

Annual report 2018/19
(Financial year September 1, 2018 – August 31, 2019)

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

Business registration no. 35 63 87 84

The Annual General Meeting adopted the annual report on December 3, 2019

Chairman of the General Meeting: *Jens W. Laurig*

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Company information

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Business registration no.: 35 63 87 84

Board of Directors: Søren Westh Lonning, Chairman
Torsten Steenholt Christensen
Winnie H. Bügel

Executive Board: Klaus Stegler Bjerrum, CEO

Auditors: PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Management commentary

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

Natural Colors Division

Chr. Hansen is the market leader on the global market for natural colors and has a solid platform for growth in this area. The global market for natural colors has been growing in recent years as a consequence of increased focus on the link between synthetic colors and hyperactivity in the behavior of children.

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.

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 Groups sustainability, which constitutes Chr. Hansen Group's 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/2018-19/chr-hansen-sustainability-report-2018-19.pdf

Statutory diversity report pursuant to ÅRL 99b

Chr. Hansen Natural Colors 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. Thereby, Chr. Hansen Natural Colors 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). No foreign employees are in the Board of Directors.

Chr. Hansen Natural Colors A/S strives to create a work environment that provides employees with equal opportunities in terms of personal and professional development. The full policy can be found here:

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

Building an inclusive culture for a diverse workforce

As a company driven by science and innovation, our future relies on our ability to generate ideas, create solutions, and approach problems in new ways. To achieve this, we need a workforce of employees with diverse socio-economic backgrounds, experiences and points of view. We strive to develop a diverse workforce and an engaged, innovative and open-minded culture, where each employee's unique differences are not only acknowledged and encouraged, but where they add value and make our organization stronger.

While we are proud of the diversity of our workforce today, we acknowledge that we still have more work to do, primarily in terms of improving our gender diversity and developing more varied skill-sets among teams of employees. Recognizing that diversity challenges are unique to teams and locations, Chr. Hansen works on a range of parameters to help raise the bar, for example by focusing on unconscious bias and developing engaging and inspiring leaders.

Diversity metrics are also included in the corporate leadership team's remuneration, reflecting the degree to which it represents a strategic objective.

Research and development

For the Chr. Hansen Group innovation is an important contributor to business growth. More than 500 people which exceeds +30% of the total number of employees, are working with research and development.

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 company. 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.

Product safety

The majority of Chr. Hansen natural colors products are sold to the food & beverage 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 Natural Colors 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 Natural Colors 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 Natural Colors A/S has achieved revenue in 2018/19 of DKK 981 million, equal to a revenue decrease of 5%.

The results before tax of Chr. Hansen Natural Colors A/S show a profit of DKK 121 million an increase compared with the profit of DKK 103 million for 2017/18. The results after tax amount to a profit of DKK 95 million for the financial year 2018/19, compared to DKK 80 million for 2017/18.

The number of employees at Chr. Hansen Natural Colors A/S at the end of the financial year 2018/19 amounts to 149 compared to 132 for 2017/18.

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

Investments

The investment activities amounted to DKK 27,3 million in the financial year 2018/19.

Capital structure

On August 31, 2019 equity amounts to DKK 527 million, equal to an equity ratio of 75%.

Outlook

The results for the financial year 2018/19 are in accordance with our expectations. Revenue and operating profit are expected to increase in the financial year 2019/20. Cash flows are expected to stay at the same level as in 2018/19 and in accordance with the financial results of the Chr. Hansen Group.

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. Natural Colors A/S

	2018 19	2017 18	2016 17	2015 16	2014 15
Key figures DKK '000					
Income statement					
Revenue	980.874	1.034.989	924.217	878.465	634.955
Gross profit	293.104	232.826	218.732	141.906	144.438
Operating profit	126.849	104.861	114.174	68.980	34.997
Net financials	(5.536)	(1.806)	1.934	33	363
Profit before tax	121.293	103.055	116.621	69.013	35.361
Net profit	94.842	80.038	90.398	53.390	27.338
Balance sheet					
Inventory	158.963	170.653	85.473	69.558	56.597
Equity	526.606	431.764	351.726	261.128	207.739
Total assets	702.084	668.439	506.396	490.696	334.902
Investments in intangible and tangible assets	27.265	32.290	25.977	17.692	24.561
Ratios %					
Gross margin (Gross profit * 100 / revenue)	30	22	24	16	23
Operating margin (Operating profit * 100 / revenue)	13	10	12	8	6
Return on invested capital (Operating profit * 100 / total assets end of year)	18	16	23	14	10
Return on equity (Net profit * 100 / equity end of year)	18	19	26	20	13
Equity ratio (Equity * 100 / total assets)	75	65	69	53	62
Growth					
Revenue	980.874	1.034.989	924.217	878.465	634.955
Growth in %	-5%	12%	5%	38%	52%

