

COMMUNICATION ON PROGRESS

2009/10



MANAGEMENT STATEMENT

In Chr. Hansen, we follow a set of policies and positions – known as C-Way – which outlines our commitment to operate our business with integrity in a sustainable, ethical and responsible way all over the world (see www.chr-hansen.com/about_us/policies_and_positions.html)

Chr. Hansen joined the UN Global Compact in September 2009 and continues to support it as we believe in sending a strong message as a committed, responsible business.

We intend to exploit the possibilities of dialogue projects and partnerships with our stakeholders, among others the relevant UN agencies, and

also to discuss how to implement the achievement of the millennium development goals as part of these partnerships. The Nordic Network for UN Global Compact is our starting point.

This is our first Communication of Progress (COP) and it is a supplement to our Annual Report 2009/10 available on www.chr-hansen.com. Here our policies, goals, activities, performance and management systems regarding Corporate Social Responsibility (CSR), also in relation to the principles of UN Global Compact, are outlined, both in terms of quantity and quality (see the reference matrix on page 6).

LARS FREDERIKSEN
CEO

BUSINESS PRINCIPLES

1+2

HUMAN RIGHTS

Chr. Hansen's basic commitment to respecting human rights is instituted in our Business Integrity Policy but also in policies and positions regarding Corporate Social Responsibility, Product Safety, Sourcing and Knowledge, People and Organization.

MANAGING THE SUPPLY CHAIN

We have incorporated human rights, labor standards, environment, anti-corruption and product safety issues and concerns in a risk based vendor management program. At this point the first tier of vendors (top 80 spend) has been approved in accordance with the program. The supplier program allows us to identify and monitor countries, regions and industries which are most critical in relation to potential abuse of e.g. human rights or non-compliance with our product safety requirements.

We do not necessarily want to terminate business right away if we become aware of non-conformities by a vendor. We may instead need to get a deeper understanding of their cultural background and use our knowledge to initiate a positive and constructive dialogue to help the supplier improve his performance. We will collaborate with our suppliers to find a solution whenever possible.

Our requirements are also integrated in contracts with agents, distributors and other suppliers of services.

The next step in improving the vendor management system is the development and implementation of a global performance evaluation system to replace the local systems already in place. We continue to approve high risk vendors and our aim is to assess all of these by the 2012/13 financial year.

INTERNAL ASSESSMENT OF HUMAN RIGHTS AND LABOR STANDARDS

On a company-wide scale we have initiated assessments of human rights and labor stand-

ards. All production sites have made an initial response (see Business principle 3-6: Labor Standards on page 4). In the coming years we will strengthen this assessment.

OCCUPATIONAL HEALTH AND SAFETY

The health and safety of our employees including both physical and mental aspects are extremely important to us. We want a healthy and safe working environment for our employees. The frequency of accidents is higher than our target and for the last couple of years we have been on a "safety crusade" to increase the awareness of a safety culture to reduce the number of incidents. We are working on implementing a behavioral based safety program. Our US facilities have already reduced their incident rate based on this approach. We will use their experience at other sites and continue to develop our safety culture on a global scale.

DEVELOPING COMPETENCIES

Life-long learning and continued competence development of our employees to ensure their employability and to ensure the right competencies in our organization are other major focus areas. Over the past year we have conducted a unique development program for our specialists, based on the overall idea that knowledge does not represent any value in itself. It needs to be shared and translated into actions in the day-to-day life of the company. The aim is to train the specialists in communication and making their knowledge useful to stakeholders. More than 50 specialists have been trained in the past year. We will continue to train our employees on a global scale.

PRODUCT SAFETY IS VITAL

As a food and bioscience company with products for the food and pharma industry, product safety remains a high priority. All our products – procured, manufactured and consumed – are certified in accordance with the highest product safety standards (ISO 22000). We inform our customers of materials of concern such as GMO (gene modified organisms), allergens, health and safety and regulated substances in general, as well as potential product safety risks in their applications. The next step will be to go for the latest food safety standard including GMP (good manufacturing practice), i.e. FSSC22000/PAS220. We had no product recalls in 2009/10.

