the balance sheet date are recognized in the income statement as financial income or financial expenses; however, see the section on accounting-based hedging.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value.

Derivative financial instruments are recognized under other receivables or other payables. Deductions of positive and negative values only take place when the Chr. Hansen Group has the right and intention to realize more net financial instruments. The fair value of derivative financial instruments is measured based on current market data and acknowledged accounting valuation methods.

Some derivative financial instruments are classified as either:

- Hedging of the fair value of recognized assets, liabilities or provisions (fair value hedge)
- Hedging of special risks in association with a recognized asset, liability or a very likely future transaction (cash flow hedge)

Changes in the fair value of derivative financial instruments that are classified as and comply with the requirements for hedging of future transactions are recognized in the reserve for fair value under equity. The reserve is transferred to the income statement when the hedged cash flows have been realized. If the hedged transaction is no longer expected to be conducted, any possible reserve for fair value hedging will be transferred to the income statement.

Changes in the fair value of derivative financial instruments that are classified as and comply with the requirements for hedging of the fair value of a recognized asset or a recognized liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability for that part of the asset or liability that has been hedged.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognized currently in the income statement as financial income or financial expenses.

Accounting policies

Income statement

The income statement is classified by function.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognized in the income statement when delivery is made and the risk has passed on to the buyer, at latest on the balance sheet date and the income can be measured reliably. Revenue is recognized net of provisions and sales discounts.

For competitive reasons, it has been decided not to disclose the distribution of revenue between business segments, as Management believes this could do significant harm to the company, cf. section 96(1) of the Danish Financial Statements Act. The revenue of the Chr. Hansen Group divided between business segments is presented in the consolidated annual report of Chr. Hansen Holding A/S.

Production costs

Production costs cover cost of goods sold. The cost includes the acquisition price for raw materials, consumables, trading goods, direct labor costs and a portion of indirect production costs comprising costs related to the operation and depreciation of production facilities, as well as operation, administration and management of production plant. Furthermore, cost and depreciation related to the net realized value of defective goods and goods with a long turnover rate.

Research and development costs

Research and development costs include labor cost, amortization and other costs directly or indirectly associated with the company's research and development activities.

Development projects related to new products and processes that are clearly defined and identifiable, while having a high degree of technical utilization, sufficient resources and where a potential future market or development potential within the company can be proved, and where it is the intention to manufacture, market and utilize the project, are recognized as intangible assets, if there is sufficient certainty that the capital value of future earnings will cover the production costs, sales and administrative expenses, as well as the development costs.

Development projects that do not comply with the requirements for recognition in the balance sheet are recognized in the income statement as costs are incurred.

Sales and marketing expenses

Sales and marketing expenses include expenses for salaries to sales personnel, advertising and exhibition expenses, depreciation, etc.

Accounting policies

Administrative expenses

Administrative expenses include expenses for administrative personnel, IT and management, including office expenses, salaries, depreciation, etc.

Share-based payment

The stock options that the parent company has issued as part of an incentive program are measured at fair value on the granting date. The program is treated as a cash scheme in Chr. Hansen A/S. The value of the granted stock options is subsequently recognized in the income statement of Chr. Hansen A/S over the period in which the employees of Chr. Hansen A/S achieve the right to redeem the stock options.

Other operating income and expenses

Other operating income and expenses include income and expenses of a secondary nature in relation to the company's main activities, comprising income from administrative or service agreements. Other operating income also includes net gains from the sale of activities.

Dividends from group companies

Dividends from group companies are recognized in the income statement when the investors' right to receive dividend has been approved. Potential write-downs of shares are deducted.

Financial income and expenses

Financial income and expenses include interest income and expenses, amortization income and expenses, and value adjustments of financial assets and transactions in foreign currencies.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity.

The company is jointly taxed with the parent company Chr. Hansen Holding A/S and group companies Chr. Hansen Natural Colors A/S and Chr. Hansen Properties A/S. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Accounting policies

Balance sheet

Intangible assets

Intangible assets are measured at cost with deduction of accumulated amortization and impairment losses.