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 Natural Colors A/S for the financial year September 1, 2018 – August 31, 2019.

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, 2019 and of the results of its operations for the financial year September 1, 2018 – August 31, 2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

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

Hørsholm, December 3, 2019

Executive Board



Klaus Stegler Bjerrum
CEO

Board of Directors



Søren Westh Lønning
Chairman



Winnie H. Bügel



Torsten Steenholt Christensen

Independent Auditor's Report

To the Shareholders of Chr. Hansen Natural Colors 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 2019, and of the results of the Company's operations for the financial year 1 September 2018 - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Chr. Hansen Natural Colors A/S for the financial year 1 September 2018 - 31 August 2019, 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

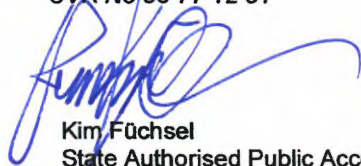
an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to 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, 3. December 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31



Kim Fuchsøl
State Authorised Public Accountant
mne9291



Allan Knudsen
State Authorised Public Accountant
mne29465

Income statement, September 1 - August 31

Amounts in DKK '000	Notes	2018/19 DKK	2017/18 DKK
		<u> </u>	<u> </u>
Revenue	2	980.874	1.034.989
Production costs	3	(687.770)	(802.163)
Gross profit		293.104	232.826
Research and development costs	3	(68.231)	(51.143)
Sales and marketing expenses	3	(58.528)	(41.890)
Administrative expenses	3	(39.496)	(34.932)
Operating profit (EBIT)		126.849	104.861
Financial income	4	5.434	34.988
Financial expenses	4	(10.990)	(36.794)
Profit before tax		121.293	103.055
Income taxes	5	(26.451)	(23.017)
Net profit for the year		94.842	80.038
Distribution of result	6		

Balance sheet at August 31

Amounts in DKK '000	Notes	2019 DKK	2018 DKK
		<u> </u>	<u> </u>
Non-current assets			
Intangible assets	7		
Development projects		27.804	30.314
Software		3.855	4.078
Intangible assets in progress		60.033	46.231
Total intangible assets		<u>91.692</u>	<u>80.623</u>
Tangible assets	8		
Plant and machinery		33.202	33.484
Other fixtures and equipment		12.412	12.133
Property, plant and equipment in progress		13.257	12.709
Total tangible assets		<u>58.871</u>	<u>58.326</u>
Total non-current assets		<u>150.563</u>	<u>138.949</u>
Current assets			
Inventories			
Raw materials and consumables		86.480	87.274
Work in progress		26.026	22.912
Finished goods and goods for resale		46.457	60.467
Total inventories		<u>158.963</u>	<u>170.653</u>
Receivables			
Receivables from Group companies		102.337	178.283
Trade receivables		19.293	16.924
Other receivables		5.298	5.416
Total receivables		<u>126.928</u>	<u>200.623</u>
Cash		<u>265.630</u>	<u>158.214</u>
Total current assets		<u>551.521</u>	<u>529.490</u>
Total assets		<u>702.084</u>	<u>668.439</u>

Balance sheet at August 31

Equity and liabilities	Notes	2019 DKK	2018 DKK
Amounts in DKK '000			
Equity			
Share capital		10.000	10.000
Reserve for development projects		28.950	20.490
Retained earnings		487.656	401.274
Total equity	9	<u>526.606</u>	<u>431.764</u>
Provisions			
Deferred tax		25.700	22.230
Total provisions		<u>25.700</u>	<u>22.230</u>
Non-current liabilities			
Tax payables	5	23.181	18.835
Total non-current liabilities		<u>23.181</u>	<u>18.835</u>
Current liabilities			
Tax payable		18.252	24.148
Trade payables		72.346	88.956
Loans from Group companies		833	45.822
Other payables		35.166	36.684
Total current liabilities		<u>126.597</u>	<u>195.610</u>
Total liabilities		<u>149.778</u>	<u>214.445</u>
Total equity and liabilities		<u>702.084</u>	<u>668.439</u>
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Statement of changes in equity

