

Annual report 2019/20
(Financial year September 1, 2019 – August 31, 2020)

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 14, 2020

Chairman of the General Meeting: _____

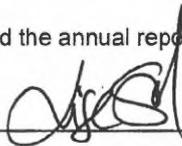


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Company information

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Business registration no.: 35 63 87 84

Board of Directors: Lise Skaarup Mortensen, 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 is 100% owned by Chr. Hansen Holding A/S.

On September 26, 2020, Chr. Hansen signed an agreement to sell the Natural Colors business, including Chr. Hansen Natural Colors A/S, to the Private Equity Fund EQT. The sale is expected to be finalized within the coming year through a carve-out and transfer of the Natural Colors business.

Natural Colors Division

Chr. Hansen Natural Colors A/S 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 Natural Colors A/S is very dependent on having committed and motivated employees as well as skilled managers. Chr. Hansen Natural Colors A/S 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 Chr. Hansen Group Annual Report for 2019/20, 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:

[www://chr-hansen.com/en/investors/reports-and-presentations](http://www.chr-hansen.com/en/investors/reports-and-presentations)

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 2 women and 1 man. 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](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 Natural Colors A/S works on a range of parameters to help raise the bar, for example by focusing on unconscious bias and developing engaging and inspiring leaders.

We work with diversity broadly, yet believe that gender is an important parameter to pay attention to. This year, the percentage of female managers was 41% compared to 47% of female employees and we will continue to work with this in order to meet the target of having equal ratio between female employees and female managers.

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 Natural Colors A/S innovation is an important contributor to business growth. More than 10% of the total number of employees, are working with research and development.

Chr. Hansen Natural Colors A/S 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 Chr. Hansen Natural Colors A/S, 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 Chr. Hansen Natural Colors A/S. 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.

COVID-19

The Company recognized early the Coronavirus' potential to become a pandemic that could potentially have significant consequences for the Company. Recognizing that this was initially a health crisis, the corporate crisis management team's prime focus was to ensure the safety and wellbeing of Chr. Hansen's employees and their families, hence a "People, Health & Safety" taskforce was established. At the same time an operational business continuity task force was established, focused on ensuring continued operations throughout the crisis. Actions included identifying business critical staff, segregating production teams, securing raw material availability and customer coordination. Throughout the crisis, Chr. Hansen has not furloughed any employees, closed any production site or otherwise observed any work-from-home demotivation, even though Chr. Hansen has been present in many of the epicenters of the virus across the world

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 2019/20 of DKK 937 million, equal to a revenue decrease of 5%.

The results before tax of Chr. Hansen Natural Colors A/S show a profit before tax of DKK 71 million a decrease of DKK 50 million compared with the profit of DKK 121 million for 2018/19. The results after tax amount to a profit of DKK 55 million for the financial year 2019/20, compared to DKK 95 million for 2018/19. The decrease is due to COVID19 with impact of decreased sale and increased production costs, primarily from increased freight rates.

The number of employees at Chr. Hansen Natural Colors A/S at the end of the financial year 2019/20 amounts to 162 compared to 149 for 2018/19.

Management regards the results for the financial year as less satisfactory and below expectations.

Investments

The investment activities amounted to DKK 60 million in the financial year 2019/20.

Capital structure

On August 31, 2020 equity amounts to DKK 582 million, equal to an equity ratio of 75%. No dividend has been paid out to the parent company.

Outlook

The results for the financial year 2019/20 are below our expectations. Revenue, operating profit and cash flows are expected to remain at the same level in the financial year 2020/21.

Events after the balance sheet date

On September 26 2020, Chr. Hansen signed an agreement to sell the Natural Colors business, including Chr. Hansen Natural Colors A/S, to the Private Equity Fund EQT. The sale is expected to be finalized within the coming year through a carve-out and transfer of the Natural Colors business.

No further events with significant impact on the financial statement have occurred subsequent to August 21, 2020.

