

1 Basis of reporting

Reading guide

The Accounts and performance section is presented in a manner that attempts to make the information provided more understandable and relevant to readers. This includes providing relevant rather than generic information.

The notes have been divided into eight sections: Basis of reporting, Net operating profit after tax, Invested capital, Net working capital, Capital structure and financing, Other financial notes, Environmental data and Social and governance data. The purpose is to provide a clearer understanding of what drives performance.

The notes have been structured to provide an enhanced understanding of each accounting area, by describing relevant accounting policies and sources of estimation uncertainty in the notes to which they relate.

Novozymes explains the accounting choices that have been made within the framework of the prevailing IFRS standards and has elected not to repeat the actual text of the standard, unless this is considered particularly important for an understanding of the note content. The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

Environmental and social and governance data are an integrated part of The Novozymes Report and are covered by the statutory audit performed by the auditor elected at the Annual Shareholders' Meeting. The notes for these data also disclose Novozymes' management approach to the reported issue.

The symbols **I/S**, **B/S** and **ESG** show which amounts in the notes can be found in the income statement, balance sheet, and environmental data and social and governance data respectively.

Basis of reporting

The consolidated financial statements of the Novozymes Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. Novozymes has prepared its consolidated financial statements in accordance with all the IFRS standards in force at December 31, 2016. The fiscal year for the Group is January 1 – December 31. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, with the exception of derivatives and securities, which are measured at fair value. The accounting policies are unchanged from last year. The consolidated environmental and social and governance statements have been prepared in

accordance with principles that adhere to the following internationally recognized voluntary reporting standards and principles:

- AA1000 framework for accountability. The framework states that reporting must provide a complete, accurate, relevant and balanced picture of the organization's approach to and impact on society
- UN Global Compact. Novozymes is a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. Read more in Novozymes' UNGC Communication on Progress 2016
- GRI Sustainability Reporting Standards (GRI Standards). Novozymes refers to GRI 101: Foundation 2016 to inspire its materiality assessment process. Information is presented on Novozymes' management approach to material issues, taking inspiration from GRI 103: Management Approach 2016. Topic-specific information is provided by referencing GRI Standards 200, 300 and 400 on Economic, Environmental and Social disclosures. Specific content for which information is reported is outlined in Novozymes' GRI content index in Novozymes reporting on the GRI

The accounting policies are unchanged from last year.

Impact of new accounting standards

Novozymes has adopted the following new or amended standards and interpretations from January 1, 2016.

- Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations was published in May 2014 and clarifies that IFRS 3 is to be used when interests in joint ventures are acquired if the joint venture constitutes a business
- Amendment to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation was published in May 2014 and clarifies that revenue-based depreciation is not allowed for property, plant and equipment and only allowed in certain situations for intangible assets
- Annual Improvements to IFRSs (2012-2014) was published in September 2014 and contains minor changes to four standards
- Amendments to IAS 1 Disclosure Initiative was published in February 2015 and clarifies that entities are able to use judgment when presenting their financial statements

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The adoption of the amended standards and interpretations has not had a significant impact on recognition or measurement in the consolidated financial statements for 2016, and is not anticipated to have a significant impact on future periods.

New standards and interpretations not yet adopted

The IASB has issued a number of new or amended standards and interpretations that are not mandatory for the consolidated financial statements for 2016, some of which have not yet been endorsed by the EU. Novozymes expects to adopt the standards and interpretations when they become mandatory. None of these are expected to have a significant impact on recognition and measurement, but may lead to further disclosures in the notes.