Goodwill is amortized over its estimated useful life determined on the basis of management's experience within the individual business areas. The amortization period is set for 15 years, due to the acquired company's strategic position in a strong market and long-term earnings profile.

Goodwill is written down to the recoverable amount if this is lower than the carrying value.

Intellectual property rights acquired are measured at cost less accumulated amortization. Patents are amortized over their remaining duration, and licenses are amortized over the term of the agreement, but over not more than 20 years. Intellectual property rights etc. are written down to the lower of the recoverable amount and the carrying amount.

Development projects on clearly defined and identifiable products and processes for which the technical rate of utilization, adequate resources and a potential future market or development opportunity in the company can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognized as intangible assets. Other development costs are recognized as costs in the income statement as incurred. The cost of development projects comprises costs such as salaries and amortization that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirect attributable staff expenses and amortization of intangible assets and depreciation on property, plant and equipment used in the development process are recognized in cost based on time spent on each project.

Completed development projects are amortized on a straight-line basis using the estimated useful lives of the assets. The amortization period for development projects is up to 15 years, defined on the basis of an individual assessment of the product life expectancy. Development projects are written down to the lower of recoverable amount and carrying amount.

Finished development projects are reviewed at the time of completion and on an annual basis to determine whether there is any indication of impairment. If so, an impairment test is carried out for the individual development projects. For development projects in progress, however, an annual impairment test is always performed. The impairment test is performed on the basis of various factors, including future use of the project, the fair value of the estimated future earnings or savings, interest rates and risks. For development projects in progress, Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated based on technical as well as commercial criteria.

Expenses for project work, comprising direct labor cost and a share of indirect costs, are included in the cost of software. The amortization period for software is up to 10 years, defined on the basis of an individual assessment of the software life expectancy.

Accounting policies

Intangible assets (continued)

Gains or losses associated with disposal of intangible assets are recognized in the income statement. Borrowing costs in respect to construction of assets are capitalized when it takes more than a year for them to be ready for use.

Tangible assets

Tangible assets are measured at cost with deduction of accumulated depreciation and impairment losses. Tangible assets under construction are measured at acquisition value and cost respectively. Cost comprises expenses for materials, direct labor costs and a share of indirect costs.

The basis of depreciation of tangible assets is cost less estimated residual value after the end of the useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	25 – 50 years
Plant and machinery	5 – 10 years
Other fixtures and equipment	5 – 10 years

Assets with a short useful life or with a value below DKK 50K are expensed in the year of acquisition.

The book values of intangible and tangible assets are reviewed yearly to determine if there are any indications of value reductions other than that expressed by depreciation. An impairment test is performed if this is the case in order to assess whether the recoverable value is lower than the book value, and the value is written down to the recoverable value.

Investments in Group companies

Investments in group companies are measured at cost. The investments are written down to the recoverable amount if this is lower than the carrying value.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realizable value.

Comprised in the cost are raw materials, consumables, direct labor costs and a share of indirect production costs, including expenses for operation and depreciation of production facilities, as well as operation, administration and management of production plant.

Obsolete and defective inventories are written down to net realizable value.

Receivables

Receivables are measured at amortized cost, usually equaling nominal value less provisions for bad and doubtful debts. The provisions are based on a specific assessment of the individual receivable.

Deferred income

Deferred income, recognized as assets, comprises among other things, insurance payments, subscriptions and licenses. Deferred income is measured at amortized cost.

Other provisions

Other provisions are recognized in the balance sheet when it is probable, as a result of prior events that a contractual or actual liability has arisen which will probably draw on the economic resources of the company. Other provisions are measured at net realizable value.

Accounting policies

Financial liabilities

Fixed-rate loans, comprising mortgage loans and bank loans, are measured at cost which corresponds to the proceeds received less transaction costs incurred. In subsequent periods, the loan is measured at amortized cost. This means that the difference between the proceeds at the time of the borrowing and the nominal repayable amount of the loan is recognized in the income statement as financial expenses over the term of the loan.

Other liabilities are measured at amortized cost, which usually corresponds to nominal value.

Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is measured based on current tax legislation and rates applying at the balance sheet date. Where the measurement of the tax base can be conducted in accordance with alternative tax legislation, deferred tax is measured based on the planned life of the asset or liability.

Deferred tax assets, including the tax base of losses that may be carried forward, are measured at the value at which the asset is expected to be realized, either by settlement as tax or deducted in deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Financial highlights

$$\text{Gross margin} = \frac{\text{Gross profit} \times 100}{\text{Revenue}}$$

$$\text{Operating margin} = \frac{\text{Operating profit} \times 100}{\text{Revenue}}$$

$$\text{Return on invested capital} = \frac{\text{Operating profit} \times 100}{\text{Total assets}}$$

$$\text{Equity ratio} = \frac{\text{Equity end of year} \times 100}{\text{Total assets}}$$

$$\text{Return on equity} = \frac{\text{Net profit} \times 100}{\text{Equity end of year}}$$

Income statement, September 1 - August 31

Amounts in DKK '000	Notes	2016/17 DKK	2015/16 DKK
Revenue	1	5.530.908	4.803.528
Cost of sales	2	<u>(2.687.964)</u>	<u>(2.416.446)</u>
Gross profit		2.842.944	2.387.081
Research and development costs	2	(524.483)	(418.591)
Sales and marketing expenses	2	(340.494)	(238.261)
Administrative expenses	2	(291.651)	(264.112)
Other operating income	2	12.224	7.819
Other operating expenses	2	<u>(3.888)</u>	<u>(12.585)</u>
Operating profit (EBIT)		1.694.652	1.461.351
Dividends received		12.177	13.636
Impairment investment in Group companies		-	(17.182)
Financial income	3	59.021	96.433
Financial expenses	3	<u>(65.038)</u>	<u>(94.513)</u>
Profit before tax		1.700.812	1.459.726
Income taxes	4	<u>(370.602)</u>	<u>(319.464)</u>
Net profit for the year		1.330.210	1.140.262
Distribution of result	5		

Balance sheet at August 31, 2017

Assets

Amounts in DKK '000	Notes	2017 DKK	2016 DKK
Non-current assets			
Intangible assets	6		
Goodwill		1.024.465	779.917
Patents, trademarks, intellectual property, etc		506.291	372.575
Development projects		218.692	214.266
Software		137.781	133.792
Intangible assets in progress		234.956	237.266
Total intangible assets		2.122.186	1.737.815
Tangible assets	7		
Land and buildings		536.807	502.954
Plant and machinery		641.167	611.011
Other fixtures and equipment		123.493	68.020
Prepayments and assets under construction		543.794	306.170
Total tangible assets		1.845.262	1.488.155
Financial assets			
Investments in Group companies	8	516.745	516.745
Total financial assets		516.745	516.745
Total non-current assets		4.484.193	3.742.715
Current assets			
Inventories			
Raw materials and consumables		73.634	80.142
Work in progress		152.638	159.067
Finished goods and goods for resale		228.817	184.545
Total inventories		455.088	423.754
Receivables			
Trade receivables		117.583	100.497
Receivables from Group companies		729.258	533.399
Loans to Group companies	9	-	65.640
Other receivables		12.594	6.227
Deferred income		34.911	35.928
Total receivables		894.346	741.691
Cash at bank and in hand		61.644	275.174
Total current assets		1.411.079	1.440.620
Total assets		5.895.271	5.183.335

Balance sheet at August 31, 2017

Equity and liabilities

Amounts in DKK '000	Notes	2017 DKK	2016 DKK
Equity			
Share capital		194.101	194.101
Retained earnings		1.730.162	1.436.643
Reserve for development projects		36.691	-
Proposed dividend		1.000.000	1.000.000
Total equity		2.960.954	2.630.744
Provisions			
Deferred tax	10	369.928	345.329
Total provisions		369.928	345.329
Non-current liabilities			
Mortgage debt	11	156.025	175.836
Tax payables		345.594	229.024
Total non-current liabilities		501.620	404.860
Current liabilities			
Mortgage debt		19.820	44.770
Trade payables		394.022	381.312
Loans from Group companies		1.181.125	864.153
Tax payables		232.350	292.768
Other payables		235.452	219.400
Total current liabilities		2.062.770	1.802.402
Total liabilities		2.564.389	2.207.263
Total equity and liabilities		5.895.271	5.183.335
Commitments and contingent liabilities	12		
Related parties	13		
Accounting relations	14		
Contingent liabilities	15		
Events after the balance sheet date	16		