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

<i>Key figures DKK '000</i>	2019.20	2018.19	2017.18	2016.17	2015.16
Income statement					
Revenue	936.561	980.874	1.034.989	924.217	878.465
Gross profit	244.916	293.104	232.826	218.732	141.906
Operating profit	70.617	126.849	104.861	114.174	68.980
Net financials	743	(5.556)	(1.806)	1.934	33
Profit before tax	71.361	121.293	103.055	116.621	69.013
Net profit	55.199	94.842	80.038	90.598	53.390
Balance sheet					
Inventory	161.057	158.963	170.653	85.473	69.558
Equity	581.805	526.606	431.764	351.726	261.128
Total assets	780.155	702.084	668.439	506.396	490.696
Investments in intangible and tangible assets	59.562	27.265	32.290	25.977	17.692
Ratios %					
Gross margin (Gross profit * 100 / revenue)	26	30	22	24	16
Operating margin (Operating profit * 100 / revenue)	8	13	10	12	8
Return on invested capital (Operating profit * 100 / total assets end of year)	9	18	16	23	14
Return on equity (Net profit * 100 / equity end of year)	9	18	19	26	20
Equity ratio (Equity * 100 / total assets)	75	75	65	69	53
Growth					
Revenue	936.561	980.874	1.034.989	924.217	878.465
Growth in %	-5%	-5%	12%	5%	38%

IFRS16 Leases was implemented using the modified retrospective approach, and comparative figures for 2015.16 - 2018.19 have not been restated.

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, 2019 – August 31, 2020.

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, 2020 and of the results of its operations for the financial year September 1, 2019 – August 31, 2020.

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.

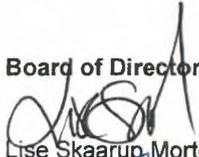
Hørsholm, December 14, 2020

Executive Board

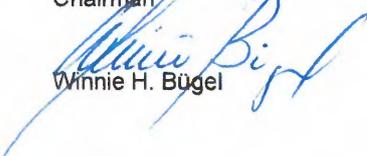


Klaus Stegler Bjerrum
CEO

Board of Directors



Lise Skaarup Mortensen
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 2020, and of the results of the Company's operations for the financial year 1 September 2019 - 31 December 2020 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 2019 - 31 August 2020, 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

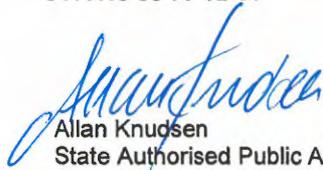
an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to 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, December 14, 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31


Allan Knudsen
State Authorised Public Accountant
mne29465


Elife Savas
State Authorised Public Accountant
mne34453

Income statement, September 1 - August 31

Amounts in DKK '000	Notes	2019/20 DKK	2018/19 DKK
Revenue	2	936.561	980.874
Production costs	3	(691.645)	(687.770)
Gross profit		244.916	293.104
Research and development costs	3	(69.769)	(68.231)
Sales and marketing expenses	3	(67.197)	(58.528)
Administrative expenses	3	(37.329)	(39.496)
Other operating cost	3	(5)	-
Operating profit (EBIT)		70.617	126.849
Financial income	4	6.285	5.434
Financial expenses	4	(5.541)	(10.990)
Profit before tax		71.361	121.293
Income taxes	5	(16.161)	(26.451)
Net profit for the year		55.199	94.842
Distribution of result	6		

Balance sheet at August 31

Amounts in DKK '000	Notes	2020 DKK	2019 DKK
Non-current assets			
Intangible assets	7		
Development projects		45.225	27.804
Software		11.749	3.855
Intangible assets in progress		35.241	60.033
Total intangible assets		92.215	91.692
Tangible assets			
	8		
Land and buildings		27.846	-
Plant and machinery		35.830	33.202
Other fixtures and equipment		12.733	12.412
Property, plant and equipment in progress		18.349	13.257
Total tangible assets		94.758	58.871
Total non-current assets		186.972	150.563
Current assets			
Inventories			
Raw materials and consumables		76.916	86.480
Work in progress		28.582	26.026
Finished goods and goods for resale		55.559	46.457
Total inventories		161.057	158.963
Receivables			
Receivables from Group companies		26.842	102.337
Trade receivables		19.292	19.293
Other receivables		5.126	5.298
Total receivables		51.260	126.928
Cash		380.865	265.630
Total current assets		593.183	551.521
Total assets		780.155	702.084

