

CHR. HANSEN 2021/22

# Global Tax Report

Company reg. no. 28318677

CHR HANSEN

*Improving food & health*

# Table of contents

<b>1</b>	<b>Introduction by Lise Mortensen, CFO.....</b>	<b>3</b>
<b>2</b>	<b>Our approach to tax .....</b>	<b>4</b>
<b>3</b>	<b>Tax profile of our business.....</b>	<b>5</b>
<b>4</b>	<b>Tax principles .....</b>	<b>6</b>
<b>5</b>	<b>Regional tax information .....</b>	<b>7</b>
<b>6</b>	<b>EU Directive Country-by-country report ....</b>	<b>9</b>



# 1 Introduction by Lise Mortensen, CFO

Dear stakeholders,

Chr. Hansen is among the most sustainable companies in the world, and for almost 150 years, we have worked to enable sustainable agriculture, better food and healthier living for more people around the world. Our microbial and fermentation technology platforms, including our broad collection of around 40,000 bacterial strains, have game-changing potential in the green transition industries and society at large must undergo. Our purpose – To grow a better world. Naturally. – is at the heart of everything we do.

We are driven by our strong company culture of high ethical standards in our pursuit of a higher purpose, while delivering strong results based on trust and our mutual dependence on each other. Acting responsibly and respectfully in the local communities we are part of is deeply rooted in our DNA, and it is indeed reflected in the way we conduct our Tax Policy.

We are a worldwide taxpayer, and a responsible approach to tax plays a vital role. Our Tax Policy, and the tax payments we make, support the local governments in the implementation of the UN Sustainable Development Goals; directly — through SDG #16 in developing effective, accountable, and transparent institutions — as well as indirectly.

We support initiatives to increase public trust and transparency in national and international tax regimes, and we engage with our stakeholders to build understanding and clarity of our tax positions.

In this report we provide further insight in how our Tax Policy is anchored within our organization, and how we work with tax risk management. We also provide detailed information about our tax payments in the largest countries in each region in addition to the complete country-by-country report of our EU subsidiaries which is an early adoption of the EU Directive on disclosure of tax information (2021/2101).

Best regards.



**Lise Mortensen**  
Chief Financial Officer



## 2 Our approach to tax

Our approach to tax is based on principles in our Tax Policy, and a tax governance structure that defines roles and responsibilities at different levels in our organization.

### Tax Policy

Our Tax Policy determines the tax principles under which we operate when making business decisions with tax implications.

The principles of our Tax Policy are applied globally and consistent for all activities including our ongoing business and one-off activities, such as M&A or entering new markets.

Our Tax Policy is reviewed by the Audit Committee and approved by the Board of Directors annually, most recently in January 2023, and published on our website at [chr-hansen.com](https://chr-hansen.com). We also publish specific tax policies for our UK and Poland subsidiaries as required by local legislation.

### Tax Governance

The Board of Directors approve our Tax Policy while the Audit Committee oversees awareness and adherence to the Tax Policy. The Audit Committee also follows up on the effectiveness of the tax compliance and risk management. The CFO is responsible for embedding the Tax Policy locally and at group level, ensuring tax compliance, and identifying and mitigating potential tax risks.

An experienced tax department advises management and the business on tax implications of decisions, performs appropriate tax reviews to support business goals and ensures compliance with tax laws. The tax department interacts with key stakeholders and is fully involved in corporate reorganization and business restructurings (changes in legal structure, M&A etc.) to ensure compliance with our Tax Policy.

The Tax Policy is regularly communicated within the organization to relevant stakeholders such as country managers and finance department, as well as external stakeholders.

### Stakeholders' engagement

We seek an open dialogue about our tax approach with our stakeholders, including tax authorities, shareholders, customers, business partners and employees. Examples of such is the dialogue we have had with shareholders on published country-by-country reporting and transparency on our tax matters. We value such input and take it into account in our decision making.

Occasionally, we may engage with governments on proposed changes to tax legislation. Such dialogue may be made either directly or via representative bodies and will always be respectful and factual, and within the principles in our Tax Policy.

