

# Accounts & performance



Novozymes' textile-desizing solutions are used to treat 4-5 million tons of woven fabric every year, saving 3-4 million tons of CO<sub>2</sub> and 3 million tons of chemicals.

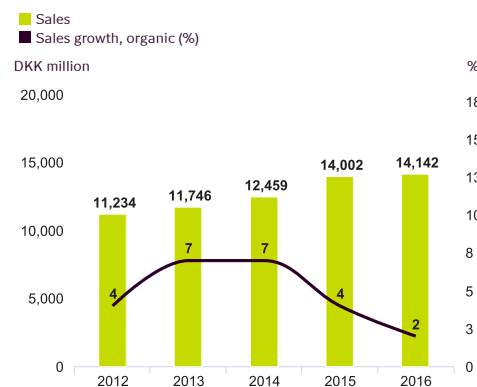


# Sales and earnings

## Sales

Total sales in 2016 were DKK 14,142 million, an increase of 2% organically and 1% in DKK. Sales to Agriculture & Feed and Technical & Pharma were the most significant contributors to organic sales growth.

### Sales and sales growth



## Gross profit and margin

Gross profit was flat at DKK 8,126 million compared with 2015, and the gross margin was 57.5%, a decrease of 0.6 percentage points from 58.1% in 2015. Productivity improvements increased the gross margin, offset by product mix changes. Adjusting for the one-time reorganization costs and a DKK 40 million write-down, the gross margin would have been around 58%, on par with 2015.

## Operating costs

Operating costs decreased by 1% to DKK 4,297 million. Operating costs as a percentage of sales was 30%.

- Sales and distribution costs increased by 3%, representing 11% of sales
- Research and development costs decreased by 2%, representing 13% of sales
- Administrative costs decreased by 8%, representing 6% of sales

## Other operating income

Other operating income was DKK 117 million, compared with DKK 98 million in 2015. Other operating income was related to income received across businesses and secondary sources of income.

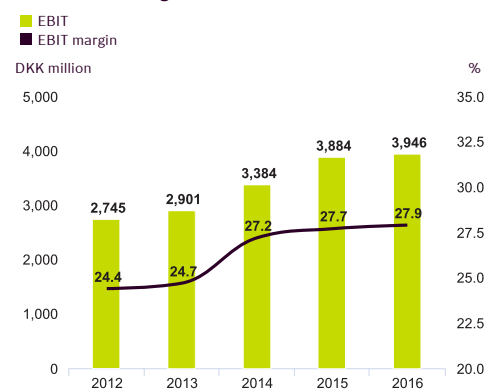
## EBITDA

EBITDA decreased by 1% to DKK 4,960 million, down from DKK 5,011 million in 2015. Depreciation and Amortization were DKK 1,014 million in 2016, down 10% from DKK 1,127 million in 2015. The lower level was due to the absence of the write-down in 2015 related to intangible assets associated with the Beta Renewables partnership.

## EBIT

EBIT increased by 2% to DKK 3,946 million, up from DKK 3,884 million in 2015. Adjusting for the one-time reorganization costs, EBIT grew by more than 3%.

### EBIT and EBIT margin



## EBIT margin

The EBIT margin was 27.9%, an increase of 0.2 percentage points from 27.7% in 2015. Adjusting for the one-time reorganization costs, the EBIT margin was above 28%.

## Net profit

Net profit grew by 8% to DKK 3,050 million in 2016, up from DKK 2,825 million in 2015, driven by higher EBIT and lower net financial costs.

## Earnings per share

Earnings per share increased by 10% to DKK 10.15, compared with DKK 9.23 in 2015, due to higher net profit and cancellation of shares.

