

4.1 Inventories

DKK million		2016	2015
Raw materials and consumables		327	339
Work in progress		671	578
Finished goods		1,490	1,364
Inventories at December 31	B/S	2,488	2,281
Cost of materials, included under Cost of goods sold		3,254	3,225
Write-downs expensed during the year		82	85
Reversal of write-downs during the year*		42	61

* Some of the reversal of write-downs can be attributed to written-down inventory being reused in production.



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Work in progress and Finished goods are measured at cost including indirect production costs. The indirect production costs capitalized under inventories amounted to DKK 815 million at the end of

2016 (2015: DKK 774 million). The indirect production costs are assessed on an ongoing basis to ensure reliable measurement of employee costs, capacity utilization, cost drivers and other relevant factors. Changes in these parameters may have an impact on the gross margin and the overall valuation of Work in progress and Finished goods.



ACCOUNTING POLICIES

Inventories are measured at cost determined on a first-in first-out basis or net realizable value where this is lower.

The cost of Work in progress and Finished goods comprises direct production costs such as raw materials and consumables, energy and labor directly attributable to production as well as indirect production costs such as employee costs, maintenance and depreciation of plant, etc.

If the expected sales price less any completion costs and costs to execute sales (net realizable value) of inventories is lower than the carrying amount, the inventories are written down to net realizable value.

Novozymes has entered into a few agreements where Novozymes supplies goods to a customer's premises but retains title to the inventory until the goods are consumed in the customer's production. Such goods are derecognized from inventories in the period that they are consumed in the customer's production.