Statement of changes in Equity

Amounts in DKK '000

Equity

	Share capital	Reserve for development projects	Retained earnings	Proposed dividend	Total equity
Equity at September 1, 2016	194.101	-	1.436.643	1.000.000	2.630.744
Dividend distribution	-	-	-	(1.000.000)	(1.000.000)
Dividend proposed	-	-	(1.000.000)	1.000.000	-
Reserve for development projects	-	36.691	(36.691)	-	-
Net profit for the year	-	-	1.330.210	-	1.330.210
Equity at August 31, 2017	194.101	36.691	1.730.162	1.000.000	2.960.954

The share capital consists of shares of DKK 100 each or multiple thereof.

	Share capital	Reserve for development projects	Retained earnings	Proposed dividend	Total equity
Equity at September 1, 2015	194.101	-	169.687	1.000.000	1.363.788
Dividend distribution	-	-	-	(1.000.000)	(1.000.000)
Dividend proposed	-	-	(1.000.000)	1.000.000	0
Demerger of NC	-	-	1.126.693	-	1.126.693
Net profit for the year	-	-	1.140.262	-	1.140.262
Equity at August 31, 2016	194.101	-	1.436.643	1.000.000	2.630.744

The share capital is consists of shares of DKK 100 each or multiple thereof.

Notes to the income statement

Amounts in DKK '000	2016/17 DKK	2015/16 DKK
1 Revenue		
Revenue by geographical allocation	75.399	71.133
Denmark	2.501.903	2.205.701
Europe (excl. Denmark)	1.203.094	957.965
North America	1.750.512	1.568.729
Other markets	<u>5.530.908</u>	<u>4.803.528</u>

The geographical segmentation is based on customer location.

2 Production, research and development costs, sales, marketing and administrative expenses as well as other operating income and other operating expenses.

Staff expenses

Production, research and development costs, sales and marketing, administrative expenses and other operating income and expenses include wages and salaries etc, which are distributed as follows:

Wages and salaries etc	632.575	556.519
Transferred capitalization	(44.778)	(42.575)
Pensions	65.380	56.332
Expenses for social security	7.330	5.993
Other employee expenses	18.806	13.045
	<u>679.313</u>	<u>589.314</u>
Fees to the Board of Directors	50	50
Total staff expenses	<u>679.363</u>	<u>589.364</u>
Average number of full-time employees	1.134	1.026
Number of employees at year end	1.199	1.036

Incentive program

The incentive program includes the awarding of stock options in the parent company Chr. Hansen Holding A/S.

Notes to the income statement

Amounts in DKK '000

	<u>2016/17</u> DKK	<u>2015/16</u> DKK
2 Production, research and development costs, sales, marketing and administrative expenses as well as other operating income and other operating expenses, continued		
Other operating income and expenses		
Other operating income and expenses primarily consist of management fee to the parent company		
Depreciation, amortization and impairment/writedowns		
Depreciation, amortization and impairments/writedowns are included in production expenses, research and development costs, sales, marketing and administrative expenses and are distributed as follows:		
Production costs	121.855	98.315
Research and development costs	76.298 *	84.034
Sales and marketing expenses	88.946	68.070
Administrative expenses	17.636	17.376
	<u>304.735</u>	<u>267.795</u>

* The impairment of development projects in progress amounting to TDKK 11,683 is included in the amount.
See note 6 for further information