Amounts in DKK '000

Equity

	Share capital	Reserve for development projects	Retained earnings	Total equity
Equity at September 1, 2018	10.000	20.490	401.274	431.764
Reserve for development projects	-	8.460	(8.460)	-
Net profit for the year	-	-	94.842	94.842
Equity at August 31, 2019	10.000	28.950	487.656	526.606

The share capital is consists of shares of DKK 1 each or multiple thereof.

	Share capital	Reserve for development projects	Retained earnings	Total equity
Equity at September 1, 2017	10.000	7.356	334.370	351.726
Reserve for development projects	-	13.134	(13.134)	-
Net profit for the year	-	-	80.038	80.038
Equity at August 31, 2018	10.000	20.490	401.274	431.764

Notes to the income statement

1 Accounting policies

Reporting class

The annual report of Chr. Hansen Natural Colors 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. Chr. Hansen Natural Colors 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 Natural Colors A/S has not prepared any cash flow statement. 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 2018/19 is presented in DKK 1,000.

The accounting policies, as set out below, have been consistently applied for the full financial year and for the comparative figures (besides the reclassification mentioned above).

In accordance with section 98(b) of the Danish Financial Statements Act, Chr. Hansen Natural Colors A/S is not presenting the salary to the sole member of the executive board. With reference to section 96(3) the fee to the statutory auditors has not been presented.

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.

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.

Income statement

The income statement is classified by function.

Revenue

Revenue from the sales 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 commission and sales discounts.

Notes to the income statement

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 Natural Colors A/S. The value of the granted stock options is subsequently recognized in the income statement of Chr. Hansen Natural Colors A/S over the period in which the employees of Chr. Hansen Natural Colors 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.

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 A/S and BacThera Denmark 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).

Notes to the income statement

Balance sheet

Intangible assets

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

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.

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:

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.

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.

Notes to the income statement

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.

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.

Other provisions

Other provisions are recognized in the balance sheet when it is probable as a result of a prior event 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.

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	2018/19	2017/18
2 Revenue		
Revenue by geographical allocation		
Denmark	14.855	198.604
Europe (excl. Denmark)	353.627	598.027
North America	77.982	24.041
Other markets	534.410	214.317
	<u>980.874</u>	<u>1.034.989</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, marketing, and administrative expenses, and other operating income and expenses include wages and salaries etc, which are distributed as follows:

	2018/19	2017/18
Wages and salaries etc.	84.884	81.719
Transferred capitalization	(1.578)	(10.174)
Pensions	8.962	7.586
Expenses for social security	1.171	757
Other employee expenses	6.360	8.381
Total staff expenses	<u>99.799</u>	<u>88.269</u>
Fees to the Management*	-	4.039
Average number of full-time employees	<u>145</u>	<u>125</u>
Number of full-time employees at year end	<u>149</u>	<u>132</u>

*During the financial year 2018/19 only one Director has been employed and therefore the figures are not shown which is in accordance with section 98 B(3) of the Danish Financial Statements Act.

During the financial year 2017/18, two different Directors have been employed. Included in the fee to the "Management" is therefore severance pay.

The fee to the Management includes pensions for DKK 564K. There is established an incentive program for the Management. The Management can receive shares according to the Chr. Hansen Group share program.

Notes to the income statement

Amounts in DKK '000	2018/19	2017/18
3 Production, research and development costs, sales, marketing and administrative expenses as well as other operating income and operating expenses, continued.		

Depreciation and amortization

Depreciation and amortization are included in production, research and development costs and sales, marketing and administrative expenses and are distributed as follows:

Production costs	9.878	9.707
Research and development costs	4.962	267
Sales and marketing expenses	810	5.104
	<u>15.650</u>	<u>15.078</u>

The impairment of development projects in progress amounting to TDKK 475 is included in the amount.
See note 7 for further information.

