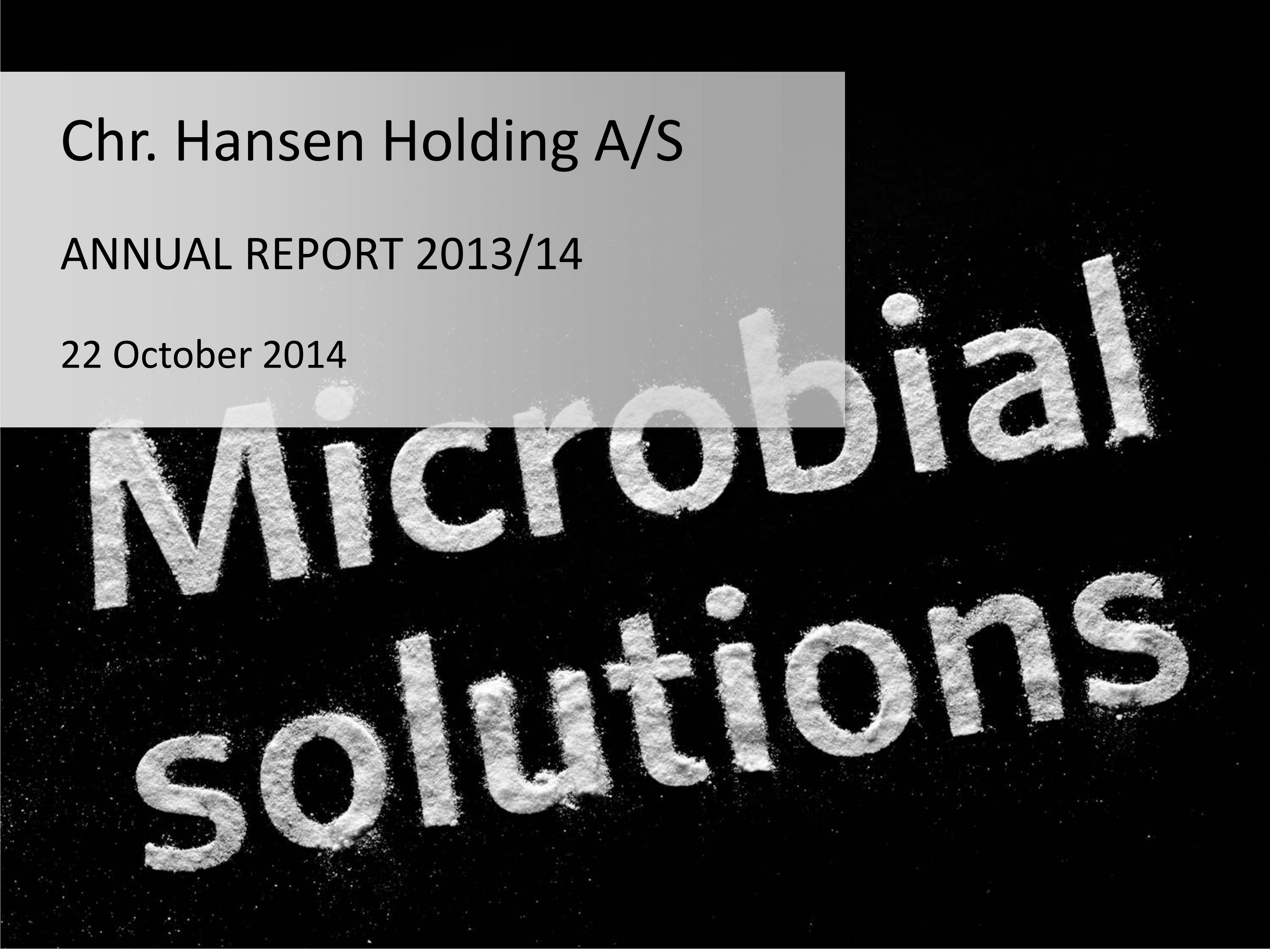
Chr. Hansen Holding A/S

ANNUAL REPORT 2013/14

22 October 2014



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Highlights 2013/14

Revenue

EUR ***756*** million
(up 2% on 2012/13)

Organic growth

8%
(7% in 2012/13)

Operating profit margin
before special items and impairments

27.1%
(27.2% in 2012/13)

Profit for the year

EUR ***132*** million*
(down 5% from 2012/13)

R&D expenditures incurred

EUR ***47*** million
(6.1%, unchanged form 2012/13)

Free cash flow

EUR ***115*** million*
(down 4% from 2012/13)

**Negatively impacted by special items of EUR 10 million*

Strategic and operational highlights 2013/14

No.1

Nature's No. 1 strategy launched in September 2013 with the ambition to pursue growth opportunities in the current core businesses and within new microbial solutions

Expansion of fermentation capacity for cultures in Copenhagen completed, with commercial production commencing in July 2014

As part of the strategic initiative to develop opportunities in plant protection, a strategic alliance with FMC Corporation covering development and commercialization of biological products was entered into in October 2013

The natural colors platform in China was reinforced through a new application expertise center in China and a strengthened organization to support stronger and more direct relationships with key customers

Strengthening of innovation organization to ensure a strong product pipeline across the divisions and prepare for the next generation of microbial solutions in plant protection and the human microbiome

Changed go-to-market strategy in China and Southeast Asia by serving key customers directly rather than through distributors

Optimization of business processes, organization and production footprint, including decision to close down small production facilities in a number of countries

Strong growth in EMEA and APAC, while Americas impacted by customer loss in Q4 2012/13

EMEA
(50%*)

8% organic growth

- Strong growth in fermented milk, cheese, meat and dietary supplements
- Good growth in natural colors, enzymes and animal health
- Revenue from probiotic cultures for fermented milk was lower than in 2012/13

Americas
(36%*)

4% organic growth

- Strong growth in fermented milk, meat, enzymes and human and animal health products
- Revenue from natural colors and probiotic cultures for fermented milk was lower than in 2012/13
- Negative impact from loss of customer in natural colors (4%-points)