Notes to the income statement

Amounts in DKK '000

	<u>2016/17</u> DKK	<u>2015/16</u> DKK
3 Financial income and expenses		
Interest income and other financial income:		
Interest income from Group companies	4.337	4.924
Interest income and other financial gains	54.684	91.509
Total financial income	<u>59.021</u>	<u>96.433</u>
Interest expenses and other financial expenses:		
Interest expenses to Group companies	267	110
Interest expenses and other financial losses	64.771	94.402
Total financial expenses	<u>65.038</u>	<u>94.513</u>
4 Income taxes		
Income taxes are distributed as follows:		
Current tax on operating profit	341.731	229.024
Change in deferred tax concerning operating profit	29.403	92.512
Other taxes	409	2.308
Change in tax rate for deferred tax	-940	-4.380
Total income taxes	<u>370.602</u>	<u>319.464</u>
<p>The company is jointly taxed with the other Danish companies in the Group, Chr. Holding A/S, Chr. Hansen Natural Colors A/S and Chr. Hansen Properties Hansen A/S, and the companies are jointly liable for the joint taxes.</p>		
5 Distribution of result		
Retained earnings	1.436.643	169.687
Cash contribution	-	126.692
Net profit for the year	<u>1.330.210</u>	<u>1.140.262</u>
	<u>2.766.853</u>	<u>1.436.641</u>
Proposed distribution dividend		
Dividend	1.000.000	1.000.000
Retained earnings	<u>1.766.853</u>	<u>436.641</u>
	<u>2.766.853</u>	<u>1.436.641</u>

Notes to the balance sheet

Amounts in DKK '000

6 Intangible assets

	Patents, trade- marks, intell- ectual propert	Development projects	Software	Intangible assets in progress	Goodwill	Total intangi- ble assets
Cost at September 1, 2016	614.904	406.856	307.333	237.265	811.474	2.377.833
Transferred	-	44.120	30.728	(79.516)	-	(4.668)
Additions for the year	180.898	4.677	5.204	88.889	352.552	632.220
Disposals for the year	-	(47.216)	(382)	(11.683)	(38.370)	(97.651)
Cost at August 31, 2017	<u>795.802</u>	<u>408.437</u>	<u>342.883</u>	<u>234.956</u>	<u>1.125.656</u>	<u>2.907.734</u>
Amortization and impairment losses at September 1, 2016	242.330	192.590	173.541	-	31.557	640.018
Amortization and impairment for the year	47.181	44.079	31.823	-	69.634	192.717
Amortization disposals for the year	-	(46.925)	(262)	-	-	(47.187)
Amortization and impairment losses at August 31, 2017	<u>289.511</u>	<u>189.744</u>	<u>205.102</u>	<u>-</u>	<u>101.191</u>	<u>785.548</u>
Carrying amount at August 31, 2017	<u>506.291</u>	<u>218.692</u>	<u>137.781</u>	<u>234.956</u>	<u>1.024.465</u>	<u>2.122.186</u>
Interest included in the above assets	-	803	2	-	-	805

7 Tangible assets

	Land and buildings	Plant and machinery	Other fixtures and equipment	Prepaid assets under construction	Total tangible assets
Cost at September 1, 2016	701.658	1.237.399	169.972	306.170	2.415.200
Transferred	7.284	73.548	47.801	(123.965)	4.668
Additions for the year	44.163	37.230	26.699	361.855	469.947
Disposals for the year	0	(4.545)	-	-266	(4.811)
Cost at August 31, 2017	<u>753.105</u>	<u>1.343.632</u>	<u>244.472</u>	<u>543.794</u>	<u>2.885.004</u>
Depreciation and impairment losses at September 1, 2016	198.705	626.388	101.953	-	927.045
Depreciation and impairment losses for the year	17.594	80.285	19.026	-	116.905
Depreciation of disposals for the year	0	(4.208)	0	-	(4.208)
Depreciation and impairment losses at August 31, 2017	<u>216.299</u>	<u>702.465</u>	<u>120.979</u>	<u>-</u>	<u>1.039.741</u>
Carrying amount at August 31, 2017	<u>536.806</u>	<u>641.167</u>	<u>123.494</u>	<u>543.794</u>	<u>1.845.262</u>
Interest included the above assets	191	296	16	2.039	2.541

The carrying amount of building and machinery, TDKK 1.109.281 have been pledged as security for mortgage loans of TDKK 175.845.

