

## Net operating profit after tax

# 2.6 Tax

### Tax risk

Novozymes operates in many markets via sales companies and distributors, while production takes place in a small number of countries.

This leads to transactions between Group companies. Novozymes follows the OECD principles in setting internal transfer prices for these transactions, but this is a complicated area and entails a tax risk, partly because the area is subject to political judgment in each individual country. Novozymes regularly enters into dialogue with the tax authorities to reduce this risk, and has entered into advance pricing

agreements with the tax authorities in the countries where internal transactions are most significant.

For Novozymes, such agreements create predictability in relation to taxation and reduce the risk of Novozymes becoming part of the ongoing transfer-pricing debate around the world. A major part of internal transactions in the Group is covered by advance pricing agreements. See also Novozymes' position on tax at [novozymes.com](http://novozymes.com).

### Joint taxation

Novozymes A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Novo A/S Group. The joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation liability. Any subsequent adjustments to income taxes and withholding taxes may lead to a larger liability. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

### Tax in the income statement

#### DKK million

	2016	2015
Tax payable on net profit	(940)	(806)
Change in deferred tax	124	(11)
Adjustment for previous years	(15)	21
<b>Tax in the income statement</b>	<b>(831)</b>	<b>(796)</b>
Calculation of effective tax rate:		
Corporate tax rate in Denmark	(22.0)%	(23.5)%
Non-taxable income less non-deductible expenses	(0.2)%	(0.2)%
Difference in foreign tax rates	0.4%	0.9%
Other adjustments	0.4%	0.8%
<b>Effective tax rate</b>	<b>(21.4)%</b>	<b>(22.0)%</b>



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's tax charge is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgment in respect of certain items for which the tax treatment cannot be finally determined until a resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material gains, losses and/or cash flows. The complexity of the Group's structure following its geographic expansion makes the degree of estimation and judgment more challenging. The resolution of issues is not always within the control of the Group and is often dependent on the efficiency of the legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the tax charge in the consolidated income statement and actual tax payments.

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# 2.6 Tax (continued)

### Deferred tax

DKK million	Deferred tax assets		Deferred tax liabilities	
	2016	2015	2016	2015
Intangible assets and property, plant and equipment	484	410	(1,271)	(1,347)
Inventories	533	494	(163)	(161)
Tax loss carry-forwards	41	17	-	-
Stock options	70	176	-	-
Other	287	266	(228)	(111)
	<b>1,415</b>	<b>1,363</b>	<b>(1,662)</b>	<b>(1,619)</b>
Offsetting items	(808)	(904)	808	904
<b>Deferred tax at December 31</b>	<b>607</b>	<b>459</b>	<b>(854)</b>	<b>(715)</b>

The tax value of the unrecognized share of tax loss carry- forwards, tax credits, etc. that do

not expire amounted to DKK 13 million (2015: DKK 12 million).

DKK million	2016	2015
Deferred tax at January 1	(256)	(299)
Currency translation adjustments	13	(8)
Effect of business acquisitions	(64)	(23)
Tax related to the income statement	172	53
Tax on shareholders' equity items	(112)	21
<b>Deferred tax at December 31</b>	<b>(247)</b>	<b>(256)</b>
Deferred tax assets	607	459
Deferred tax liabilities	(854)	(715)
<b>Deferred tax at December 31</b>	<b>(247)</b>	<b>(256)</b>

### § ACCOUNTING POLICIES

Corporation tax, comprising the current tax liability, change in deferred tax for the year and possible adjustments relating to previous years, is recognized in the income statement, except to the extent that it relates to items recognized either in Other comprehensive income or directly in Shareholders' equity. Uncertain tax positions are assessed individually and recognized if it is probable that an amount is to be paid or received. Deferred tax is measured using the balance sheet liability method and comprises all temporary differences between the carrying amount and tax base of assets and liabilities. No deferred tax is recognized for goodwill, unless amortization of goodwill for tax purposes is allowed. The tax value of tax loss carry-forwards is included in the calculation of deferred tax to the extent that the tax losses can be expected to be utilized in the future.

Deferred tax is measured according to current tax rules and at the tax rate expected to be in force on elimination of the temporary differences. Changes in deferred tax due to tax rate changes are recognized in the income statement, except to the extent that they relate to items recognized either in Other comprehensive income or directly in Shareholders' equity.

## Net operating profit after tax

# 2.6 Tax (continued)

### Tax receivables and payables

DKK million	2016	2015
Tax payable at January 1	(213)	(286)
Currency translation adjustments	9	(13)
Tax related to the income statement	(1,002)	(849)
Tax on shareholders' equity items	6	42
Tax paid for the current year, net	905	893
<b>Tax payables, net, at December 31</b>	<b>(295)</b>	<b>(213)</b>
Tax receivables	B/S 142	156
Tax payables	B/S (437)	(369)
<b>Tax payables, net, at December 31</b>	<b>(295)</b>	<b>(213)</b>
Of which due within 12 months	(59)	(43)
Of which due after more than 12 months	(236)	(170)
<b>Tax payables, net, at December 31</b>	<b>(295)</b>	<b>(213)</b>
Corporate income taxes paid are specified as follows:		
Income taxes paid in Denmark	633	586
Income taxes paid outside Denmark	272	307
<b>Total income taxes paid</b>	<b>905</b>	<b>893</b>