### Tax behavior

We handle taxes in a responsible way and any concerns on the handling of taxes are taken seriously. Employees and stakeholders can report such concerns through our whistleblower hotline. There have been no whistleblower cases related to taxes in the financial year 2021/22.

### Tax transparency

We acknowledge the importance of transparency in respect of our tax contributions, and we therefore make substantial disclosure of tax information in our annual report, our Tax Policy, and this Global Tax Report.



## 3 Tax profile of our business

In this section, we provide information on the ongoing taxation and compliance requirements for our business.

### Corporate income taxes and other taxes

Our subsidiaries and branches are subject to corporate income tax in their countries of residence.

The exception is our subsidiary in Dubai where no corporate income tax is imposed according to local legislation. We established our subsidiary in Dubai in 2004 due to our commercial activities in the Middle East region. The company employs 29 people covering technical sales, application services, and administration.

In our annual report we report our corporate income tax and income tax paid. The annual corporate tax is the amount of corporate income tax we expect will be due on the current year's profits and the prior year's tax adjustments, while the annual paid corporate taxes are taxes that we paid during the financial year, and those may relate to corporate tax liabilities for prior, current, or future periods.

In the financial year 2021/22 we reported a corporate income tax of EUR 67.8 million and a paid tax amount of EUR 64.0 million.

### Effective tax rate

The effective tax rate represents the tax rate at which the profit before tax for the year is taxed, after correcting for tax exemptions, disallowances of expenses, etc. The effective tax rate is calculated as the total tax expense / profit before tax.

Our effective tax rate for the group is typically 23-24%, and in financial year 2021/22 it was 23.2%.

On subsidiary level the effective tax rate is normally close to the local statutory tax rate.

### Advance pricing agreements

We engage in advance pricing agreements negotiated between tax authorities to increase predictability and to mitigate tax risks. Before applying for advance pricing agreements, we will consider aspects such as market size, risk profile and advance pricing agreement approach from local tax authorities.

As such, we have a bilateral advance pricing agreement between Denmark and the US. This advance pricing agreement is currently in the process of being renewed for a new 5-year term.

We have also initiated a process to obtain a bilateral advance pricing agreement between Denmark and Germany with the purpose of ensuring integration of the recent acquired business, Jennewein Biotechnologie (today Chr. Hansen HMO), into our tax structure.

### Tax audits

From time to time, our subsidiaries have local tax audits for various tax topics like VAT/GST, customs, corporate income tax or transfer pricing. In some countries, all or most financial years are audited by local tax authorities, while in others, audits are initiated based on pre-analysis and specific findings in tax returns, VAT returns and other compliance filings.

We are currently involved in tax audits in three countries covering corporate income taxes and customs. The tax audits are covering standard tax audit items, and the audits are progressing as expected and in a good dialogue.

We have closed several tax audits in recent years, and all have been closed without material findings. Examples are a Danish tax audit in financial year 2019/20 of our transfer pricing documentation, and a Danish VAT audit in financial year 2021/22 of our EU transactions.

### Mandatory disclosure obligations

We have established an internal process to identify reporting obligations under the mandatory disclosure legislation e.g. the DAC6 directive for EU countries. Our tax advisors may also be required to report details on transactions to the tax authorities.

Neither we nor our advisors have filed any disclosure reporting during the financial year 2021/22.

### Global Standard for Sustainability Reporting - GRI 207: Tax

We have prepared this report in accordance with the Global Reporting Initiative 207: Tax 2019 framework. The report addresses all disclosure requirements in the framework except disclosure 207-2(c) regarding assurance report and 207-4 regarding country-by-country report for all jurisdictions. In respect of the country-by-country report we have applied a materiality threshold covering 95% of the total income tax paid, reporting relevant information for the five largest countries in each region as well as the full country-by-country report for EU subsidiaries in accordance with EU Directive 2021/2101. See Section 5 and 6.



## 4 Tax principles

It is our focus to be a responsible taxpayer with a high compliance level and we have therefore defined certain tax principles that we adhere to in all aspects of our business.

### Tax compliance

We are committed to providing complete, accurate and timely disclosures to all tax authorities in each jurisdiction where we operate. To achieve this, we are allocating significant resources to ensure compliance with local and international tax laws. We are using external tax advisors to review corporate tax return filings in most countries.