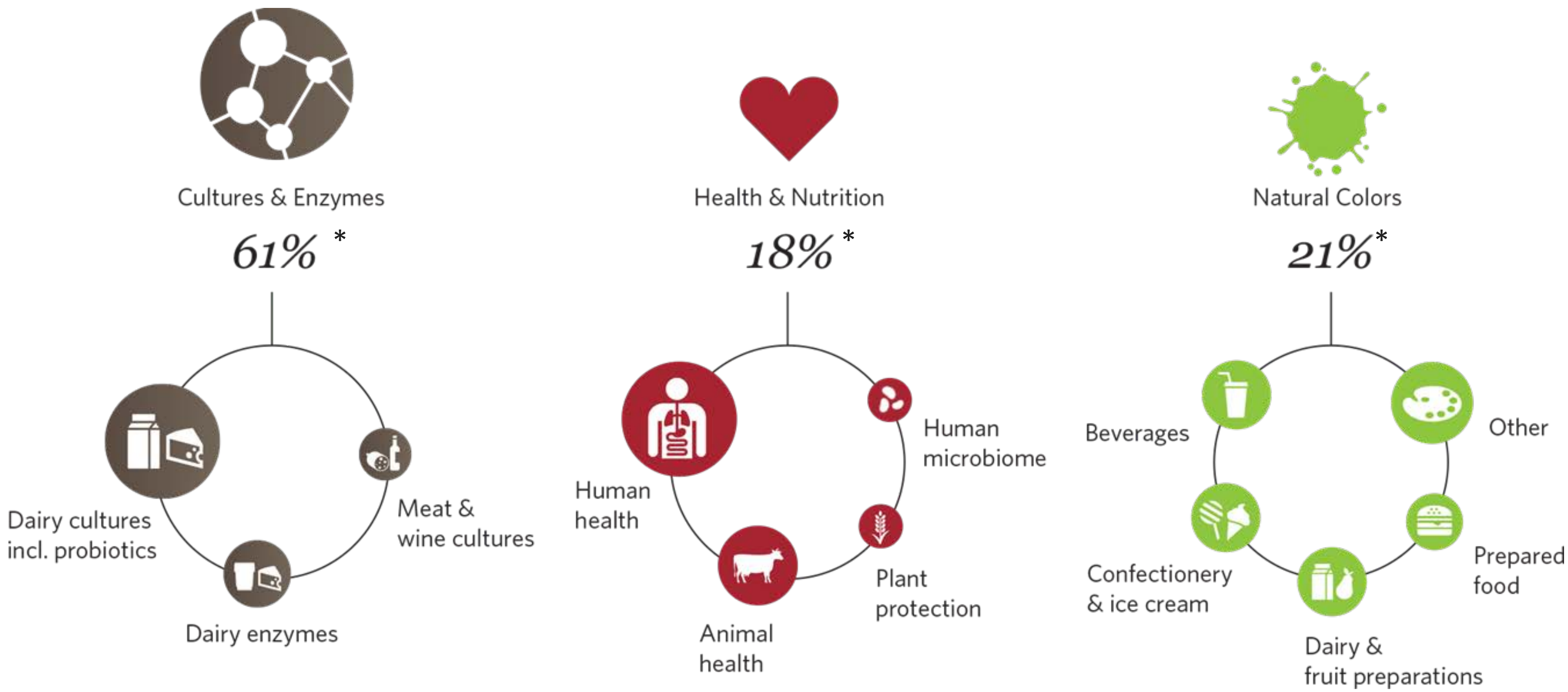
APAC
(14%*)

14% organic growth

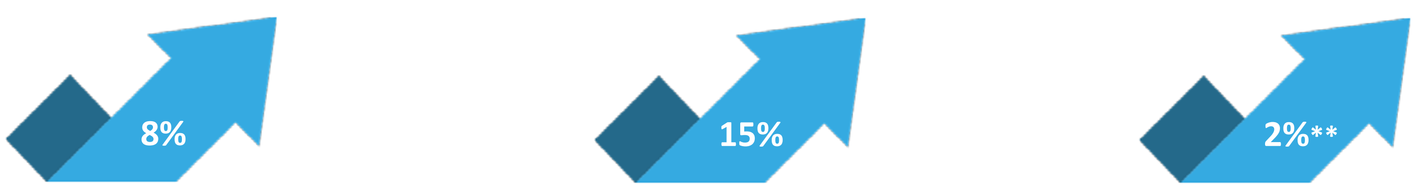
- Strong growth in human health products
- Solid growth in fermented milk including probiotics
- Good growth in cheese and natural colors

**Share of revenue*

Strong momentum in the microbial based businesses. Growth in natural colors below ambitions

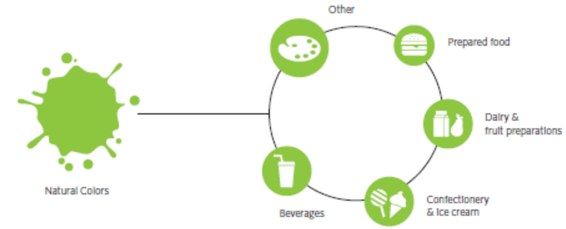


Organic Growth



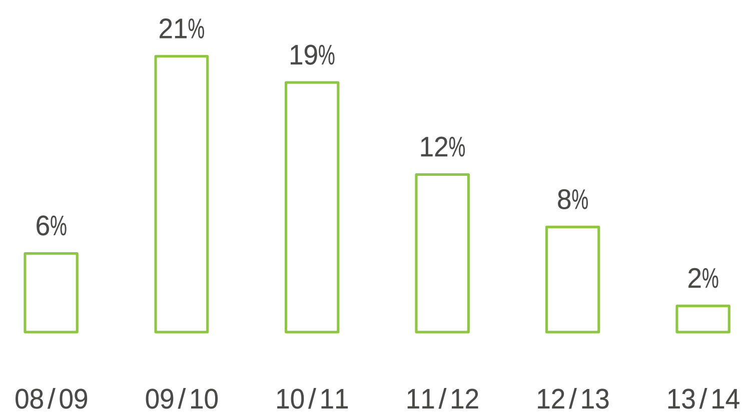
*Share of revenue **excluding carmine price effect

Dedicated sales organization established in Natural Colors Division to support growth

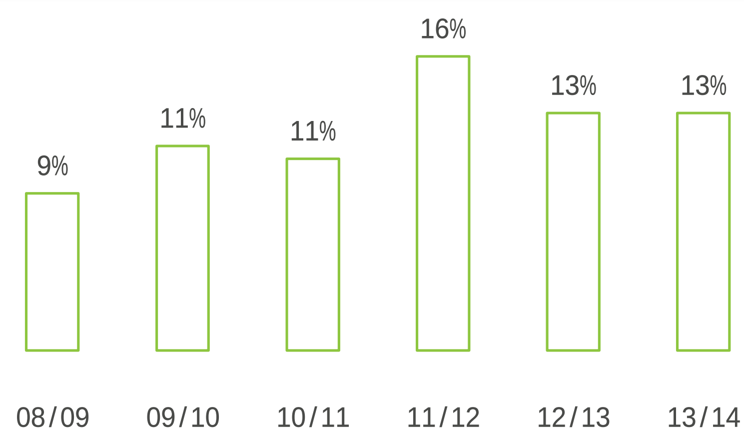


- To strengthen the commercial focus on capturing the growth opportunities in natural colors, a dedicated sales and application organization has been established by integrating resources previously shared with the Cultures & Enzymes Division into the Natural Colors Division
- The new organization will ensure a stronger focus on execution in the color segments, a more agile decision-making process and a fully integrated value chain

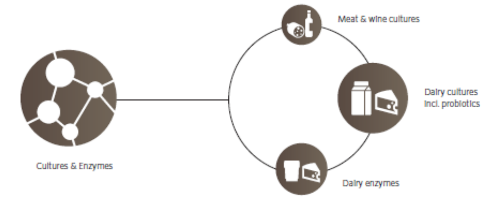
Organic growth excl. carmine price effect



EBIT margin



Cultures & Enzymes

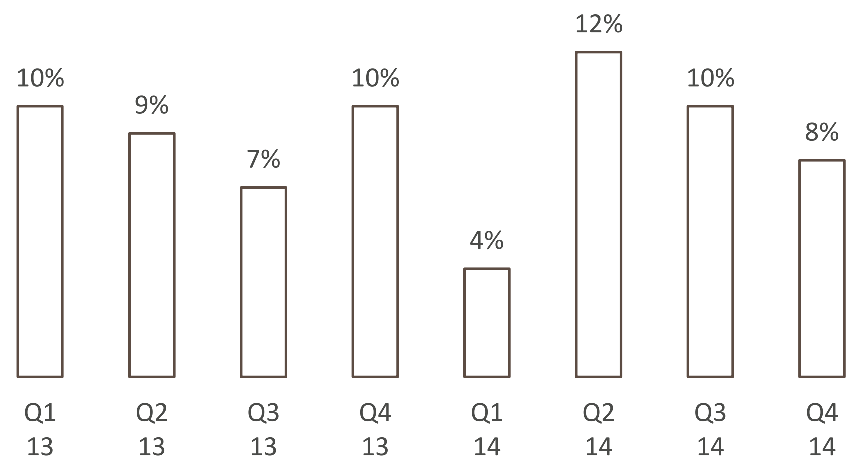


EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Revenue	124.6	118.2	464.4	450.9
Organic growth	8%	10%	8%	9%
EBIT	42.2	40.5	140.1	132.9
EBIT margin	33.9%	34.3%	30.2%	29.5%
EBIT margin before impairments			30.2%	30.4%
ROIC ex. goodwill			34.6%	34.5%