CREATING A SUSTAINABLE BRAND

During the past year we have initiated a program of training and technical assistance for micro dairies and their distributors in India. The program aims at improving product quality and supporting the local economic development. The initiative has been launched in the Mumbai region and within the next couple of years, we expect to roll out the program in other regions of India. The program builds on collaboration with dairy universities in India and on experience we have obtained in other parts of the world, e.g. South America, where infrastructure, such as electricity and roads, is not necessarily present. We will continue to identify and pursue opportunities to develop local communities on a global scale.

BUSINESS PRINCIPLES

3, 4, 5, 6

LABOR STANDARDS

Our basic commitment to respecting labor standards is primarily instituted in our Business Integrity Policy and our policy for Knowledge, People and Organization which are further unfolded in positions regarding corporate social responsibility, reward and remuneration, leadership, competence development, health and safety and more.

At Chr. Hansen and in the local communities where we are present we support freedom of association and collective bargaining, abolition of child labor, abolition of forced and compulsory labor as well as discrimination.

ASSESSING THE STANDARD

Last year we conducted two types of assessments at Chr. Hansen regarding labor rights/labor standards:

- Audit of compliance to legal requirements and internal standards of all legal entities e.g. contracts, wages and benefits
- Self-assessment of various issues in relation to the principles for all production sites e.g. wages, contracts, freedom of association, child labor, working hours, discrimination and grievance procedures.

The assessments did not reveal any major non-compliance with either legislation or company policies or procedures. The assessments did however point at areas where we need to strengthen procedures and training. This will be implemented. We will continue to monitor the area regularly.

Chr. Hansen was also audited by a third party at two sites regarding social responsibility including health and safety. The audits resulted in a few minor non-conformities that have been corrected.

Grievance procedures are in place for Chr. Hansen employees. We have discussed implementing a whistle blower system, which might also be applied to grievances, as part of good corporate governance but we believe that our company culture constitutes a sufficient platform for handling grievances at the moment.

EMPLOYEE SATISFACTION

Chr. Hansen conducts employee satisfaction surveys at least bi-annually. The overall employee satisfaction, measured as 'satisfaction & motivation' as well as 'loyalty' has increased over the years and so have the assessment of managers, opportunities for professional and personal development and the assessment of the psychological work environment and many more parameters. These findings are consistent with the assessments of the labor standard mentioned above.

See also Business principles 1 and 2: Human rights on page 3 regarding skills development for our employees.

BUSINESS PRINCIPLES 7, 8 AND 9

ENVIRONMENT

Our Business Integrity Policy provides the framework for our efforts in relation to environment and the environmental principles. Positions on environment & biodiversity as well as health and safety further elaborate on our commitments.

ENVIRONMENTAL STRATEGY, GOALS MONITORING AND REPORTING

Since 2005 we have had a policy, strategy and goals for environment, health and safety. We published these, together with our environmental performance, for the first time in 2005.

We have monitored and reported on our performance internally much longer. The scope has been broadened to encompass the elements of CSR, i.e. both environmental and social issues such as human rights, labor standards, product safety, etc. The financial year of 2008/09 marked the launch of having of our non-financial performance data independently externally reviewed. We will continuously challenge the key performance indicators to make sure that they elucidate not only risks but also business opportunities.

SAFE PRODUCTS

Chr. Hansen manufacturing products for food, feed and pharma implies that product safety is of the utmost importance. In some instances, assessment of risks when handling raw materials and our products on a large scale is not identical to risks in consumption. For instance, the use of caustics in certain products is perfectly safe for the consumer, but in the processing it

can potentially cause irritation for the operators or be potentially harmful to the environment. Therefore, continuous risk assessment and preventive measures are in place and we inform and train our employees and customers about potential effects and precautions. During the past year, we have participated in an international assessment of environment, health and safety risks associated with microbials and enzymes. The study has not shown any adverse effects of our products. We will continue to monitor the area.

RESOURCE EFFICIENCY IN THE ENTIRE LIFE CYCLE

In our research and development we strive to increase product yields at our own production sites by developing more efficient processes. We also work on increasing product yields at our customers' production facilities. All these development tracks result in reduced resource consumption and emissions to the environment. This will remain a key focus area.