# Consolidated statements of income

## Income statement

DKK million	Note	2016	2015
Revenue	2.1, 2.2	14,142	14,002
Cost of goods sold	2.3, 3.1, 3.2, 4.1	(6,016)	(5,873)
<b>Gross profit</b>		<b>8,126</b>	<b>8,129</b>
Sales and distribution costs	2.3, 3.1, 3.2	(1,622)	(1,571)
Research and development costs	2.3, 2.4, 3.1, 3.2	(1,865)	(1,896)
Administrative costs	2.3, 3.1, 3.2	(810)	(876)
Other operating income, net	2.5	117	98
<b>Operating profit / EBIT</b>		<b>3,946</b>	<b>3,884</b>
Share of losses in associates	3.4	(31)	(6)
Financial income	5.2	32	4
Financial costs	5.2	(66)	(261)
<b>Profit before tax</b>		<b>3,881</b>	<b>3,621</b>
Tax	2.6	(831)	(796)
<b>Net profit</b>		<b>3,050</b>	<b>2,825</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		3,050	2,823
Non-controlling interests		-	2
		<b>3,050</b>	<b>2,825</b>
Proposed dividend per share		DKK 4.00	DKK 3.50
Earnings per share	2.7	DKK 10.15	DKK 9.23
Earnings per share, diluted	2.7	DKK 10.06	DKK 9.12

## Statement of comprehensive income

DKK million	Note	2016	2015
<b>Net profit</b>		<b>3,050</b>	<b>2,825</b>
Items that may be reclassified subsequently to the income statement:			
<b>Currency translation adjustments</b>			
Subsidiaries and non-controlling interests		140	399
Hedges of net investments in foreign subsidiaries		-	(315)
Tax on currency translation adjustments		(8)	23
<b>Currency translation adjustments</b>		<b>132</b>	<b>107</b>
<b>Cash flow hedges</b>			
Fair value adjustments		(70)	(113)
Tax on fair value adjustments		15	24
Fair value adjustments reclassified to financial costs		(8)	152
Tax on reclassified fair value adjustments		2	(33)
<b>Cash flow hedges</b>		<b>(61)</b>	<b>30</b>
<b>Other comprehensive income</b>		<b>71</b>	<b>137</b>
<b>Comprehensive income for the year</b>		<b>3,121</b>	<b>2,962</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		3,121	2,960
Non-controlling interests		-	2
		<b>3,121</b>	<b>2,962</b>

# Balance sheet and financial position

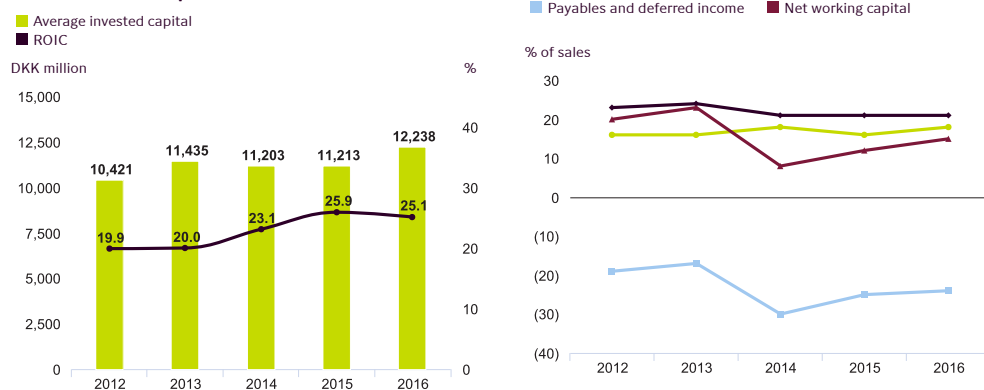
## Total assets

Total assets increased from DKK 17,791 million at year-end 2015 to DKK 18,659 million at December 31, 2016.

## ROIC

Return on invested capital (ROIC), including goodwill, was 25.1%, down 0.8 percentage points from 25.9% in 2015. The decrease was mainly a result of a higher capital base, due to higher NWC, investment in land for the new innovation campus and the acquisition of Organobalance GmbH.

## ROIC and invested capital



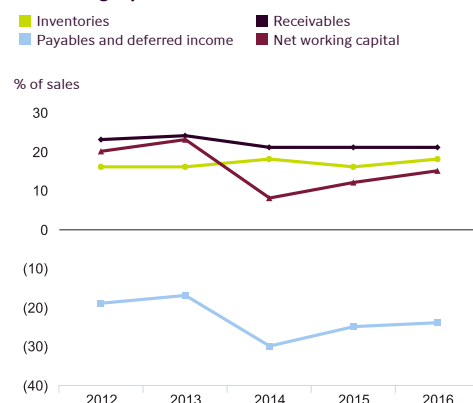
## Invested capital

Invested capital increased from DKK 11,891 million in 2015 to DKK 12,584 million in 2016 driven by higher net working capital, investment in land and the acquisition of Organobalance GmbH.