- IFRS 15 – Revenue from Contracts with Customers was published in May 2014 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard requires extensive disclosures and is effective for annual periods beginning on or after January 1, 2018. Based on a preliminary assessment, the new standard on revenue recognition is not expected to have a significant effect on recognition and measurement, but is expected to impact the disclosures due to extensive new disclosure requirements

- IFRS 16 – Leasing was published in January 2016 and introduces a single accounting approach to all leases, so that all leases, with a few exceptions, must be recognized in the balance sheet as assets with a related liability, while the costs are recognized as depreciation and interest expenses. Based on a preliminary assessment, the new leasing standard is expected to result in an increase in total assets of approx. 2-4%
- IFRS 9 – Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities was published in July 2014 and contains requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. An analysis of the effect of implementing IFRS 9 is ongoing. However, the implementation of IFRS 9 is not expected to have a significant effect on the consolidated financial statements

Defining materiality

Novozyymes' annual report is based on the concept of materiality, to ensure that the content is material and relevant to the reader.

The consolidated financial statements consist of a large number of transactions. These transactions are aggregated into classes according to their nature or function, and presented in classes of similar items in the financial statements and in the notes as required by IFRS. If items are individually

immaterial, they are aggregated with other items of similar nature in the statements or in the notes. The disclosure requirements throughout IFRS are substantial, and Novozymes provides the specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the readers of these financial statements.

The consolidated environmental and social and governance (ESG) data include the parameters that, based on an assessment of materiality for Novozymes and its stakeholders, are deemed the most relevant.

Novozyymes' materiality assessment is a systematic and rigorous process that integrates inputs from external stakeholders, trend analyses and internal engagement with relevant departments, for example risk management and corporate sustainability.

The process results in two outputs: 1) disclosures on key trends and 2) disclosures on material ESG issues.

In 2016, Novozymes' materiality assessment compiled diverse inside-out and outside-in perspectives using evidence-based research and active stakeholder engagement. This process comprised the following activities:

- **Identification** of global trends and ESG issues from internal and external

sources. The UN SDGs, expert reports on global trends for 2015 and 2016 (e.g. Global Risk Reports by the World Economic Forum, etc.), investor and customer questionnaires, and peer analysis served as external sources. Novozymes' business strategies and enterprise risk management (ERM) provided significant internal insights

- **Prioritization** of trends and ESG issues by means of a survey of relevant internal stakeholders from Corporate Sustainability, Corporate Strategy and Public Affairs globally. The shortlist of prioritized issues was validated and further prioritized with senior leadership from Novozymes' business divisions and Risk Management
- **Validation** of top trends and ESG issues by means of comparing them with priority themes identified by key ESG rating agencies and the SASB Standards for the chemical industry. Furthermore, consultations were held with selected investors, customers and Novozymes' Executive Leadership Team
- **Disclosure** of the macro trends that most shape and influence Novozymes' business (see "Trends"), and material issues (see "Materiality matrix") in The Novozymes Report. The primary audience for these assessments and disclosures is Novozymes' investors, employees and customers

Basis of reporting

1 Basis of reporting (continued)

Novozymes will continue to review global macro trends and material issues on an ongoing basis to proactively understand emerging trends and developments.

The illustration is a snapshot of the upper-right quadrant of Novozymes' materiality matrix and depicts 15 issues that are most material to Novozymes' business.