SUPPLY CHAIN EXCELLENCE

It is part of our strategy to provide new concepts and solutions contributing to reduce the impact in other parts of the supply chain. A pilot project with a major global customer has

effectively streamlined the supply chain with significant reduction in the environmental impact measured as CO₂ emission. The concept is based on replacing transportation by air to sea shipment. Sea transportation is much cheaper than air freight and has lower CO₂ emission. The fact that we met our customer's demand for cost-efficiency while achieving significant environmental benefits makes the project a win-win case. There is much more potential in optimizing the transportation chain creating true synergies by combining yet more cost and energy efficient logistics and we will continue to explore the opportunities within this area.

NEW TOOL ENABLING A SUSTAINABLE CHOICE

Taking into account the broader life cycle perspective of our products, Chr. Hansen has developed a tool for assessment of carbon and water footprint in the value chain from raw materials to the gate of our customers. The tool can be used to identify the most beneficial match of products, packaging material and transportation – from an economic as well as environmental perspective. This will make it easier for our customers to make an informed and sustainable choice and enables us to monitor our product development consistently.

BUSINESS PRINCIPLE 10

ANTI-CORRUPTION

Chr. Hansen does not accept or tolerate corruption, be it bribes, extortion or any other form, whether directly or indirectly or through agents or other third parties. Our company values of being honest and transparent as well as our policy on Business Integrity and our position on anti-corruption set a zero tolerance. The Corporate Governance policy further institutes bodies to ensure compliance with these commitments.

TRAINING

We have developed a training package for all employees that includes ethics. Furthermore a detailed training program on anti-corruption and anti-trust has been developed for business functions that need to be especially aware of legal requirements and our commitments, such as

sourcing, sales and finance. All top level managers have been trained so far.

INTERNAL CONTROLS

Our program on anti-corruption also includes risk assessments, improved contractual agreements with agents and distributors and not least,

strengthened management procedures and a higher frequency of internal controls encompassing special emphasis on anti-corruption.

THE UN GLOBAL COMPACT PRINCIPLES IN OUR ANNUAL REPORT

UN Global Compact principles	Reference	Page
Statement from the CEO	Message from the director of the Board and the CEO/ Unique platform for growth/responsible business	3-4
	Risk management/business integrity and compliance	60-61
Human rights		
Principle 1 – Businesses should support and respect the protection of internationally proclaimed human rights	Risk management/operational risks/sourcing-supply chain	60-61
Principle 2 – Businesses should make sure that they are not complicit in human rights abuses	Acting on our vision with responsibility	44-47
	Converting specialist expertise into business value	48
	Risk management/operational risks/human capital	60-61
	Risk management/strategic risks/product safety & health claims	60-61
	Creating a sustainable brand	52
	Accounting policies for consolidated non-financial statements/social	142-143
	Key consolidated figures: notes 10 to 16	144, 149-151
Labor standards		
Principle 3 – Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Acting on our vision with responsibility	44-47
Principle 4 – Businesses should uphold the elimination of all forms of forced and compulsory labor	Creating a sustainable brand	52
Principle 5 – Businesses should uphold the effective abolition of child labor	Corporate governance	57-58
Principle 6 – Businesses should uphold the elimination of discrimination in respect of employment and occupation	Key consolidated figures: notes 10, 11 and 12	149-150
Environment		
Principle 7 – Businesses should support a precautionary approach to environmental challenges	Acting on our vision with responsibility	44-47
Principle 8 – Businesses should undertake initiatives to promote greater environmental responsibility	Accounting policies for consolidated non-financial statements/environment	142-143
Principle 9 – Businesses should encourage the development and diffusion of environmentally friendly technologies	Key consolidated figures: Notes 1-10	144-148
	Supply chain excellence	51
	Risk management/strategic risks/innovation and operational risks/production	60-61
Anti-corruption		
Principle 10 – Businesses should work against all forms of corruption, including extortion and bribery	Corporate governance	57-58
	Internal control and risk management	59
	Key consolidated figures: Note 14	151

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