## Net working capital

Novozymes' net working capital increased to DKK 2,088 million, up from DKK 1,708 million in 2015, mainly due to increase in Inventories and release of deferred income.

## Net working capital



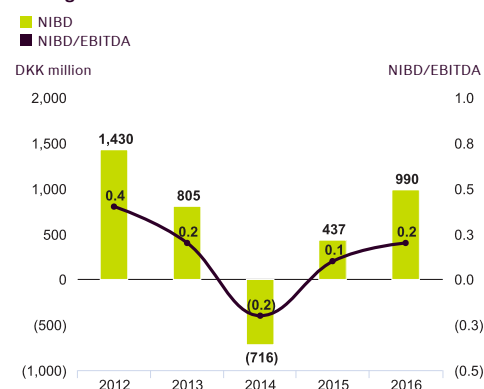
## Net interest-bearing debt

Novozymes had net interest-bearing debt of DKK 990 million at year-end 2016, compared with DKK 437 million at December 31, 2015. This was a result of cash flows from dividend payments of DKK 1,061 million, stock buybacks of DKK 2,000 million and net investments of DKK 1,188 million, which more than offset cash flows from operating activities.

## Net interest-bearing debt-to-EBITDA

Net interest-bearing debt-to-EBITDA was 0.2 at year-end 2016, compared with 0.1 at December 31, 2015.

## Net interest-bearing debt (NIBD) and net interest-bearing debt-to-EBITDA



# Consolidated balance sheet

## Assets

DKK million	Note	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	2.1, 3.1	2,737	2,676
Land and buildings	2.1, 3.2	2,931	2,665
Plant and machinery	2.1, 3.2	4,239	4,237
Other equipment	2.1, 3.2	615	611
Assets under construction and prepayments	2.1, 3.2	856	649
Deferred tax assets	2.6	607	459
Other financial assets		151	139
Investments in associates	3.4	73	91
Other receivables	4.3	57	116
<b>Non-current assets</b>		<b>12,266</b>	<b>11,643</b>
Inventories	4.1	2,488	2,281
Trade receivables	4.2	2,680	2,558
Tax receivables	2.6	142	156
Other receivables	4.3	267	294
Other financial assets		4	20
Cash and cash equivalents	6.6	812	839
<b>Current assets</b>		<b>6,393</b>	<b>6,148</b>
<b>Assets</b>		<b>18,659</b>	<b>17,791</b>

## Liabilities and shareholders' equity

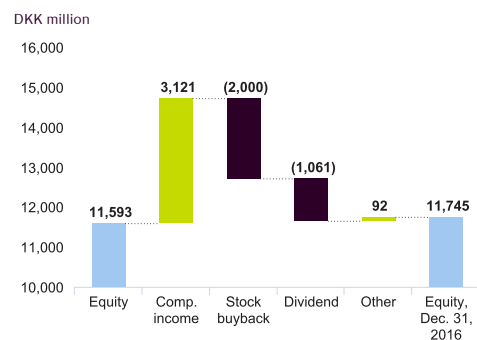
DKK million	Note	Dec. 31, 2016	Dec. 31, 2015
Common stock	5.5	620	626
Currency translation adjustments		670	538
Cash flow hedges		(41)	20
Retained earnings		10,483	10,396
<b>Equity attributable to shareholders in Novozymes A/S</b>		<b>11,732</b>	<b>11,580</b>
Non-controlling interests		13	13
<b>Shareholders' equity</b>		<b>11,745</b>	<b>11,593</b>
Deferred tax liabilities	2.6	854	715
Provisions	3.3	231	186
Deferred income	4.4	540	769
Other liabilities		-	12
Other financial liabilities	5.3	1,727	1,216
<b>Non-current liabilities</b>		<b>3,352</b>	<b>2,898</b>
Provisions	3.3	61	55
Other financial liabilities	5.3	200	116
Trade payables		1,194	1,189
Deferred income	4.4	248	223
Tax payables	2.6	437	369
Other liabilities	4.5	1,422	1,348
<b>Current liabilities</b>		<b>3,562</b>	<b>3,300</b>
<b>Liabilities</b>		<b>6,914</b>	<b>6,198</b>
<b>Liabilities and shareholders' equity</b>		<b>18,659</b>	<b>17,791</b>