Notes to the income statement

Amounts in DKK '000	2018/19	2017/18
4 Financial income and expenses		
Interest income and other financial income:		
Interest income from Group companies	23	2
Interest income and other financial gains	5.411	34.986
Total financial income	<u>5.434</u>	<u>34.988</u>
Interest expenses and other financial expenses:		
Interest expenses and other financial losses	(10.990)	(36.794)
Total financial expenses	<u>(10.990)</u>	<u>(36.794)</u>
5 Income taxes		
Income taxes are distributed as follows:		
Current tax on operating profit	(23.182)	(19.181)
Change in deferred tax concerning operating profit	(3.511)	-
Other taxes	(382)	-
Changes in income tax previous years	582	(3.836)
Changes in deferred tax previous years	41	-
Total income taxes	<u>(26.451)</u>	<u>(23.017)</u>
The company is jointly taxed with the other Danish companies in the Group, Chr. Hansen Holding A/S, Chr. Hansen A/S and BacThera Denmark A/S, and the companies are jointly liable for the joint taxes.		
6 Distribution of result		
At disposition		
Retained earnings	401.274	334.370
Reserve for development projects	(8.460)	(13.134)
Net profit for the year	<u>94.842</u>	<u>80.038</u>
	<u>487.656</u>	<u>401.274</u>

Notes to the balance sheet

Amounts in DKK '000

7 Intangible assets

	Development projects	Software	Intangible assets in progress	Total intangible assets
Cost at September 1, 2018	48.038	9.236	46.231	103.505
Transferred	1.414	1.493	(2.907)	-
Additions for the year	237	-	17.184	17.421
Disposals for the year	-	-	(475)	(475)
Cost at August 31, 2019	<u>49.689</u>	<u>10.729</u>	<u>60.033</u>	<u>120.451</u>
Amortization and impairment losses at September 1, 2018	17.724	5.158	-	22.882
Amortization and impairment losses for the year	4.161	1.716	-	5.877
Amortization of years disposals	-	-	-	-
Amortization and impairment losses at August 31, 2019	<u>21.885</u>	<u>6.874</u>	<u>-</u>	<u>28.759</u>
Carrying amount at August 31, 2019	<u>27.805</u>	<u>3.855</u>	<u>60.033</u>	<u>91.692</u>

8 Tangible assets

	Plant and machinery	Other fixtures and equipment	Prepaid assets under construction	Total tangible assets
Cost at September 1, 2018	143.672	19.505	12.709	175.886
Transferred	4.928	1.027	(5.955)	-
Additions for the year	1.441	1.899	6.503	9.843
Cost at August 31, 2019	<u>150.041</u>	<u>22.431</u>	<u>13.257</u>	<u>185.729</u>
Depreciation and impairment losses at September 1, 2018	110.188	7.372	-	117.560
Depreciation and impairment losses for the year	6.651	2.647	-	9.298
Depreciation and impairment losses at August 31, 2019	<u>116.839</u>	<u>10.019</u>	<u>-</u>	<u>126.858</u>
Carrying amount at August 31, 2019	<u>33.202</u>	<u>12.412</u>	<u>13.257</u>	<u>58.871</u>

Notes to the balance sheet

9 Equity

The share capital consists of shares of DKK 1 each or multiple thereof.

10 Related parties

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

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

11 Accounting relations

The annual report of Chr. Hansen Natural Colors 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.

12 Contingent liabilities

No claims have been raised against Chr. Hansen Natural Colors A/S.

The commitment related to the rent of buildings amounted to DKK 9,546K on August 31, 2019 (2017/18 DKK 12,978K)

The complete commitment expires within 5 years.

Rent of buildings commitment 0-1 year amounts to DKK 3,484 (2017/18 DKK 3,527K)

Rent of buildings commitment 1-5 year amounts to DKK 6,062 (2017/18 DKK 9,451K)

The commitment related to lease of cars amounted to DKK 681 on August 31, 2019 (2017/18 DKK 943K). The complete commitment expires within 5 years.

Lease of car commitment 0-1 year amounts to DKK 355K (2017/18 DKK 530K)

Lease of car commitment 1-5 year amounts to DKK 326K (2017/18 DKK 413K)

13 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.