Notes to the balance sheet

Amounts in DKK '000

	<u>2016/17</u> DKK	<u>2015/16</u> DKK
8 Investments in Group companies		
Cost at September 1, 2016	516.745	533.927
Impairment for the year	-	(17.182)
Cost at August 31, 2017	<u>516.745</u>	<u>516.745</u>

Company	Capital share	Country	Currency	Nominal capital	Equity	Net profit for the year
Chr. Hansen France SA	100%	France	EUR	11.100	41.480	3.185
Chr. Hansen (Tianjin) Food Ingredients CO. Ltd	100%	China	CNY	8.000	22.638	-422
Chr. Hansen India Pvt. Ltd.	100%	India	INR	24.992	449.850	313.573
Peyma Chr. Hansen Turkey	50%	Turkey	TRY	140	23.253	723
Chr Hansen Romania	100%	Rumania	RON	4	368	618
Halley	99%	Germany	EUR	25	28.003	5
Chr. Hansen Malaysia SDN. BHD.	50%	Malaysia	MYR	1.000	22.581	4.325
Chr. Hansen Colombia	46%	Colombia	COP	3.887	1.439	-435

9 Loans to Group companies

Loans to Group companies have been granted as deposits repayable on demand and are therefore classified as current assets.

Notes to the balance sheet

Amounts in DKK '000

	<u>2017</u> DKK	<u>2016</u> DKK
10 Deferred tax, liability / asset		
Deferred tax in the balance sheet relates to:		
Intangible and tangible assets	326.839	304.407
Current assets	35.408	33.018
Other assets, deferred commitments and liabilities	7.680	7.904
Carrying amount at August 31, 2017	<u>369.928</u>	<u>345.329</u>
Deferred tax has been recognized at 22%		
11 Non-current liabilities		
Due after 5 years		
Mortgage debt	<u>83.846</u>	<u>101.960</u>
	83.846	101.960
Due within 1 - 5 years		
Mortgage debt	<u>72.179</u>	<u>73.875</u>
	72.179	73.875
Long-term loans	<u>156.025</u>	<u>175.836</u>
The average interest rate on mortgage loans is 1.26% p.a.		
12 Commitments and contingent liabilities		
Capitalized value of operating lease commitment	<u>8.465</u>	<u>7.005</u>

Notes to the balance sheet

13 Related parties

Related parties are defined as parties with control or significant influence over Chr. Hansen A/S and all transactions are made on market terms:

Chr. Hansen Holding A/S (holding 100%)
Bøge Allé 10 - 12
DK-2970 Hørsholm

14 Accounting relations

The annual report of Chr. Hansen A/S is included in the consolidated financial statements of Chr. Hansen Holding A/S, Hørsholm, which is the immediate and ultimate parent company.

The consolidated financial statements can be obtained by request to Chr. Hansen Holding A/S Bøge Allé 10 -12 DK-2970 Hørsholm.

15 Contingent liabilities

The commitment related to the rent of buildings amounted to DKK 43,037K on August 31, 2017 (2015/16 DKK 2,417K).

Rent of buildings commitment 0-1 year amounts to DKK 8,527K

Rent of buildings commitment 1-5 year amounts to DKK 33,191K

Rent of buildings commitment above 5 year amounts to DKK 1,319K

The commitment related to lease of cars amounted to DKK 8,321K on August 31, 2017 (2015/16 DKK 7,005K). The complete commitment expires within 5 years.

Lease of car commitment 0-1 year amounts to DKK 3,501K (2015/16 DKK 2,888K)

Lease of car commitment 1-5 year amounts to DKK 4,820K (2015/16 DKK 4,117K)

Chr. Hansen A/S has provided security for associated companies in the Chr. Hansen Group. The security is limited to USD 5 million.

16 Events after the balance sheet date

No events have occurred during the period from the end of the financial year until today that significantly influence the annual report.