# Equity and shareholder return

## Shareholders' equity

At December 31, 2016, shareholders' equity was DKK 11,745 million, up 1% from DKK 11,593 million at year-end 2015, as comprehensive income more than offset dividend payments and stock buyback in 2016.

### Movements in equity 2016



## Equity ratio

Shareholders' equity represented 63% of the balance sheet total, down from 65% at year-end 2015.

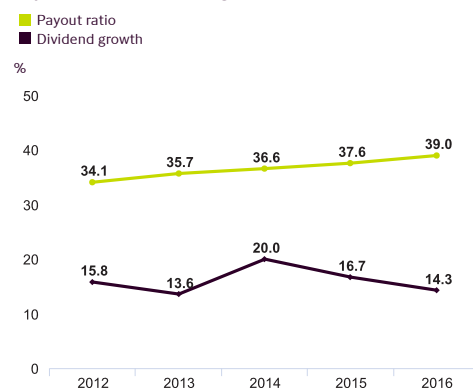
## Return on equity

Return on equity was 26.1%, up 1.4 percentage points from 24.7% in 2015. The increase was a result of higher net profit partly offset by an increase in equity.

## Dividend

The Board of Directors proposes that the Annual Shareholders' Meeting approve a dividend of DKK 4.00 per share for the 2016 financial year, an increase of 14% compared with 2015. This will result in an expected total dividend payment of approximately DKK 1,190 million, corresponding to a payout ratio of 39.0%.

### Payout ratio and dividend growth



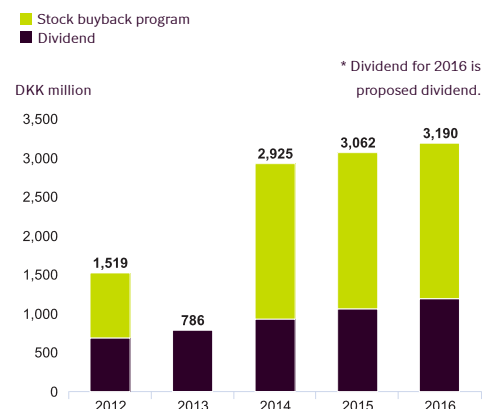
## Treasury stock

At December 31, 2016, the holding of treasury stock was 12.4 million B shares, equivalent to 4.0% of the common stock.

## Stock buyback program

In 2016, Novozymes bought back 6.8 million B shares with a transaction value of DKK 2,000 million under the stock buyback program initiated on February 15, 2016, and completed on November 15, 2016. The shares acquired within the program will be used to reduce the common stock and to meet obligations arising from employee share-based incentive programs.