Organic growth

- Strong performance in fermented milk and meat and good growth in cheese and enzymes
- Probiotics declined in EMEA and Americas, partly offset by growth in APAC
- **Q4:** Fermented milk, cheese and meat showed strong growth, while enzymes realized good growth. Revenue from probiotic cultures declined

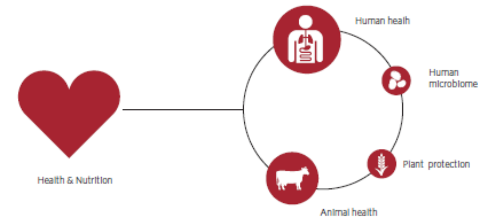
Quarterly organic growth



EBIT margin before impairments

- Margin slightly down. Negative impact from changed assessment of development costs (0.6%-point)
- **Q4:** Margin decrease driven by capacity bottlenecks in production and changes in indirect production cost

Health & Nutrition

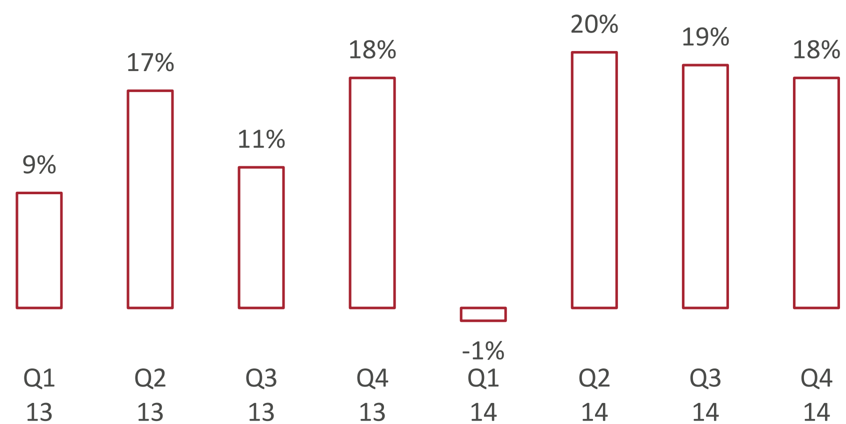


EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Revenue	39.8	34.0	133.5	120.6
Organic growth	18%	18%	15%	14%
EBIT	14.9	12.2	44.1	37.9
EBIT margin	37.4%	35.8%	33.0%	31.5%
EBIT margin before impairments			33.2%	34.6%
ROIC ex. goodwill			42.7%	36.7%

Organic growth

- Human health products realized strong growth across all regions
- Animal health products also showed strong growth, driven primarily by increased penetration in the Americas region within the silage, swine and cattle segments
- First sales of plant protection
- **Q4:** Strong growth in both human and animal health

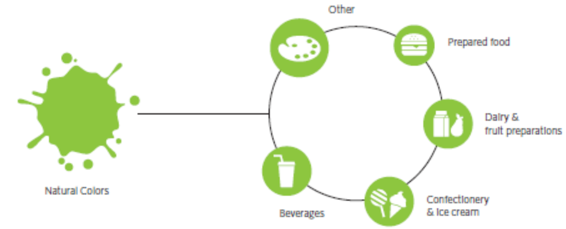
Quarterly organic growth



EBIT margin before impairments

- EBIT margin down 1.4%-points due to lower capitalization of development expenditures (negative by 2.7%-points) and product mix
- **Q4:** EBIT margin up 1.6%-points
  - Higher sales and timing of investments in strategic initiatives
  - Changed assessment of development costs (negative by 1.8 %-points)
  - 2012/13 impacted by management change (negative by 2.9%-points)

Natural Colors

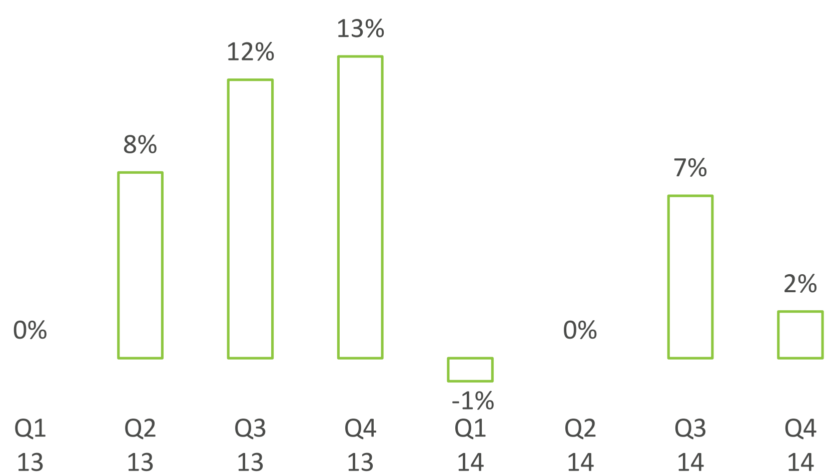


EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Revenue	40.8	41.7	158.3	166.9
Organic growth	1%	7%	1%	0%
Organic growth excl. carmine	2%	13%	2%	8%
EBIT	4.6	6.8	20.6	21.7
EBIT margin	11.2%	16.3%	13.0%	13.0%
ROIC			26.2%	29.5%

Organic growth

- Negative impact of approx. 6%-points from loss of customer in Q4 2012/13
- Solid growth in EMEA and good growth in APAC with China improving, albeit still below ambitions
- Americas down, primarily due to the lost customer and slow conversion in the US
- **Q4:** Strong growth in APAC offset by negative impact from timing of orders and weak performance in Americas

Organic growth excl. carmine price effect



EBIT margin

- EBIT margin unchanged from 2012/13 . Negative impact from R&D (0.4%-point)
- **Q4:** Margin down 5.1 %-points due mainly to low sales volume, a negative product mix and higher R&D activity

Income statement (1)

EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Revenue	205.2	193.9	756.2	738.4
EUR growth	*6%*	*5%*	*2%*	*6%*
Organic growth	*8%*	*10%*	*8%*	*7%*
Gross margin	*51.7%*	*54.5%*	*51.7%*	*52.1%*
R&D expenses excl. impairments	(10.2)	(8.7)	(43.0)	(34.8)
Sales & marketing expenses	(22.3)	(24.3)	(92.7)	(96.1)
Administrative expenses & Other income/expenses	(12.4)	(13.1)	(50.6)	(53.3)
EBIT before special items (b.s.i.) and impairments	61.7	59.5	205.0	200.6
EBIT margin b.s.i. and impairments	*30.0%*	*30.7%*	*27.1%*	*27.2%*

