

Annual report 2017/18
(Financial year September 1, 2017 – August 31, 2018)

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, 2018

Chairman of the General Meeting:

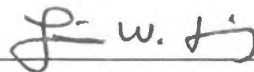


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Company information

Chr. Hansen A/S
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Business registration no.: 12 51 64 79

Board of Directors: Søren Westh Lonning, Chairman
Torsten Steenholt Christensen
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 2017/18 has been another good year for Chr. Hansen A/S. A sustainable business model combined with an adaptable organization 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 2017/18.

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 ARL 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/investors/reports-and-presentations/2017-18/q4/sustainability-report-2017-18.pdf>.

Statutory diversity report pursuant to ARL 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 2017/18 of DKK 5,254 million, equal to a decrease in revenue of 5%. The net revenue decrease is caused by a mix of the development in exchange rates and actual sales.

In total, DKK 504 million, equal to a share of 10% of total revenue, was spent on research and development expenditure. DKK 79 million was capitalized in 2017/18 (DKK 68 million in 2016/17). Thereby, research and development spending has decreased by DKK 9 million compared with the previous financial year.

Chr. Hansen A/S's results before tax present a profit of DKK 1,711 million, against DKK 1,701 million in the previous financial year. The result after tax amounts to DKK 1,334 million in financial year 2017/18, compared to DKK 1,330 million in 2016/17.

The number of employees amounts to 1,278 at the end of the financial year, compared to 1,199 for 2016/17.

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

Investments

The investment activities amounted to DKK 549 million in 2017/18, compared to DKK 1,102 million in 2016/17. The high investment level in 2016/17 is reflected both by the acquisition of LGG and also upgrades of the Danish sites, we refer to the Annual Report 2017/18 for Chr. Hansen Holding A/S.

Capital structure

On August 31, 2018 equity amounts to DKK 3,295 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 2017/18 are in accordance with our expectations. Revenue and operating profit are expected to increase in the financial year 2018/19. Cash flows are expected to stay at the same level as in 2017/18.

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

	2017/18	2016/17	2015/16	2014/15	2013/14*
Key figures DKK'000					
Income statement					
Revenue	5.254.185	5.530.908	4.803.528	4.250.545	3.712.202
Gross profit	2.911.524	2.842.944	2.387.081	2.181.775	1.853.823
Operating profit	1.741.093	1.694.652	1.461.351	1.401.571	1.122.382
Net financials	(30.526)	6.161	15.556	13.338	29.779
Profit before tax	1.710.567	1.700.812	1.459.726	1.414.908	1.152.162
Net profit	1.333.943	1.330.210	1.140.262	1.064.163	884.306
Balance sheet					
Inventory	449.387	455.088	423.755	404.884	319.686
Receivables from group external sales	119.320	117.583	100.497	107.491	102.506
Equity	3.294.896	2.960.954	2.630.744	1.363.788	1.499.624
Total assets	6.286.998	5.895.271	5.183.335	3.570.447	3.373.281
Investments in intangible and tangible assets	548.641	1.102.168	1.536.633	306.227	349.054
Ratios %					
Gross margin	55	51	50	51	50
(Gross profit * 100 / revenue)					
Operating margin	33	31	30	33	30
(Operating profit * 100 / revenue)					
Return on invested capital	28	29	28	39	33
(Operating profit * 100 / total assets end of year)					
Return on equity	40	45	43	78	59
(Net profit * 100 / equity end of year)					
Equity ratio	52	50	51	38	44
(Equity * 100 / total assets)					
Growth					
Revenue	5.254.185	5.530.908	4.803.528	4.250.545	3.712.202
Growth in %	-5%	15%	13%	15%	0%

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

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, 2017 – August 31, 2018.

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, 2018 and of the results of its operations for the financial year September 1, 2017 – August 31, 2018.

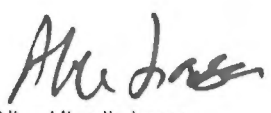
We believe that the management commentary contains a fair review of the affairs and a condition referred to therein, and describes the company's most significant risks and uncertainties.

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

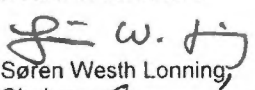
Hørsholm, December 6, 2018

Executive Board


Winnie H. Bügel
CEO

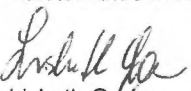

Alice Hjørdis Larsen
CVP HR


Board of Directors


Søren Westh Lonning
Chairman


Torsten Steenholt Christensen


Winnie H. Bügel


Lisbeth Grubov
Employee representative


Kim Ib Sørensen
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 2018, and of the results of the Company's operations for the financial year 1 September 2017 - 31 December 2018 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 2017 - 31 August 2018, 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.