### Shareholder return



# Consolidated statement of shareholders' equity

DKK million	Attributable to shareholders in the company					Non-controlling interests	Total equity
	Common stock	Currency translation adjustments	Cash flow hedges	Retained earnings	Total		
<b>Shareholders' equity at January 1, 2016</b>	<b>626</b>	<b>538</b>	<b>20</b>	<b>10,396</b>	<b>11,580</b>	<b>13</b>	<b>11,593</b>
Net profit for the year				3,050	3,050	-	3,050
Other comprehensive income for the year		132	(61)		71		71
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>132</b>	<b>(61)</b>	<b>3,050</b>	<b>3,121</b>	<b>-</b>	<b>3,121</b>
Purchase of treasury stock				(2,000)	(2,000)		(2,000)
Sale of treasury stock				69	69		69
Write-down of common stock	(6)			6	-		-
Dividend				(1,061)	(1,061)		(1,061)
Stock-based payment				136	136		136
Tax related to equity items				(113)	(113)		(113)
<b>Changes in shareholders' equity</b>	<b>(6)</b>	<b>132</b>	<b>(61)</b>	<b>87</b>	<b>152</b>	<b>-</b>	<b>152</b>
<b>Shareholders' equity at December 31, 2016</b>	<b>620</b>	<b>670</b>	<b>(41)</b>	<b>10,483</b>	<b>11,732</b>	<b>13</b>	<b>11,745</b>
<b>Shareholders' equity at January 1, 2015</b>	<b>639</b>	<b>431</b>	<b>(10)</b>	<b>10,209</b>	<b>11,269</b>	<b>11</b>	<b>11,280</b>
Net profit for the year				2,823	2,823	2	2,825
Other comprehensive income for the year		107	30	-	137	-	137
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>107</b>	<b>30</b>	<b>2,823</b>	<b>2,960</b>	<b>2</b>	<b>2,962</b>
Purchase of treasury stock				(2,000)	(2,000)		(2,000)
Sale of treasury stock				126	126		126
Write-down of common stock	(13)			13	-		-
Dividend				(925)	(925)		(925)
Stock-based payment				101	101		101
Tax related to equity items				49	49		49
<b>Changes in shareholders' equity</b>	<b>(13)</b>	<b>107</b>	<b>30</b>	<b>187</b>	<b>311</b>	<b>2</b>	<b>313</b>
<b>Shareholders' equity at December 31, 2015</b>	<b>626</b>	<b>538</b>	<b>20</b>	<b>10,396</b>	<b>11,580</b>	<b>13</b>	<b>11,593</b>

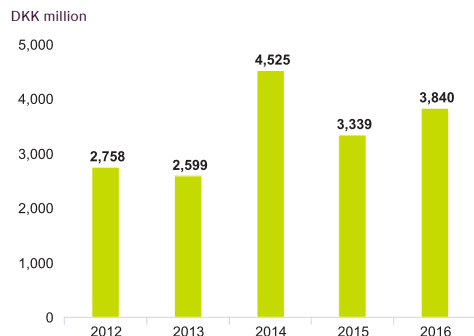
The proposed dividend of DKK 1,190 million for 2016 is included in Retained earnings.

# Cash flow

## Cash flow from operating activities

Cash flow from operating activities was DKK 3,840 million, up from DKK 3,339 million in 2015, primarily due to higher net profit.

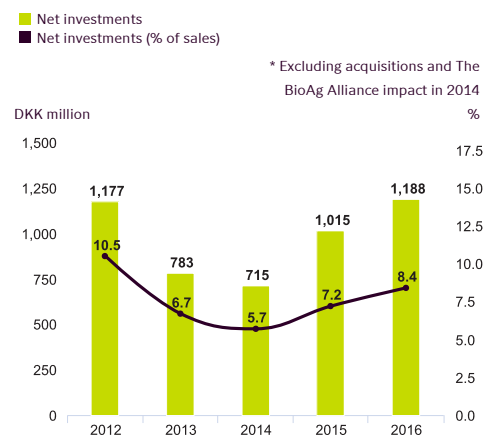
### Cash flow from operating activities



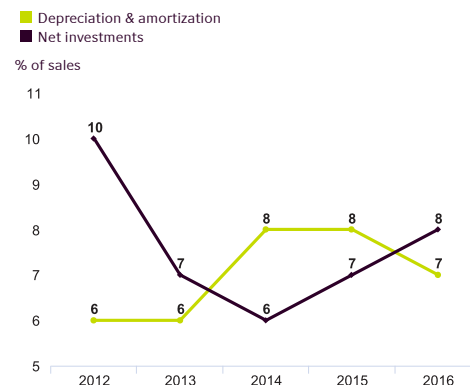
## Net investments

Net investments excluding acquisitions were DKK 1,188 million, up from DKK 1,015 million in 2015. Net investments in property, plant and equipment amounted to DKK 1,048 million, compared with DKK 952 million in 2015. The increase is related to the purchase of land for the new innovation campus in Denmark.