### Relationship with tax authorities

We seek to build open and constructive relationships with tax authorities. i.e. in Denmark we participate in the Danish tax authority's informal collaboration concept for larger Danish Groups.

When dealing with tax authorities, we disclose all relevant facts and circumstances in a timely and honest manner. We find that a good and honest dialogue with the tax authorities prevents inappropriate and unintentional errors.

### Legal structure

Our business structure is established to support our commercial operation. This means that we only establish legal entities in countries where we have commercial substance.

We may acquire subsidiaries in tax haven jurisdictions in connection with acquisitions and will, in such cases, consider the future for such companies, including the possible liquidation depending on the commercial activity.

### Tax planning

Our tax setup is established on the basis of recognized principles. When making business decisions we will also consider the tax impact. However, we will not engage in aggressive tax planning and we will not establish structures (financial etc.) or subsidiaries in low tax jurisdictions only with a view to save taxes.

### Tax incentives

We will generally apply for tax incentives if we qualify under the relevant tax legislation.

Of specific relevance to our business are research and development incentives that are granted in many jurisdictions. Currently we apply the R&D tax regimes in Denmark, France, and the US.

### Tax risk management

Our tax risk management is integrated within our broader enterprise risk management and compliance framework. As such, tax risks are reviewed through a structured approach and for each risk we have identified mitigation actions and timing.

Further, we have designed processes to identify tax risks through interviews with key stakeholders and information received from tax advisors.

All tax risks are reported to the Audit Committee annually while status on larger tax risks are reported to Audit Committee quarterly.

### Changes to tax legislation

As a global Group, we are impacted by changes of legislation locally, regionally, and globally. To comply with new requirements like updated OECD transfer pricing guidelines, we use considerable time to review changes that may be relevant to our business. We will often also get input from local tax advisors to address any impact.



## 5 Regional tax information

In this section we provide insight on our activities in our regions and a breakdown of relevant tax information for the five largest jurisdictions in each region for financial year 2021/22. Together with the country-by-country tax information in Section 6 the breakdown of taxes paid represent more than 95% of our total tax payments.

### Reporting principles

The information in this section is based on the principles from the OECD country-by-country guidelines which also includes various intercompany transactions. As such it is not possible to reconcile all numbers in this section to our annual report:

- Unrelated and related revenue includes the external sales and intercompany revenue, other operating income and interest while revenue in the annual report only includes external sales.
- Profit before tax includes intercompany dividends while profit before tax in the annual report excludes intercompany dividends.
- The total income taxes paid equals the taxes paid as stated in the annual report.

### EMEA

Our corporate headquarters is in Denmark together with our primary research and development activities across all businesses. We have a large scale fermentation manufacturing plant and a probiotics manufacturing plant in Denmark.

Also in Germany and France we have large scale manufacturing plants, and in the Czech Republic we have a small manufacturing plant.

Most subsidiaries in the EMEA region perform sales or sales support activities to local customers.

Our tax payments in EMEA reflect the presence we have in the region, and approx. 84% of our income taxes were paid in EMEA.

**Table 1: EMEA**

EUR million	Unrelated and related revenue	Profit before tax	Corporate income tax paid
<b>2021/22</b>			
Denmark	908.7	264.6	14.0
Germany	202.5	4.3	0.9
France	106.0	4.6	2.3
Poland	66.2	2.4	0.6
Italy	46.0	1.7	0.4
EMEA EU jurisdictions	78.8	4.9	33.5
EMEA non-EU jurisdictions	102.0	1.3	2.0
<b>Total</b>	<b>1,510.2</b>	<b>283.8</b>	<b>53.7</b>

The Danish tax payments were lower than in recent years because of amortizations on acquired intangible assets from recent acquisitions of UAS Laboratories LLC and HSO Healthcare GmbH. This impact will phase out from financial year 2022/23.

The large tax payments in “EMEA EU jurisdictions” are related to a tax payment in Austria of EUR 32.8 million regarding a transfer of intangible assets in 2019/20.