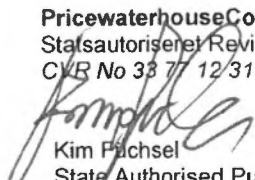
As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

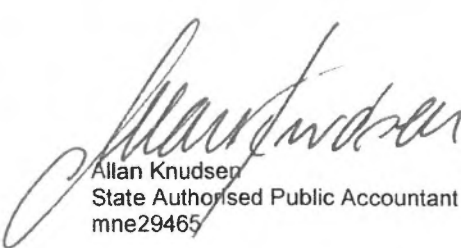
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31


Kim Fächsel
State Authorised Public Accountant
mne9291


Allan Knudsen
State Authorised Public Accountant
mne29465

Income statement, September 1 - August 31

Amounts in DKK '000	Notes	2017/18 DKK	2016/17 DKK
Revenue	2	5,254,185	5,530,908
Production costs	3	(2,342,660)	(2,687,964)
Gross profit		2,911,524	2,842,944
Research and development costs	3	(504,448)	(524,483)
Sales and marketing expenses	3	(373,904)	(340,494)
Administrative expenses	3	(296,450)	(291,651)
Other operating income	3	4,372	12,224
Other operating expenses	3	-	(3,888)
Operating profit (EBIT)		1,741,093	1,694,652
Dividends received		1,661	12,177
Impairment investment in Group companies		-	-
Financial income	4	73,403	59,021
Financial expenses	4	(105,590)	(65,038)
Profit before tax		1,710,567	1,700,812
Income taxes	5	(376,624)	(370,602)
Net profit for the year		1,333,943	1,330,210
Distribution of result	6		

Balance sheet at August 31, 2018

Assets

Amounts in DKK '000

	Notes	2018 DKK	2017 DKK
Non-current assets			
Intangible assets			
	7		
Goodwill		949,421	1,024,465
Patents, trademarks, intellectual property, etc		464,924	506,291
Development projects		210,382	218,692
Software		123,513	137,781
Intangible assets in progress		291,972	234,956
Total intangible assets		2,040,212	2,122,186
Tangible assets			
	8		
Land and buildings		583,868	536,807
Plant and machinery		883,158	641,167
Other fixtures and equipment		136,434	123,493
Prepayments and assets under construction		535,885	543,794
Total tangible assets		2,139,345	1,845,262
Financial assets			
Investments in Group companies	9	516,903	516,745
Total financial assets		516,903	516,745
Total non-current assets		4,696,460	4,484,193
Current assets			
Inventories			
Raw materials and consumables		67,955	73,634
Work in progress		158,710	152,638
Finished goods and goods for resale		222,722	228,817
Total inventories		449,387	455,088
Receivables			
Trade receivables		119,320	117,583
Receivables from Group companies		664,368	729,258
Other receivables		47,004	12,594
Prepayments		38,606	34,911
Total receivables		869,298	894,346
Cash at bank and in hand		271,854	61,644
Total current assets		1,590,539	1,411,079
Total assets		6,286,998	5,895,271

Balance sheet at August 31, 2018

Equity and liabilities

Amounts in DKK '000

	Notes	2018 DKK	2017 DKK
		<u> </u>	<u> </u>
Equity			
Share capital		194,101	194,101
Retained earnings		2,019,918	1,730,162
Reserve for development projects		80,877	36,691
Proposed dividend		1,000,000	1,000,000
Total equity		<u>3,294,896</u>	<u>2,960,954</u>
Provisions			
Deferred tax	10	506,561	369,928
Total provisions		<u>506,561</u>	<u>369,928</u>
Non-current liabilities			
Mortgage debt	11	137,933	156,025
Tax payables		279,224	345,594
Total non-current liabilities		<u>417,157</u>	<u>501,620</u>
Current liabilities			
Mortgage debt		18,065	19,820
Trade payables		436,074	394,022
Loans from Group companies		1,035,309	1,181,125
Tax payables		308,388	232,350
Other payables		270,549	235,452
Total current liabilities		<u>2,068,385</u>	<u>2,062,770</u>
Total liabilities		<u>2,485,542</u>	<u>2,564,389</u>
Total equity and liabilities		<u>6,286,998</u>	<u>5,895,271</u>
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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, 2017	194,101	36,691	1,730,162	1,000,000	2,960,954
Dividend distribution	-	-	-	(1,000,000)	(1,000,000)
Dividend proposed	-	-	(1,000,000)	1,000,000	-
Reserve for development projects	-	44,186	(44,186)	-	-
Net profit for the year	-	-	1,333,943	-	1,333,943
Equity at August 31, 2018	194,101	80,877	2,019,919	1,000,000	3,294,896

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, 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 is consists of shares of DKK 100 each or multiple thereof.