### Net investments



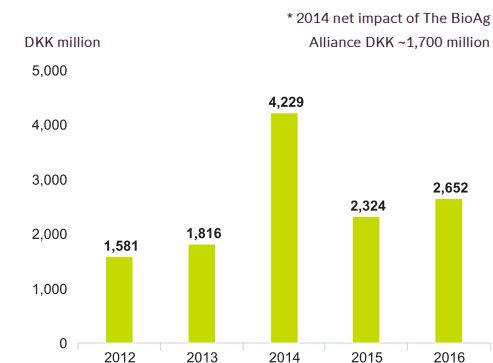
## Net investments and depreciation & amortization



## Free cash flow before acquisitions

Free cash flow before acquisitions was DKK 2,652 million, compared with DKK 2,324 million in 2015. The increase is primarily due to higher net profit. Free cash flow was DKK 2,491 million in 2016, compared with DKK 2,082 million in 2015. The acquisition of Organobalance GmbH impacted free cash flow by DKK 146 million in 2016.

## Free cash flow before acquisitions



## Financing activities

Cash flow from financing activities was negative at DKK 2,484 million, compared with a negative cash flow of DKK 3,681 million in 2015. The negative cash flow from financing activities was mainly due to completion of the stock buyback program and dividend payments.

## Cash position

Cash and cash equivalents at December 31, 2016, amounted to DKK 805 million, up from DKK 796 million at year-end 2015. Undrawn committed credit facilities were DKK 3,500 million at December 31, 2016.



# Consolidated statement of cash flows

DKK million	Note	2016	2015
<b>Net profit</b>		<b>3,050</b>	<b>2,825</b>
Reversal of non-cash items	6.6	2,035	1,992
Income tax paid	2.6	(905)	(893)
Interest received		4	3
Interest paid		(30)	(42)
<b>Cash flow before change in working capital</b>		<b>4,154</b>	<b>3,885</b>
<b>Change in working capital</b>			
(Increase)/decrease in receivables		13	(311)
(Increase)/decrease in inventories		(199)	(60)
Increase/(decrease) in payables and deferred income		(125)	(161)
Currency translation adjustments		(3)	(14)
<b>Cash flow from operating activities</b>		<b>3,840</b>	<b>3,339</b>
<b>Investments</b>			
Purchase of intangible assets	3.1	(140)	(63)
Purchase of property, plant and equipment	3.2	(1,076)	(968)
Sale of property, plant and equipment		28	16
Business acquisitions and purchase of financial assets	6.6	(161)	(242)
<b>Cash flow from investing activities</b>		<b>(1,349)</b>	<b>(1,257)</b>
<b>Free cash flow</b>		<b>2,491</b>	<b>2,082</b>

DKK million	Note	2016	2015
<b>Financing</b>			
Borrowings		1,281	122
Repayments of borrowings		(773)	(606)
Hedging of net investments		-	(398)
Purchase of treasury stock		(2,000)	(2,000)
Sale of treasury stock		69	126
Dividend paid		(1,061)	(925)
<b>Cash flow from financing activities</b>		<b>(2,484)</b>	<b>(3,681)</b>
<b>Net cash flow</b>		<b>7</b>	<b>(1,599)</b>
Unrealized gain/(loss) on currencies and financial assets included in cash and cash equivalents		2	(58)
<b>Net change in cash and cash equivalents</b>		<b>9</b>	<b>(1,657)</b>
Cash and cash equivalents, net, at January 1		796	2,453
<b>Cash and cash equivalents, net, at December 31</b>	<b>6.6</b>	<b>805</b>	<b>796</b>

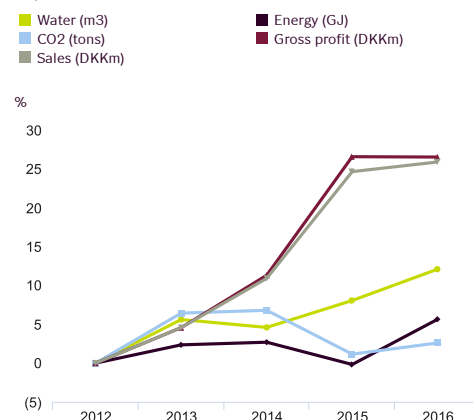
# Environmental performance

## Climate change

Novozymes has adopted three efficiency/intensity targets that measure performance improvements against the base year 2014. The efficiency/intensity is measured as consumption/emissions divided by gross profit. In 2016, consumption/emissions increased more than gross profit, resulting in reduced performance compared with 2015. Novozymes' CO<sub>2</sub> intensity reduction compared with the base year 2014 fell from 17% in 2015 to 16% in 2016.