## North America and Latin America

Our North America sites are located in the US states of Wisconsin and New Jersey where we have large scale fermentation and probiotics manufacturing plants. Recently, we have finalized an expansion of our US fermentation manufacturing plant adding additional fermentation capacity, and the probiotics manufacturing plants were recently acquired in multiple transactions.

In Latin America we have a manufacturing plant in Brazil.

Most subsidiaries in the North America and Latin America regions performs sales or sales support activities to local customers.

We have paid approx. 11% of our income taxes in North America and Latin America.

**Table 2: North America and Latin America**

EUR million	Unrelated and related revenue	Profit before tax	Corporate income tax paid
<b>2021/22</b>			
US	451.8	31.0	2.0
Brazil	59.9	7.5	2.9
Mexico	25.8	0.9	0.3
Argentina	24.6	1.4	1.8
Peru	6.5	0.0	0.3
Other jurisdictions	6.4	0.0	0.1
Total	575.0	40.8	7.4

The tax payments in the US were lower than normal due to overpayments of income taxes in 2020/21.

## APAC

We do not have any manufacturing plants in APAC. The subsidiaries are mostly involved in sales or sales support activities to local customers.

We have paid approx. 5% of our income tax payments in APAC.

**Table 3: APAC**

EUR million	Unrelated and related revenue	Profit before tax	Corporate income tax paid
<b>2021/22</b>			
Malaysia	60.6	1.6	0.7
China	55.6	4.5	0.9
Australia	42.2	3.7	1.1
India	13.2	1.2	0.1
Singapore	4.8	0.6	0.1
Other jurisdictions	3.7	-0.3	0.0
Total	180.1	11.3	2.9



## 6 EU Directive Country-by-country report

This section includes the country-by-country report for financial year 2021/22 applying the principles from the EU directive on disclosure of income tax information (Directive (EU) 2021/2101).

The country-by-country report is prepared on the basis of the same principles as stated in section 5 regarding regional tax information.

Publishing the country-by-country report based on the EU Directive is an early adoption of requirements that are expected to be mandatory from 2025.

Tax jurisdiction	Main activity	Unrelated and related Revenue	Profit before tax	Corporate income tax paid	Corporate income Tax accrued	Accumulated earnings	Number of employees
<b>2021/22. EUR million</b>							
Denmark	Head office, R&D, sales, manufacturing, IP ownership	908.7	264.6	14.0	34.9	1,824.5	1,724
Germany	Sales, R&D, manufacturing, IP ownership	202.5	4.3	0.9	2.7	555.6	400
France	Sales, manufacturing	106.0	4.6	2.3	1.2	49.5	263
Poland	Sales	66.2	2.4	0.6	0.5	17.1	37
Italy	Sales	46.0	1.7	0.4	0.4	49.2	23
Czech Republic	Sales, manufacturing	28.9	1.3	0.3	0.2	10.0	49
Spain	Sales	24.7	2.0	0.0	0.2	24.8	14
Ireland	Sales	8.6	0.3	0.1	0.0	6.3	6
Romania	Sales	7.8	0.5	0.1	0.1	0.4	10
Greece	Sales	7.4	0.4	0.1	0.1	2.0	5
Finland	Support	0.7	0.3	0.0	0.1	1.6	3
Belgium	Support	0.4	0.0	0.0	0.0	0.0	2
Austria	Sales	0.3	0.1	32.8	0.2	-0.9	0
Sweden	Support	0.0	0.0	0.1	0.0	1.0	0
EMEA other jurisdictions	Sales, support	102.0	1.3	2.0	0.2	33.2	140
North and Latin America total	Sales, support, manufacturing	575.0	40.8	7.4	6.0	233.7	949
APAC total	Sales, support	180.1	11.3	2.9	2.1	48.5	209
Total		2,265.3	335.9	64.0	48.9	2,856.5	3,834

The large tax payments in Austria of EUR 32.8 million relate to transfer of intangible assets in 2019/20, cf. also section 5.

### **Delivering value for more than 145 years**

Chr. Hansen has been fermenting lactic acid bacteria for more than a century and working with clinically documented probiotics for more than 25 years.

We serve customers worldwide with expertise, new ideas, professional support and customized solutions – all aimed at ensuring superior product portfolios and business success in probiotics.

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