Balance sheet at August 31

Equity and liabilities	Notes	2020 DKK	2019 DKK
Amounts in DKK '000			
Equity			
Share capital		10.000	10.000
Reserve for development projects		33.225	28.950
Retained earnings		538.580	487.656
Total equity	9	<u>581.805</u>	<u>526.606</u>
Provisions			
Deferred tax	10	26.549	25.700
Total provisions		<u>26.549</u>	<u>25.700</u>
Non-current liabilities			
Lease liabilities		25.577	-
Tax payables		15.829	23.181
Total non-current liabilities	11	<u>41.406</u>	<u>23.181</u>
Current liabilities			
Lease liabilities		4.502	-
Tax payable		22.095	18.252
Trade payables		63.407	72.346
Loans from Group companies		1.671	833
Other payables		38.720	35.166
Total current liabilities		<u>130.395</u>	<u>126.597</u>
Total liabilities		<u>171.801</u>	<u>149.778</u>
Total equity and liabilities		<u>780.155</u>	<u>702.084</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, 2019	10.000	28.950	487.656	526.606
Reserve for development projects	-	4.275	(4.275)	-
Net profit for the year	-	-	55.199	55.199
Equity at August 31, 2020	<u>10.000</u>	<u>33.225</u>	<u>538.580</u>	<u>581.805</u>

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, 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	<u>10.000</u>	<u>28.950</u>	<u>487.656</u>	<u>526.606</u>

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

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 2019/20 is presented in DKK 1,000.

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.

Changes in accounting policies

With effect for the financial year 2019/20, Chr. Hansen Natural Colors has chosen to apply the options cf. the Danish Financial Statements Act of applying IFRS 15, Revenue from contracts with customers, and IFRS16, Leases, within the framework.

IFRS 15, Revenue from contract with customers

Chr. Hansen Natural Colors A/S has changed its accounting policy for the recognition of revenue from contracts with customers. This means that the Company applies IFRS 15 for recognition and measurement of revenue. The change of accounting policy has not had an impact on revenue, net profit, total assets or equity.

IFRS 16, Leases

Chr. Hansen Natural Colors A/S has also changed its accounting policy for leases, and now applies IFRS 16 for lease transactions. Thus, leased assets are recognised with a calculated value and are depreciated over their expected useful lives, whereas the lease liability is recognised in the balance sheet.

The change of accounting policy is based on the transitional rules of IFRS 16, and IFRS16 was implemented using the modified retrospective approach:

- in respect of leases previously classified as operating leases, a lease liability is recognised and measured corresponding to the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at 1 September 2019 – 31 August 2020 - lease assets are recognised at the same amount adjusted for prepaid or accrued lease payments;
- in respect of portfolios of leases with similar characteristics, one single discount rate is applied;

The accounting policy change has had the following effect as per 1 September 2019:

Land and buildings:	31.201 k. DKK
Plant and machinery:	904 k. DKK
Other fixtures and equipment:	1.247 k. DKK
Lease liability:	33.349 k. DKK

The implementation had no effect on equity.

Notes to the income statement

1 Accounting policies

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

Chr. Hansen Natural Colors A/S produces a wide range of natural colors. Revenue includes sales of goods and related services and royalties and is recognized at an amount that reflects the consideration to which Chr. Hansen Natural Colors A/S expects to be entitled.

Revenue from a straightforward sale of goods to customers is recognized when control of the goods is transferred to the customer, i.e. when the goods are delivered to the end-customer.

The performance obligations in the contracts are to deliver natural colors to the customers, and each batch delivered is considered a separate performance obligation, as each batch is distinct.

Products are often sold with a discount. Such an agreement can be set up in various ways, but common to all discount agreements is that revenue is recognized based on the price specified in the contract, net of the estimated discount. Discounts are estimated based on historical data as well as forecasts. Estimated discounts are reassessed at the end of each reporting period.

A relatively small part of revenue originates from commission agreements where agents undertake sales to third parties in return for commission on realized sales. Revenue from such agreements is recognized when the goods are delivered as the nature of the performance obligation is to provide the specified goods.

A trade receivable is recognized when the customer obtains control of the goods and an invoice is issued, as this is the point in time when the consideration is unconditional and only the passage of time is required before the payment is due. The obligation to provide a refund for products that are not of the agreed quality or according to agreed specifications under standard warranty terms is recognized as a provision.

Notes to the income statement

A trade receivable is recognized when the customer obtains control of the goods and an invoice is issued, as this is the point in time when the consideration is unconditional and only the passage of time is required before the payment is due.

The obligation to provide a refund for products that are not of the agreed quality or according to agreed specifications under the standard warranty terms is recognized as a provision.

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.

Notes to the income statement

Balance sheet

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).

Intangible assets

Capitalized development costs are measured at cost less accumulated amortization and impairment

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.