Highlights 2013/14

- Revenue negatively affected by exchange rate effects, primarily related to BRL, USD and AUD
- Gross margin down 0.4%-point due to
  - CED: Positive impact from high capacity utilization and inventory in 1H of 2013/14, reversed during 2H
  - HND: Changed product mix
- EBIT margin b.s.i.: Cost focus and exchange rate effects kept operating expenses at par with 2012/13 offsetting negative impact from reassessed development expenditures (0.9%-point)

Highlights Q4

- Small negative exchange rate effect on revenue
- Gross margin down 2.8%-point primarily due to
  - Margin decrease in CED from production bottlenecks related to expansion of capacity and indirect production costs
  - Changed product mix in HND
- EBIT margin b.s.i. down 0.7%

Income statement (2)

EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Impairments	0	0	(0.2)	(8.1)
Special items	(5.0)	0	(9.7)	0
EBIT	56.7	59.5	195.1	192.5
EBIT margin	*27.6%*	*30.7%*	*25.8%*	*26.1%*
Net financials	(4.0)	(3.7)	(13.8)	(15.8)
Income tax	(14.5)	(4.3)	(49.1)	(36.9)
Profit for the period/year	38.3	51.5	132.2	139.8
EPS, diluted (EUR)	*0.30*	*0.39*	*1.00*	*1.04*

Highlights 2013/14

Special items

- Streamlining of organization, including consolidation of CED/HND production management, de-layering of management structure and optimization of business processes (EUR 4 million)
- Optimization of production footprint (EUR 5 million)
- Optimization of tax and legal structure (EUR 1 million)

Net financials

- Net interest expenses at the same level as in 2012/13 (EUR 12 million)
- Exchange rate adjustments and other financial items EUR (2) million compared to EUR (5) million in 2012/13

Income tax

- Effective tax rate 27% compared to 21% in 2012/13.
- Positive impact of 4 %-points on tax rate 2012/13 from one-off adjustments to deferred taxes

Cash flow and balance sheet

EUR million	Q4 13/14	Q4 12/13	FY 13/14	FY 12/13
Cash flow				
Operating activities	94.1	91.7	176.4	190.3
Investing activities	(21.3)	(23.4)	(61.8)	(70.3)
Free cash flow	72.8	68.3	114.6	120.0
Balance sheet				
Total assets			1,375	1,367
Equity, excl. minorities			657	681
Net interest-bearing debt			404	352
Key Figures				
Net working capital			*17.2%*	*14.6%*
Capital expenditure			*8.3%*	*9.6%*
ROIC excluding goodwill			*34.9%*	*34.3%*
NIBD/EBITDA			*1.6x*	*1.4x*

Highlights

- Cash flow from operating activities, down
  - Special items (EUR 10 million)
  - Increased net working capital driven by increased inventories primarily to support the implementation of new fermentation capacity and higher receivables
- Cash flow used for investing activities lower than in 2012/13, primarily due to lower capitalization of development expenditures (EUR 6 million)
  - Major investments related to fermentation and warehousing capacity in Denmark, packaging capacity for frozen cultures in USA and freeze drying capacity for human health
- ROIC excluding goodwill up 0.5%-point

Capital allocation principles

1	2	3	4
Reinvest for organic growth	Bolt-on acquisitions	Ordinary dividend	Additional cash to shareholders
Capacity	Technology	30-50% of net profit	Extraordinary dividends
Innovation	Market presence		Share buy-backs
People			

Leverage consistent with a solid investment-grade credit profile

Highlights 2013/14

- Fermentation, warehousing and packaging capacity for cultures and freeze drying capacity for human health
- R&D 6.1% of revenue

- No activity

- **EUR 55 million** in ordinary dividend paid out for 2012/13

- **EUR 80 million** share buy-back program concluded
- **EUR 55 million** in extra-ordinary dividend

2014/15	**EUR 66 million** dividend announced for 2013/14 (50% of net profit)	**Around EUR 100 million** for bolt-on acquisitions or additional cash to shareholders

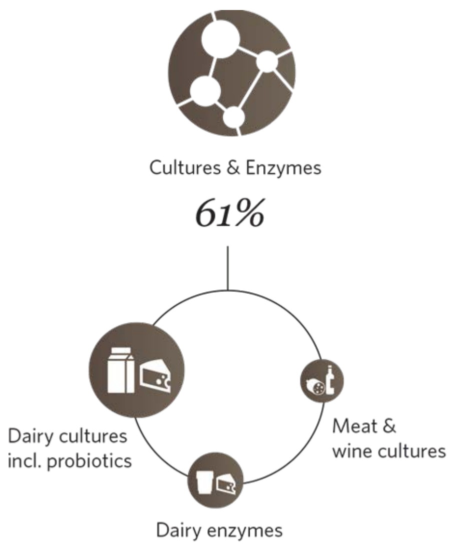
Long-term ambitions and outlook for 2014/15

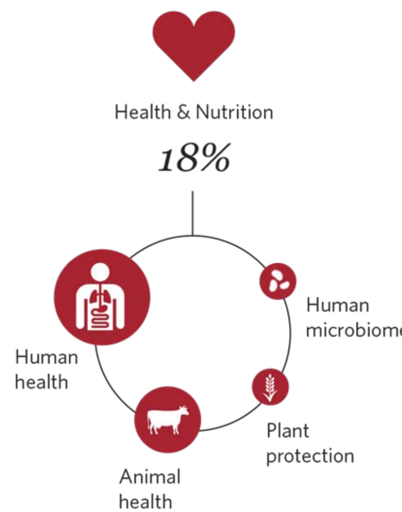
	Long-term financial ambitions	*Outlook 2014/15*
Organic revenue growth	7-10%	7-9%
✓ *Cultures & Enzymes Division*	*7-8%*	*In line with long-term ambitions*
✓ *Health & Nutrition Division*	*+10%*	*In line with long-term ambitions*
✓ *Natural Colors Division*	*Targeting around 10%*	*5-10%*
R&D expenditures (as percentage of revenue)	Around 7%	7-8%
EBIT margin before special items	Increasing	Above 26.5%
✓ *Cultures & Enzymes Division*	*Increasing*	*At same level as 2013/14*
✓ *Health & Nutrition Division*	*Around 30%*	*Below 2013/14*
✓ *Natural Colors Division*	*Increasing*	*At or below that of 2013/14*
Free cash flow before acquisition and divestments	Increasing	Above EUR 130 million