Novozymes' impact on climate change should also take into account the net positive carbon footprint that its products generate. In 2016, Novozymes' customers avoided an estimated 69 million tons of CO<sub>2</sub> emissions by applying Novozymes' products, compared with 60 million tons in 2015. The savings achieved are equivalent to taking approximately 30 million cars off the road.

## Developments in sales, gross profit and environmental impact

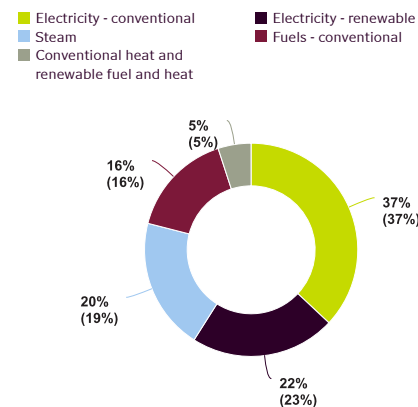


## Energy

In 2016, the energy efficiency improvement compared with the base year 2014 was 10% – a reduction from 15% in 2015. This decrease stems from operational challenges in Novozymes' fermentation facilities and increased capacity utilization, both of which required more energy.

As in 2015, Novozymes obtained 24% of its energy from renewable sources in 2016, mostly from offshore wind farms in Denmark.

## Energy by source 2016 (2015)



## Water

In 2016, the water efficiency improvement was 6% compared with the base year 2014. In 2015, the improvement was 9%. The decrease was due to high capacity utilization, changed product mix and ongoing challenges in the system for reusing water in Denmark.

## Waste

In 2016, Novozymes' production sites across the world generated 13,000 tons of solid waste, of which 44% was recycled, compared with 50% in 2015.

Novozymes recovered more than 97% of the biomass generated as a by-product of its production processes, compared with 98% in 2015. All recovered biomass is either sent for composting or is converted and sold as NovoGro®, an organic agricultural fertilizer.

## Environmental compliance

In 2016, 37 breaches of regulatory limits were recorded worldwide, compared with 27 in 2015. Most of these breaches are minor and relate to wastewater treatment and soil contamination. Novozymes has agreed on or is in the process of negotiating action plans with the relevant authorities to address these incidents.

In addition, the company received nine complaints from neighbors in 2016, compared with 11 in 2015, mostly related to odors and noise.

# Consolidated environmental data

	Note		2016	2015
<b>Climate change</b>				
Estimated CO <sub>2</sub> reductions from customers' application of Novozymes' products in their products or processes	7.1	Million tons	69	60
Greenhouse gas emissions	7.1	1000 tons CO <sub>2</sub> -eqv.	413	408
CO <sub>2</sub> intensity	7.1	%	16	17
<b>Energy</b>				
Energy consumption	7.2	1000 GJ	4,380	4,148
Renewable energy	7.2	%	24	24
Energy efficiency	7.2	%	10	15
<b>Water</b>				
Water consumption	7.3	1000 m <sup>3</sup>	7,225	6,965
Volume of wastewater	7.3	1000 m <sup>3</sup>	5,392	4,917
Water efficiency	7.3	%	6	9
<b>Waste</b>				
Solid waste	7.4	1000 tons	13	13
Recycling rate	7.4	%	44	50
Biomass volume	7.4	1000 tons	550	517
<b>Environmental compliance, etc.</b>				
Breaches of regulatory limits	7.5	No.	37	27
Neighbor complaints	7.5	No.	9	11
<b>References to notes without data</b>				
Bioethics & gene technology	7.6		n.a.	n.a.
Product safety & stewardship	7.7		n.a.	n.a.

# Social and governance performance

## Labor practices & human rights

The total number of employees at year-end 2016 was 6,441, compared with 6,485 at year-end 2015. The slight decrease was mainly due to the reorganization in 2016.