Capitalized development costs are measured at cost less accumulated amortization and impairment losses or recoverable amount, whichever is lower. An amount corresponding to the recognized development costs is reserved in the item "Reserve for development costs" under equity. The reserve includes only development costs that are recognized in financial years beginning on or after 1 January 2016. The reserve is continuously reduced with depreciation and write-downs on the development projects.

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.

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.

Notes to the income statement

Leases

Lease assets are 'right-of-use assets', which is a contract or part of a contract that conveys the lessee's right to use an asset for a period of time. The lease asset is initially measured as the present value of future fixed lease payments plus upfront payments and/or other initial direct costs incurred, less any lease incentives received. If, at inception of the lease, it is reasonably certain that an extension or purchase option will be exercised, future lease payments will be included.

The lease liability is measured using Chr. Hansen Natural Colors' average incremental borrowing rate.

Lease assets are classified alongside owned assets of similar type under property, plant and equipment. The lease assets are depreciated using the straight-line method over the lease term. Lease assets are tested for impairment in case of indication hereof.

Short-term leases and leases of low value are recognized as expenses in the income statement on a straight-line basis over the lease term.

Chr. Hansen Natural Colors portfolio of leases covers land, buildings, cars and equipment.

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.

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.

Notes to the income statement

Deferred tax

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	2019/20	2018/19
2 Revenue		
Revenue by geographical allocation		
Denmark	40.631	14.855
Europe (excl. Denmark)	550.580	576.627
North America	45.158	77.982
Other markets	300.192	311.410
	<u>936.561</u>	<u>980.874</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:

	2019/20	2018/19
Wages and salaries etc.	95.778	84.884
Transferred capitalization	(1.280)	(1.578)
Pensions	9.232	8.962
Expenses for social security	1.158	1.171
Other employee expenses	3.001	6.360
Total staff expenses	<u>107.890</u>	<u>99.799</u>
Fees to the Management*	-	-
Average number of full-time employees	<u>155</u>	<u>145</u>
Number of full-time employees at year end	<u>162</u>	<u>149</u>

*During the financial year 2019/20 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.

Incentive program

The short-term restricted stock unit (RSU) programs are granted to members of the Executive Board and other key employees based on the fulfillment of individual key performance indicators. The RSUs are granted as shares and vest over a three-year period subject to the person still being employed with Chr. Hansen Natural Colors A/S.

Long-term matching share programs are granted to members of the Executive Board and certain key employees. Under the program, the participants are required to acquire a number of existing shares in Chr. Hansen Holding A/S and retain ownership of such shares for a predefined holding period of three years. Upon expiration of the holding period and subject to the fulfillment of certain predefined performance targets and continued employment at the vesting date, the participants will be entitled to receive up to 7.5 additional shares in Chr. Hansen Holding A/S (matching shares) per investment share for no consideration.

Notes to the income statement

Amounts in DKK '000	2019/20	2018/19
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	15.416	9.878
Research and development costs	6.137	4.962
Sales and marketing expenses	1.170	810
	<u>22.723</u>	<u>15.650</u>

The impairment of development projects in progress amounting to TDKK 0.
See note 7 for further information.

Notes to the income statement

Amounts in DKK '000	2019/20	2018/19
4 Financial income and expenses		
Interest income and other financial income:		
Interest income from Group companies	-	23
Interest income and other financial gains	6.285	5.411
Total financial income	<u>6.285</u>	<u>5.434</u>
Interest expenses and other financial expenses:		
Interest expenses and other financial losses	(5.541)	(10.990)
Total financial expenses	<u>(5.541)</u>	<u>(10.990)</u>
5 Income taxes		
Income taxes are distributed as follows:		
Current tax on operating profit	(14.743)	(23.182)
Change in deferred tax concerning operating profit	(850)	(3.511)
Other taxes	(28)	(382)
Changes in income tax previous years	(541)	582
Changes in deferred tax previous years	-	41
Total income taxes	<u>(16.161)</u>	<u>(26.451)</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		
Proposed dividend for the year	-	-
Reserve for development projects	4.275	8.460
Net profit for the year	<u>50.924</u>	<u>86.382</u>
	<u>55.199</u>	<u>94.842</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, 2019	49.689	10.729	60.033	120.451
Transferred	24.432	8.714	(33.014)	132
Additions for the year	(790)	1.321	8.222	8.753
Disposals for the year	-	(571)	-	(571)
Cost at August 31, 2020	<u>73.331</u>	<u>20.193</u>	<u>35.241</u>	<u>128.765</u>
Amortization and impairment losses at September 1, 2019	21.885	6.874	-	28.759
Amortization and impairment losses for the year	6.221	2.141	-	8.362
Amortization of years disposals	-	(571)	-	(571)
Amortization and impairment losses at August 31, 2020	<u>28.106</u>	<u>8.444</u>	<u>-</u>	<u>36.550</u>
Carrying amount at August 31, 2020	<u>45.225</u>	<u>11.749</u>	<u>35.241</u>	<u>92.215</u>