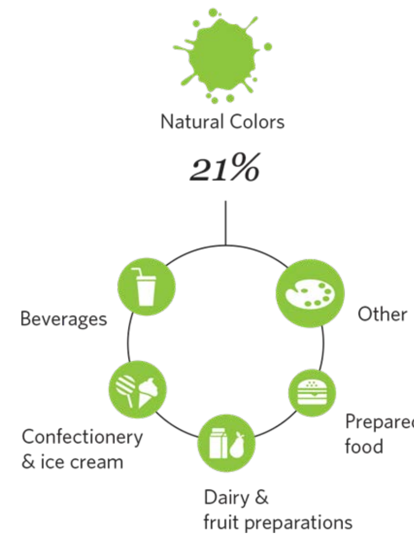
OUR COMPANY OUR STRATEGY

Chr. Hansen – Key Characteristics

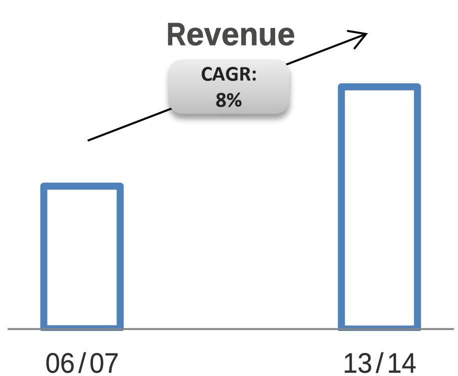
Founded in 1874



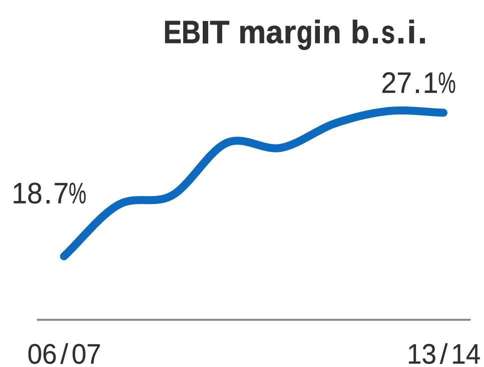




Attractive growth markets



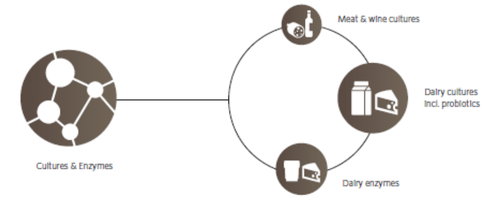
Strong profitability



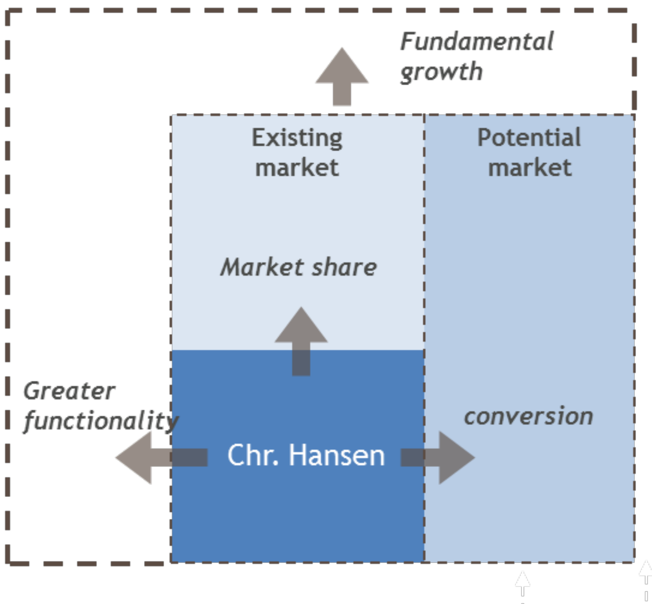
Unique value composition

- Strategic ingredients
- Strong R&D platform
- Up-scaling & large scale fermentation
- Application & customer intimacy
- Talent & expertise

Cultures & Enzymes Division's growth model



CED growth model



- Cultures, enzymes and probiotics for the food industry, especially the dairy markets
- The ingredients help determine the taste, nutritional value, health benefits and product shelf life of the end products
- Attractive cost-to-value ratio

Fundamental growth (3-4%) & Conversion (1-2%)

	CAGR 2011-13*		Conversion rate**	
	Fermented	**Cheese**	**Fermented**	**Cheese**
EMEA	3.3%	1.7%	~75%	~50%
Americas	4.4%	2.7%	~80%	~45%
APAC	9.5%	5.6%	~70%	~30%
Total	**5.0%**	**2.3%**	75-80%	45-50%

Greater functionality/Innovation (1-3%)

Addressing consumer needs

- Low salt, sugar, lactose and fat
- Distinctive texture & flavors
- Local taste preferences

Addressing customer needs

- Improve yield
- Improve efficiency

Market share***

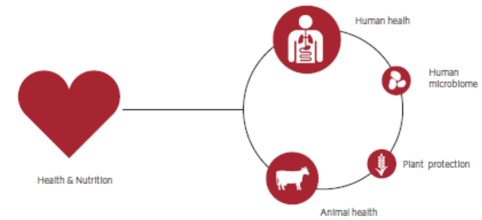
- Est. global market share around 45%. Stable during 2013/14

Pricing (1%)

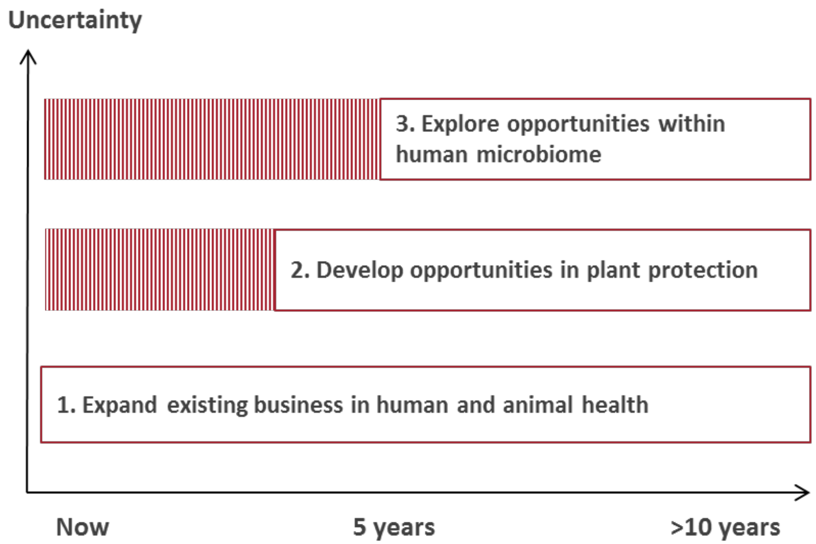
- In 2013/14 price impact closer to 2% due to EUR based pricing in certain countries with invoicing in local currencies

**Volume growth. Source: Euromonitor, August 2014 and management estimates **Source: Management estimates. Fermented milk is excluding India ***Source: Management estimates*

Health & Nutrition Division’s growth model



HND growth model



- Products for the dietary supplement, infant formula and animal feed industries
- The key offering is probiotic cultures with a documented health effect

1. Expand existing business

- Emerging markets
- Documentation
- Operational excellence

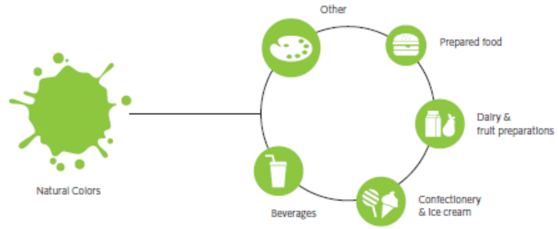
2. Develop opportunities in plant protection

- Initially sugar cane, Brazil
- The bio solutions alliance with FMC Corporation
- Aiming at new crops, new geographies and new products

3. Explore opportunities within human micro biome

- Strengthen relevant competences through “incubator environment”
- Prepared to adapt approach given the technological, regulatory, and commercial uncertainties involved

Natural Colors Division's growth model



NCD growth model

- Increased consumer demand for natural and "clean label" products
- Stricter regulation on the use of synthetic solutions in food and beverages, especially in the EU

Natural color in food & beverages	Market value* (EUR million)	Conversion**
EMEA	300	60%
Americas	200	20%
APAC	230	25%
Total	**730**	**~30%**

- World leader in natural color solutions to the food & beverage industry
- The colors are extracted from natural sources such as fruits, vegetables, berries, roots and seeds

Improved cost-in-use solutions

- Agronomy: Pigment optimization through breeding programs
- Sourcing: Global reach, multiple suppliers, long term contracts
- Formulation: e.g. encapsulation, milling and emulsion techniques