Notes to the income statement

1 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 has 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.

The annual report for the financial year 2017/18 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 amortized 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 benefit will flow to the company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the company has a legal or constructive obligation as a result of prior events, 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 out 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.

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

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.

Income statement

The income statement is classified by function.

Revenue

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 commission and sales discounts.

Accounting policies

Production costs

Production costs cover the 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, depreciations, etc.

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.

Accounting policies

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).

Balance sheet

Intangible assets

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

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 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.

Accounting policies

Expenses for project work, comprising direct labor costs 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 individual assessment of the software life expectancy.

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	5-20 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.

Prepayments

Prepayments, recognized as assets, comprises among other things, insurance payments, subscriptions and licenses. Prepayments 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.

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 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

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

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

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

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

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

Notes to the income statement

Amounts in DKK '000

	2017/18 DKK	2016/17 DKK
2 Revenue		
Revenue by geographical allocation		
Denmark	72,673	75,399
Europe (excl. Denmark)	2,460,282	2,501,903
North America	1,046,659	1,203,094
Other markets	1,674,571	1,750,512
	<u>5,254,185</u>	<u>5,530,908</u>

The geographical segmentation is based on customer location.

3 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	771,070	632,575
Transferred capitalization	(75,506)	(44,778)
Pensions	74,976	65,380
Expenses for social security	6,963	7,330
Other employee expenses	24,166	18,806
	<u>801,669</u>	<u>679,313</u>
Fees to the Board of Directors	50	50
Total staff expenses	<u>801,719</u>	<u>679,363</u>
Average number of full-time employees	<u>1,239</u>	<u>1,134</u>
Number of employees at year end	<u>1,278</u>	<u>1,199</u>

Incentive program

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

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.

Notes to the income statement

Amounts in DKK '000	2017/18 DKK	2016/17 DKK
3 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	129,570	121,855
Research and development costs	74,117 *	76,298
Sales and marketing expenses	112,382	106,467
Administrative expenses	20,394	17,636
	<u>336,463</u>	<u>322,256</u>

* The impairment of development projects in progress amounting to TDKK 993 is included in the amount.
See note 6 for further information

Notes to the income statement

Amounts in DKK '000	2017/18 DKK	2016/17 DKK
4 Financial income and expenses		
Interest income and other financial income:		
Interest income from Group companies	2,811	4,337
Interest income and other financial gains	70,592	54,684
Total financial income	<u>73,403</u>	<u>59,021</u>
Interest expenses and other financial expenses:		
Interest expenses to Group companies	-	267
Interest expenses and other financial losses	105,590	64,771
Total financial expenses	<u>105,590</u>	<u>65,038</u>
5 Income taxes		
Income taxes are distributed as follows:		
Current tax on operating profit	275,800	341,731
Change in deferred tax concerning operating profit	100,098	29,403
Other taxes	669	409
Changes in deferred tax previous years	37,206	-
Changes in income tax previous years	(37,206)	-
Change in tax rate for deferred tax	57	(940)
Total income taxes	<u>376,624</u>	<u>370,602</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>		
6 Distribution of result		
Retained earnings	1,730,162	1,436,643
Net profit for the year	<u>1,333,943</u>	<u>1,330,210</u>
	<u>3,064,105</u>	<u>2,766,853</u>
Proposed distribution dividend		
Dividend	1,000,000	1,000,000
Retained earnings	<u>2,064,105</u>	<u>1,766,853</u>
	<u>3,064,105</u>	<u>2,766,853</u>

Notes to the balance sheet

Amounts in DKK '000

7 Intangible assets

	Patents, trade- marks, intell- ectual proper	Development projects	Software	Intangible assets in progress	Goodwill	Total intangi- ble assets
Cost at September 1, 2017	795,802	408,437	342,883	234,956	1,125,656	2,907,734
Transferred	-	31,598	17,131	(49,371)	-	(642)
Additions for the year	320	3,459	3,459	107,380	-	114,618
Disposals for the year	-	-	-	(993)	-	(993)
Cost at August 31, 2018	796,122	443,494	363,473	291,972	1,125,656	3,020,717
Amortization and impairment losses at September 1, 2017	289,511	189,744	205,102	-	101,191	785,548
Amortization and impairment for the year	41,687	43,368	34,858	-	75,044	194,957
Amortization disposals for the year	-	-	-	-	-	-
Amortization and impairment losses at August 31, 2018	331,198	233,112	239,960	-	176,235	980,505
Carrying amount at August 31, 2018	464,924	210,382	123,513	291,972	949,421	2,040,212
Interest included in the above assets	-	15	12	1,310	-	1,337