Development projects relates to design, construction and testing of existing production within natural color products. The projects are being carried out based on demand from existing customers, and varies in time for finalization. The projects are performed based on the resources, management has allocated hereto. It is expected that the products have a technical and commercial likelihood at the present marked and to existing customers.

8 Tangible assets

	Land and buildings	Plant and machinery	Other fixtures and equipment	Assets under construction	Total tangible assets
Cost at September 1, 2019	-	150.041	22.431	13.257	185.729
Transferred	-	8.056	245	(8.434)	(132)
Additions for the year	31.201	2.555	3.527	13.526	50.809
Disposals for the year	-	(1.139)	(314)	-	(1.453)
Cost at August 31, 2020	<u>31.201</u>	<u>159.513</u>	<u>25.889</u>	<u>18.349</u>	<u>234.952</u>
Depreciation and impairment losses at September 1, 2019	-	116.839	10.019	-	126.858
Depreciation and impairment losses for the year	3.355	7.555	3.450	-	14.360
Depreciation of disposals for the year	-	(711)	(313)	-	(1.024)
Depreciation and impairment losses at August 31, 2020	<u>3.355</u>	<u>123.683</u>	<u>13.156</u>	<u>-</u>	<u>140.194</u>
Carrying amount at August 31, 2020	<u>27.846</u>	<u>35.830</u>	<u>12.733</u>	<u>18.349</u>	<u>94.759</u>
Hereof Leased assets	<u>27.846</u>	<u>922</u>	<u>1.557</u>	<u>-</u>	<u>30.325</u>

Notes to the balance sheet

9 Equity

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

Amounts in DKK '000

	2020 DKK	2019 DKK
10 Deferred tax		
Deferred tax in the balance sheet relates to:		
Intangible and tangible assets	23.903	23.862
Current assets	2.843	1.985
Other assets, deferred commitments and liabilities	(197)	(147)
Carrying amount at August 31, 2020	<u>26.549</u>	<u>25.700</u>

Deferred tax has been recognized at 22%.

11 Non-current liabilities

Due after 5 years

Lease liabilities

12.763	-
<u>12.763</u>	<u>-</u>

Due within 1 - 5 years

Lease liabilities

12.814	-
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Tax payables

15.829	23.181
<u>28.643</u>	<u>23.181</u>

Long-term loans

<u>41.406</u>	<u>23.181</u>
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12 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
Bøge Allé 10 - 12
DK-2970 Hørsholm

Chr. Hansen Holding A/S is holding 100% of the votes in the company.

13 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.

Notes to the balance sheet

14 Contingent liabilities

Amounts in DKK '000	2020	2019
Operating lease commitments		
Due within 1 year	-	3.840
Due between 1 and 5 years	-	6.387
Due after 5 years	-	-
Total	-	10.227

Per 1. September 2019 the company's operational leasing contracts are recognized in accordance with IFRS 16 as financial leasing.

Chr. Hansen Natural Colors A/S is jointly taxed with other companies in the Chr. Hansen Group. Chr. Hansen Natural Colors A/S is jointly and unlimited liable for the Danish income taxes together with the other jointly taxed companies, and for withholding taxes on dividends, interest and royalties related to the jointly taxed companies. Chr. Hansen Natural Colors A/S is part of a VAT group with other companies in the Chr. Hansen Group. Chr. Hansen Natural Colors A/S is jointly and severally liable together with the other companies in the VAT group for any Danish VAT.

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

15 Events after the balance sheet date

On September 26, Chr. Hansen signed an agreement to sell the Natural Colors business, including Chr. Hansen Natural Colors A/S, to the Private Equity Fund EQT. The Sales is expected to be finalized within the coming year through a carve-out and transfer of the Natural Colors business.

No further events with significant impact on the financial statement have occurred subsequent to August 31, 2020.