Coloring foodstuff

- Develop full product offering
- Optimize crop and pigment yield to improve cost-in-use
- Stability of pigments (e.g. ultra stable anthocyanin)

New transformational technologies

- DairyMax™
- Fermented carmine

* 2012 Estimated global food & beverages color market for natural colors & coloring foodstuff. Management estimate
** Conversion rate measured in volume. Included natural colors & coloring foodstuff. Management estimate

Natures No.1 strategy

Evolution, not revolution

	1 Fully leveraging the potential of CED	2 Developing the microbial solutions platform in HND	3 Creating further value in NCD
4 Driving a step change in innovation	➢ New innovation for yield & functionality	➢ Expand existing business ➢ Develop plant protection ➢ Explore human biome	➢ Improve cost-in-use ➢ New transformational technologies
5 Reinforcing position in emerging markets	➢ Undisputed leadership in emerging markets	➢ Pursue probiotic opportunities in emerging markets	➢ Drive emerging market conversion
6 Generating fuel for growth	➢ Drive scalability	➢ Reinvest in future growth	➢ Drive scalability
	➢ Continued conversion ➢ Commercial excellence	➢ Commercial excellence	➢ Continued conversion ➢ Commercial excellence

What we will NOT do:

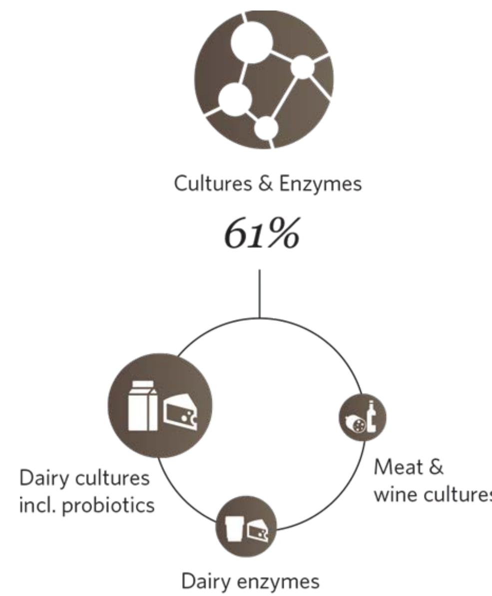
- ✘ Pursue acquisitions in unrelated areas
- ✘ Expand into products outside microbials and natural colors
- ✘ Attempt to become a full fledged pharma company
- ✘ Lose focus on cost control and operational efficiency

1. Fully leveraging the potential of CED

Focus areas	Progress 2013/14
Focus on new innovation	➢ Better customer yield and improved product range ➢ Stronger focus on new strategic platforms
Securing undisputed leadership in emerging markets	➢ Stronger relationships with key Chines customers
Developing customer-driven commercial excellence	➢ Continued global implementation of improved sales tools
Reaping further improvements in scalability	➢ Implementation of new fermentation capacity

Long-term financial ambitions

Average annual organic growth of 7-8%	➢ 8% organic growth supported by growth in dairy cultures, enzymes, meat and wine cultures
Increased EBIT margin over the period	➢ EBIT margin before impairments 30.2% compared to 30.4% in 2012/13 ➢ Negative R&D impact of 0.6 percentage point

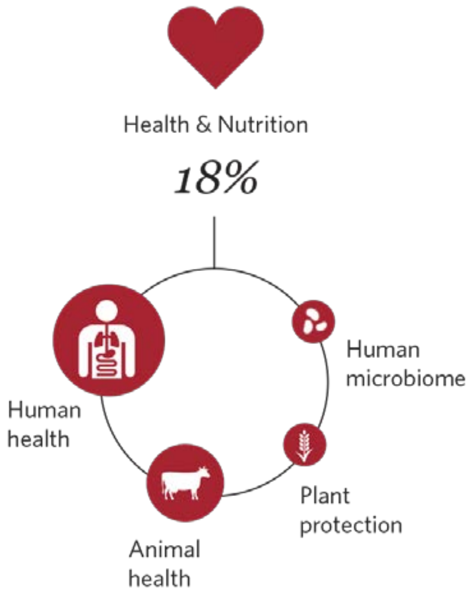


2. Developing the microbial solutions platform in HND

Focus areas	***Progress 2013/14***
Expand existing business in human health	➢ Launch of new probiotic product formats ➢ Health claim approval for Urex™ in South Korea
Deepen market penetration in animal health through increased investments	➢ Expanding the market for animal probiotics in the livestock industry and for silage inoculants by a strengthening of capabilities and sales platform
Develop medium-term opportunities in plant protection	➢ Strategic alliance with FMC Corporation ➢ Launch of Nemix C™, a biostimulant for sugarcanes ➢ Development of new solutions
Explore long-term opportunities for developing second-generation human health solutions	➢ Dedicated organization and innovation facility supported by an external scientific advisory board ➢ Building relations with key research institutions and industrial players

Long-term financial ambitions

Core business above 10% Plant protection expected to add additional growth toward 2017/18	➢ 15% organic growth from core business in human and animal health ➢ Initial contribution from plant protection
Due to increased investments in growth opportunities, EBIT margin is expected to be around 30% during the period	➢ EBIT margin before impairments 33.2%, compared to 34.6% in 2012/13 ➢ Negative R&D impact of 2.7 percentage point



3. Creating further value in NCD

Focus areas	***Progress 2013/14***
Improved cost-in-use solutions	➢ Strategic partnerships with suppliers to ensure lower cost-in-use and less fluctuation in raw material prices ➢ Launch of new concept for beverages with significant cost-in-use reductions
Address the significant potential in emerging markets	➢ New application expertise center in China for a stronger relationship with key customers and to support the development of a dedicated Asian product range
Transformational technology	➢ Expanding FruitMax® platform for coloring foodstuffs ➢ Development of a dedicated Asian product range Patent application filed for fermented carmine
Develop an enhanced product offering	➢ Introduction of WhiteWhey™ for optimization of coloring cheese and whey production

Long-term financial ambitions

Targeting annual organic growth around 10%	➢ 2% organic growth excluding carmine price effect. Growth negatively impacted by loss of a large customer in Q4 2012/13 ➢ China slowly improved while conversion in the US was low
Increased EBIT margin over the period	➢ EBIT margin 13.0%, unchanged from 2012/13

4. Driving a step change in innovation

Focus areas	***Progress 2013/14***
Continue to increase absolute investments in R&D ➢ Selectively strengthen competencies to ensure a strong product pipeline across the divisions ➢ Prepare for the next generation of microbial solutions in plant protection and human health	➢ Better balance between specific product development projects and the strategic research into new solution platforms ➢ Products developed within the last three years accounted for 12% of revenue, compared to 13% in 2012/13 ➢ R&D expenditures, 6.1% of revenue, unchanged from 2012/13 due to timing of new initiatives

EUR million	**Q4 13/14**	**Q4 12/13**	**FY 13/14**	**FY 12/13**
R&D expenses	10.2	8.7	43.2	42.9
- Amortization	1.3	1.2	5.4	4.5
- Impairment	-	-	0.2	8.1
+ Capitalization	1.2	2.5	8.9	14.8
R&D expenditures incurred	10.1	10.0	46.5	45.1
Share of revenue	4.9%	5.2%	6.1%	6.1%

5. Reinforcing Chr. Hansen's position in emerging markets

Focus areas

Establishing a stronger presence in key markets

- Stronger and direct relationship with customers in specific countries, in Asia and Turkey
- Strengthening local organizations through improved application support and product development capabilities