8 Tangible assets

	Land and buildings	Plant and machinery	Other fixtures and equipment	Prepaid assets under construction	Total tangible assets
Cost at September 1, 2017	753,105	1,343,632	244,472	543,794	2,885,003
Transferred	54,996	268,746	23,269	(346,370)	642
Additions for the year	12,935	67,483	15,143	338,461	434,022
Disposals for the year	-	(3,876)	(1,100)	-	(4,976)
Cost at August 31, 2018	821,035	1,675,986	281,785	535,885	3,314,690
Depreciation and impairment losses at September 1, 2017	216,299	702,465	120,979	-	1,039,743
Depreciation and impairment losses for the year	20,869	94,103	25,385	-	140,357
Depreciation of disposals for the year	-	(3,741)	(1,014)	-	(4,753)
Depreciation and impairment losses at August 31, 2018	237,168	792,827	145,350	-	1,175,345
Carrying amount at August 31, 2018	583,868	883,158	136,434	535,885	2,139,345
Interest included the above assets	122	473	-	1,652	2,247

The carrying amount of building and machinery, TDKK 1.395.138 have been pledged as security for mortgage loans of TDKK 155.998.

Notes to the balance sheet

Amounts in DKK '000

2017/18	2016/17
DKK	DKK

9 Investments in Group companies

Cost at September 1, 2017	516,745	516,745
Additions for the year	157	-
Cost at August 31, 2018	516,903	516,745

<u>Company</u>	<u>Capital share</u>	<u>Country</u>	<u>Currency</u>	<u>Nominal capital</u>	<u>Equity</u>	<u>Net profit for the year</u>
Chr. Hansen France SA	100%	France	EUR	11,100	44,600	3,658
Chr. Hansen (Tianjin) Food Ingredients CO. Ltd	100%	China	CNY	8,000	23,723	1,801
Chr. Hansen India Pvt. Ltd.	100%	India	INR	24,992	269,779	23,723
Peyma Chr. Hansen Turkey	50%	Turkey	TRY	988	39,208	15,332
Chr Hansen Romania	100%	Rumania	RON	4	1,305	643
Halley	99%	Germany	EUR	25	39,881	8,538
Chr. Hansen Malaysia SDN. BHD.	50%	Malaysia	MYR	1,000	27,321	4,863
Chr. Hansen Colombia	46%	Colombia	COP	3,887	3,039	236
Chr Hansen Middle East and Africa	80%	United Arab Emirates	AED	500	23,640	2,023

Notes to the balance sheet

Amounts in DKK '000

	<u>2018</u> DKK	<u>2017</u> DKK
10 Deferred tax, liability / asset		
Deferred tax in the balance sheet relates to:		
Intangible and tangible assets	567,888	326,839
Current assets	46,544	35,408
Other assets, deferred commitments and liabilities	(107,871)	7,680
Carrying amount at August 31, 2018	<u>506,561</u>	<u>369,928</u>

Deferred tax has been recognized at 22%.

11 Non-current liabilities

Due after 5 years

Mortgage debt	<u>65,514</u>	<u>83,846</u>
	65,514	83,846

Due within 1 - 5 years

Mortgage debt	<u>72,419</u>	<u>72,179</u>
	72,419	72,179

Long-term loans

	<u>137,932</u>	<u>156,025</u>
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The average interest rate on mortgage loans is 1.18% p.a.

Notes to the balance sheet

12 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

13 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.

14 Contingent liabilities

The commitment related to the rent of buildings amounted to DKK 34,615K on August 31, 2018 (2016/17 DKK 43,037K).

Rent of buildings commitment 0-1 year amounts to DKK 8,527K (2016/17 DKK 8,527K)

Rent of buildings commitment 1-5 year amounts to DKK 26,088K (2016/17 DKK 33,191K)

Rent of buildings commitment above 5 year amount to DKK 0 (2016/17 DKK 1,319K)

The commitment related to lease of cars amounted to DKK 7,280K on August 31, 2018 (2016/17 DKK 8,321K). The complete commitment expires within 5 years.

Lease of car commitment 0-1 year amounts to DKK 3,301K (2016/17 DKK 3,501K)

Lease of car commitment 1-5 year amounts to DKK 3,979K (2016/17 DKK 4,820K)

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

Chr. Hansen A/S has provided a bank guarantee to Bocard S.A.

The security is limited to EUR 2.8 million and the bank guarantee will expire the 15th November 2018.

15 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.