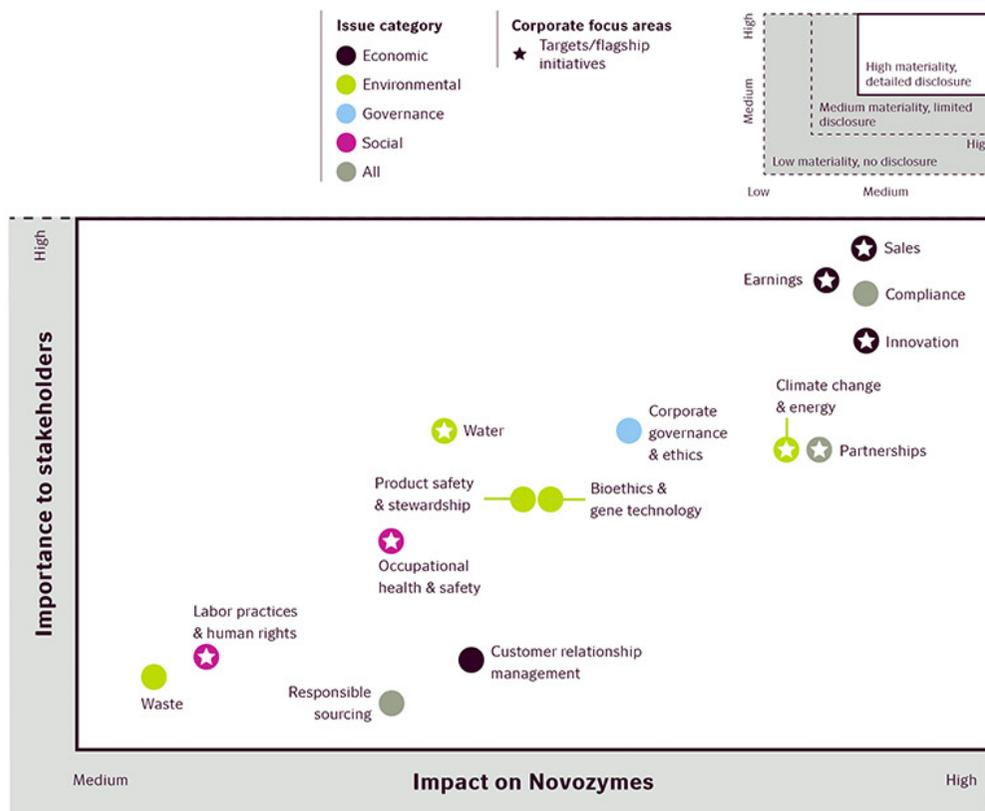
The materiality matrix includes some new issues and other changes compared to previous year. The new issues included are Sales, Earnings, Compliance and Responsible sourcing. An explanation of all the changes in the materiality matrix in 2016 can be found in the Novozymes' UNGC Communication on Progress 2016.

Further information on the identified issues, excluding Sales and Earnings can be found in the note sections Environmental data and Social and governance data.

Limited reporting scope

The environmental data cover those activities that could have a significant impact on the

environment. Sites with activities considered not to have a significant environmental impact are not included. Such sites comprise sales offices, R&D labs, and sites with limited blending and storage of products. However, measures are taken to ensure that at least 97% of the total Novozymes quantity of the measured environmental parameter is included in the reported numbers.



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and are used to assess the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognized in the period in which the estimate is revised.

The application of the Group's accounting policies may require Management to make judgments that can have a significant effect on the amounts recognized in the consolidated financial statements. Management judgment is required in particular when assessing the substance of transactions that have a complicated structure or legal form.

1 Basis of reporting (continued)

§ ACCOUNTING POLICIES

The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

Consolidation

The consolidated financial statements comprise the financial statements of Novozymes A/S (the parent company) and subsidiaries controlled by Novozymes A/S, prepared in accordance with Group accounting policies. The consolidated financial statements are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal stockholdings and balances, and unrealized intercompany profits and losses.

Environmental and social data are similarly based on data for the parent company and all subsidiaries by combining items of a uniform nature compiled using the same accounting principles. Recognition of newly acquired or divested sites and subsidiaries follows the same principles as for the financial reporting.

Translation of foreign currencies

The consolidated financial statements are presented in Danish kroner (DKK).

Foreign currency transactions are translated into the functional currency defined for each company using the exchange rates prevailing at the transaction date. Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the reporting date.

Financial statements of foreign subsidiaries are translated into Danish kroner at the exchange rates prevailing at the reporting date for assets and liabilities, and at average exchange rates for income statement items.

All exchange rate differences are recognized as Financial income or Financial costs, with the exception of the following, which are recognized in Other comprehensive income, translated at the exchange rates prevailing at the reporting date:

- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the reporting date
- Translation of long-term intercompany balances, which are considered to be an addition to net assets in subsidiaries

Goodwill arising on the acquisition of new companies is treated as an asset belonging to the new foreign subsidiaries and translated into Danish kroner at the exchange rates prevailing at the reporting date.

Unrealized gains/losses relating to hedging of future cash flows and hedging of net investments in foreign subsidiaries are recognized in Other comprehensive income.