Progress 2013/14

- Establishment of stronger relationships with key Chinese customers, serving these directly rather than through distributors
- The Asia-Pacific region, which accounts for 14% of revenue, showed organic growth of 14%
- Key emerging markets in South America saw solid growth in cultures and enzymes, while performance in natural colors was impacted by the loss of a customer in Q4 2012/13
- Very strong growth in Turkey, driven by acquisition of the subsidiary in Turkey

6. Generating the fuel for growth

Focus areas	*Progress 2013/14*
Fuel growth and at the same time deliver improved profitability, through ➢ Continued strong focus on cost discipline ➢ Productivity and efficiency gains across the organization	➢ Optimization of business processes, organization and production footprint ➢ EUR 10 million in special items
Revenue is expected to grow organically by 7-10% per year	➢ Organic growth of 8%
R&D expenditures incurred (% of revenue) expected to be around 7%	➢ R&D expenditures, 6.1% of revenue, unchanged from 2012/13
EBIT margin b.s.i. expected to improve over the period compared to 2012/13 (27.2%)	➢ EBIT margin b.s.i. 27.1%. Negative R&D impact of 0.9 percentage point
Free cash flow expected to increase over the period (EUR 120 million)	➢ Free cash flow EUR 115 million. Negative effect from special items EUR 10 million

Back up

EBIT margin before special items

	Q4		FY	
	EUR million	**Margin (%)**	**EUR million**	**Margin (%)**
Reported EBIT b.s.i. 2012/13	59.5	*30.7%*	192.5	26.1%
Management change	1.0	*0.5%*	1.0	0.1%
Impairments	-	*0.0%*	8.1	1.1%
Adjusted EBIT b.s.i. 2012/13	**59.5**	***31.2%***	**200.6**	**27.3%**
Reported EBIT b.s.i. 2013/14	61.6	*30.0%*	204.8	27.1%
Impairments	-	*0.0%*	0.2	*0.0%*
Reassessment and R&D activity	1.0	*0.5%*	7.0	0.9%
Adjusted EBIT margin b.s.i. 2013/14	**62.6**	***30.5%***	**212.0**	**28.0%**
Change		***-0.7%***		**0.7%**

EBIT margin before special items - Divisions

FY	CED		HND		NCD	
	EUR m.	**Margin**	**EUR m.**	**Margin**	**EUR m.**	**Margin**
Reported EBIT b.s.i. 2012/13	132.9	*29.5%*	37.9	*31.4%*	21.7	*13.0%*
Management change			1.0	*0.8%*		
Impairments	4.3	*1.0%*	3.8	*3.2%*		
Adjusted EBIT b.s.i. 2012/13	137.2	*30.4%*	41.7	*35.4%*	21.7	*13.0%*
Reported EBIT b.s.i. 2013/14	140.1	*30.2%*	44.1	*33.0%*	20.6	*13.0%*
Impairments			0.2	*0.2%*		
Reassessment and R&D activity	2.7	*0.6%*	3.6	*2.7%*	0.7	*0.4%*
Adjusted EBIT margin b.s.i. 2013/14	142.8	*30.8%*	47.9	*35.9%*	21.3	*13.4%*
Change		*0.4%*		*0.5%*		*0.4%*

Q4	CED		HND		NCD	
	EUR m.	**Margin**	**EUR m.**	**Margin**	**EUR m.**	**Margin**
Reported EBIT b.s.i. 2012/13	*40.5*	*34.3%*	*12.2*	*35.8%*	*6.8*	*16.3%*
Management change			1.0	*2.9%*		
Adjusted EBIT b.s.i. 2012/13	40.5	*34.3%*	13.2	*38.7%*	6.8	*16.3%*
Reported EBIT b.s.i. 2013/14	42.2	*33.9%*	14.9	*37.4%*	4.6	*11.2%*
Reassessment and R&D activity	0.1	*0.1%*	0.8	*1.8%*	0.1	*1.1%*
Adjusted EBIT margin b.s.i. 2013/14	42.2	*34.0%*	15.7	*39.2%*	4.7	*12.3%*
Change		*(0.3)%*		*0.5%*		*(4.0)%*

Key strategic risks

Please refer to the Annual Report 2013/14 and relevant notes for more information on Chr. Hansen's known key risks

Product safety

Chr. Hansen's customers as well as consumers and authorities demand high quality products, and it is a major strategic risk for the Company if the safety of its products does not meet these expectations. 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. Chr. Hansen's food safety program is certified according to internationally recognized food safety standards. All production sites are either ISO 22000 or FSSC 22000 certified, and central product development functions are certified according to ISO 22000.

Developments in 2013/14

- By the end of August 2014, 13 production sites had achieved FSSC 22000 certification. One remaining site in China is expected to follow in 2014/15. There were four product retrievals in 2013/14, compared to six in 2012/13. None of the retrievals related to food safety, all related to product performance, for example wrong color or density. Through various mitigating activities, the risk of product safety incidents is considered to have been reduced.

Intellectual property rights

In order to support the current business as well as to secure further growth, the Company's knowledge and technology platforms are safeguarded by patents etc. New products and existing business are also protected through strategic filing of trademark applications.

Developments in 2013/14

- Chr. Hansen filed 29 patent applications, compared to 21 in 2012/13. The applications were in areas such as fermentation of carmine, process technology, probiotics and new enzyme variants. With these filings, the risk related to intellectual property rights is considered to be unchanged.

Health claims and documentation

Chr. Hansen has some of the best-documented probiotic strains on the market. However, governments and agencies, especially the European Food Safety Authority (EFSA), have introduced more stringent rules and regulations for the documentation of health claims for food related products.

Developments in 2013/14

- In August 2014, approval for a health claim was obtained from the South Korean Ministry of Food & Drug Safety for Urex™, a dietary supplement that can help maintain a normal vaginal microbiota. Despite efforts to generate additional documentation, the sale of probiotics for fermented milk products in the EU has declined as a consequence of a lack of EU-approved probiotic health claims. The risk of a continued decline in the EU markets is considered to be high.

Key operational risks (I)

Please refer to the Annual Report 2013/14 and relevant notes for more information on Chr. Hansen's known key risks

Production

To minimize the risk of production breakdowns or failures, Chr. Hansen has implemented a risk prevention program where regular safety audits are conducted, which ensures preventive maintenance and replacements. The Company also maintains idle capacity for key processes. As production processes are optimized and automated, dependence on robust IT systems and infrastructure increases. Chr. Hansen has initiated a process to reduce complexity in IT systems and conduct regular restore tests.

Developments in 2013/14

- The expansion of fermentation capacity for cultures at the Copenhagen facility was completed during the year, and commercial production commenced in July 2014. With this expansion of capacity for one of the key production processes, Chr. Hansen has resolved a significant bottleneck for accommodating future growth in cultures for the dairy industry and will be able to optimize production and reduce unit costs further. In addition to this, investments in a new warehousing facility in Denmark and packaging capacity for frozen cultures in the US have removed other bottlenecks for key production processes. Chr. Hansen will continue to invest in optimizing production processes and removing bottlenecks. With the investments in new capacity and other mitigation activities, including improved back-up solutions for critical It-related processes, the risk of production disruptions is considered to have been reduced.

Legal proceedings

Chr. Hansen is from time to time party to legal proceedings arising in the ordinary course of its business. In recent years Chr. Hansen has been defendant in several diacetyl-related lawsuits.

Developments in 2013/14

- Chr. Hansen is still defendant in a few diacetyl-related lawsuits. Chr. Hansen has insurance cover for losses from current diacetyl claims brought against the Company in respect of the period during which products containing diacetyl were produced. The risk related to diacetyl-related lawsuits and other legal proceedings is considered to be unchanged. Please refer to note 3.8 to the Consolidated Financial Statements for further information on legal proceedings.

Key operational risks (II)

Please refer to the Annual Report 2013/14 and relevant notes for more information on Chr. Hansen's known key risks

Human capital

Human knowledge is critical to Chr. Hansen's business, and there is a strong focus on continuously building and expanding the knowledge base by actively developing employees' key skills. The Company employs a large number of scientists and other experts in their fields. Developing their skills and knowledge is an important part of building competencies globally. It is, however, equally essential to integrate these highly qualified employees into the day-to-day business and help them become better at converting their expertise into business value.

Developments in 2013/14

- The average number of training days per employee was 3.1 in 2013/14, a small increase compared to 2012/13. The biennial employee satisfaction survey was conducted in 2013/14. The overall satisfaction and motivation score decreased slightly from 75 in 2011/12 to 74, but is still above the industry benchmark of 65. Employee turnover was 11%, of which 6 percentage points were voluntarily, and this is considered to be an acceptable level. The risk related to attracting and retaining the best employees and new talents is considered to be unchanged.

Health & safety

Chr. Hansen is committed to continuously improving both the physical and psychological workplace so that employees experience a safe working environment. 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. All major production sites have implemented or are in the process of implementing measures to increase awareness of safe behavior and of the importance of assuming responsibility for both one's own safety and the safety of others.

Developments in 2013/14

- The lost-time incident frequency decreased from 8 per million working hours in 2012/13 to 4 in 2013/14. The decrease is a direct effect of the behavior-based safety program, under which more than 60% of Chr. Hansen's employees have now been trained. Absence per incident increased from 15 to 20 days, which underlines the importance of continued efforts to ensure a safe working environment. With these continued efforts to train employees in behavior-based safety, the risk of health & safety incidents is considered to have been reduced.

Geopolitical, tax and financial risk

Please refer to the Annual Report 2013/14 and relevant notes for more information on Chr. Hansen's known key risks

Geopolitics

Chr. Hansen is a global company with a vision to improve food and health around the world. With offices in 30 countries and sales to more than 140 countries, Chr. Hansen is from time to time affected by geopolitical uncertainties and unrest. As a supplier of ingredients mainly to the food industry, Chr. Hansen is rarely directly affected by trade restrictions. In those instances where the Company's products are or will be affected by sanctions, Chr. Hansen acts in full compliance with these sanctions.

Developments in 2013/14

- Geopolitical tensions have increased in 2014, and trade restrictions have affected trade, especially between the EU and Russia. While Chr. Hansen has not yet been directly impacted by these restrictions, such barriers to international trade may have a negative effect on the Company's opportunities for further organic growth.

Taxes and transfer pricing

Chr. Hansen is a global business that operates in multiple jurisdictions with different tax rules and regulations. It is the Company's intention always to fulfill the tax requirements in all countries where business is conducted. Chr. Hansen constantly works on creating tax awareness in the organization and has defined clear roles and responsibilities between line management, local finance and the Group Tax function. However, tax and transfer pricing disputes do arise from time to time as cross-border transactions receive increasing attention from local tax authorities. Group Tax ensures compliance with the Group's tax position. In cooperation with tax advisors, requests from local tax authorities are met, and a positive dialogue with local tax authorities is pursued in order to prevent disputes.

Developments in 2013/14

- An advance pricing agreement between the Danish and US tax authorities was concluded during the year covering intercompany transactions related to goods and services for a five-year period. At this point the Company does not actively promote negotiations to reach similar agreements with the tax authorities in other countries. The risk related to taxes and transfer pricing is considered to have been reduced during the year. Please refer to note 2.8 to the Consolidated Financial Statements for further information on taxes.

Financial risk

As an international business, Chr. Hansen is exposed to a number of financial risks relating to currency and interest rate fluctuations, funding, liquidity, credit and counterparty risks. Please refer to note 4.2 to the Consolidated Financial Statements for further information on these risks.

Definitions

Organic growth
Adjusted organic revenue growth is calculated based on the reported International Financial Reporting Standards revenue adjusted for sales reductions (such as commissions and sales discounts), further adjusted for acquisitions and divestitures in order to standardize year-on-year comparisons and measured in local currency

Special items
Special items comprise material amounts that cannot be attributed to recurring operations, such as income and expenses related to divestment, closure or restructuring of subsidiaries and business lines from the time the decision is made. Also classified as special items are, if major, gains and losses on disposal of subsidiaries not qualifying for recognition as discontinued operations in the income statement. Material nonrecurring income and expenses that originate from projects related to the strategy for the development of the Group and process optimizations are classified as special items

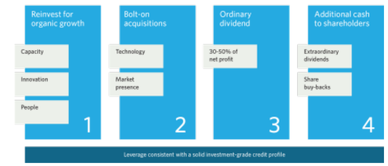
EBIT (Earnings before interest & taxes)
EBIT is calculated as profit for the period before financial income and expenses and corporate income taxes. EBIT also excludes income and expenses from discontinued operations

Free cash flow
Free cash flow is a measure of financial performance calculated as operating cash flow less net capital expenditures

Invested capital
Invested capital is calculated as intangible assets, property, plant and equipment, trade receivables and inventories less trade payables

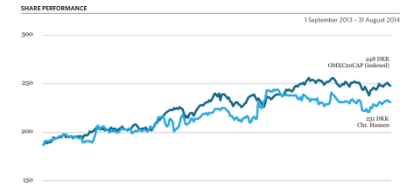
ROIC (return on invested capital) excluding goodwill
Operating profit as a percentage of average invested capital excluding goodwill

Shareholder return



EUR million	2010/11	2011/12	2012/13	2013/14
Net Profit	**119**	**131**	**140**	**132**
Cash flow from operations	*150*	*176*	*190*	*176*
Cash flow used for investments	*(43)*	*(63)*	*(70)*	*(62)*
Cash flow - acquisitions/divestments	*17*			
Free Cash flow	**124**	**113**	**120**	**115**
Ordinary dividend	*48*	*52*	*55*	*66*
Extraordinary dividend	*17*	*-*	*55*	
Share buy-back	*-*	*52*	*28*	*80*
Total cash returned	**65**	**104**	**138**	**146**
% of free cash flow	*52%*	*92%*	*115%*	*127%*
Dividend pay out ratio	*40%*	*40%*	*40%*	*50%*
Net debt to EBITDA b.s.i.	*1.7x*	*1.5x*	*1.4x*	*1.6x*
Share price by 31 August (DKK)	*118*	*177*	*187*	*231*

Share details



Share Data

Share capital	1,344,999,760
Number of shares	134,499,976
Outstanding shares	130,550,576
Classes of shares	1
Voting & Ownership restrictions	None

NASDAQ OMX Copenhagen

ISIN code	DK0060227585
Ticker symbol	CHR
Sector	Health Care

OTC ADR program (BNY Mellon)

DR Symbol	CHYHY
CUSIP	12545M207
DR ISIN	US12545M2070
Ratio	DR:ORD 2:1
Effective Date	Jan 27, 2014
Industry	General Industrials

Financial Calendar 2014/15

27 November 2014	Annual General Meeting
21 January 2015	Q1
9 April 2015 Q2	
1 July 2015	Q3
21 October 2015	Annual Report 2014/2015

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