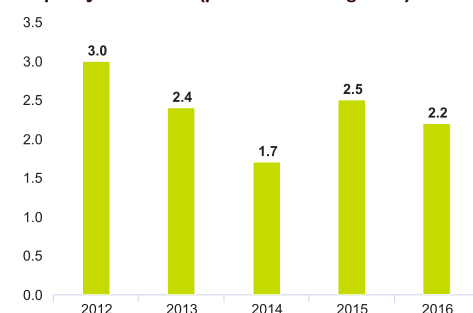
Novozymes continued to strengthen diversity within the organization while upholding the principles of merit-based selection and promotion. In 2016, 36% of the employees promoted were female, compared with 41% in 2015.

Novozymes' employee absence rate remained at 2.0% in 2016. Region-specific initiatives have been drawn up to reduce absences.

## Occupational health & safety

In 2016, the frequency of occupational accidents decreased to 2.2 per million working hours from 2.5 per million working hours in 2015. As the majority of the accidents involved falls or trips, a new program has been launched across all sites to raise awareness and reduce these types of accidents.

Frequency of accidents (per million working hours)



## Innovation

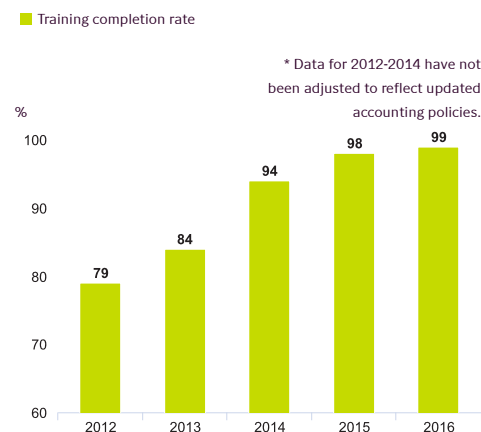
In 2016, Novozymes launched eight new products compared with six product launches in 2015. See the full list of new products in Novozymes in a nutshell.

## Business ethics

99% of Novozymes' employees completed business integrity training in 2016, compared with 98% in 2015.

The number of investigated fraud cases increased from 25 in 2015 to 44 in 2016. None of the investigated fraud cases, in both 2015 and 2016, had a material financial impact on Novozymes.

Business integrity training for employees\*



## Corporate Citizenship

In 2016, Novozymes engaged with more than 106,000 learners, compared with approximately 25,000 in 2015.

## Customer satisfaction measurement

A customer satisfaction survey was conducted among Novozymes' customers in 2016. The results show a high level of satisfaction, with a Net Promoter Score (NPS) of +45 on a scale from -100 to +100.



# Consolidated social and governance data

	Note		2016	2015
<b>Labor practices &amp; human rights</b>				
Employees, total	2.3	No.	6,441	6,485
Women	2.3	%	37.7	37.5
Men	2.3	%	62.3	62.5
Rate of absence	8.1	%	2.0	2.0
Employees promoted who are women	8.1	%	36	41
“Satisfaction and motivation” score in employee survey	8.1	No.	76	77
“Opportunities for professional and personal development” score in employee survey	8.1	No.	79	80
<b>Occupational health &amp; safety</b>				
Fatalities		No.	-	-
Frequency of occupational accidents	8.2	Per million working hours	2.2	2.5
Frequency of occupational diseases	8.2	Per million working hours	0.7	1.2
<b>Innovation</b>				
New products	2.4	No.	8	6
Active patent families	2.4	No.	1,123	1,164
<b>Business ethics</b>				
Completion of business integrity training for employees*	8.3	%	99	98
Breaches of competition law	8.3	No.	-	-
Investigated fraud cases*	8.3	No.	44	25
<b>Corporate Citizenship</b>				
Estimated number of learners reached*	8.4	No.	106,000	25,000
<b>Customer satisfaction measurement</b>				
Net Promoter Score (NPS)	8.5	No. (-100 to +100)	45	n.a.
<b>Reference to notes without data</b>				
Responsible sourcing	8.6		n.a.	n.a.

\* Comparison year data have been restated to reflect updated accounting policies.

# Notes

## **Basis of reporting**

- 1** Basis of reporting

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# 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

# 1 Basis of reporting (continued)

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



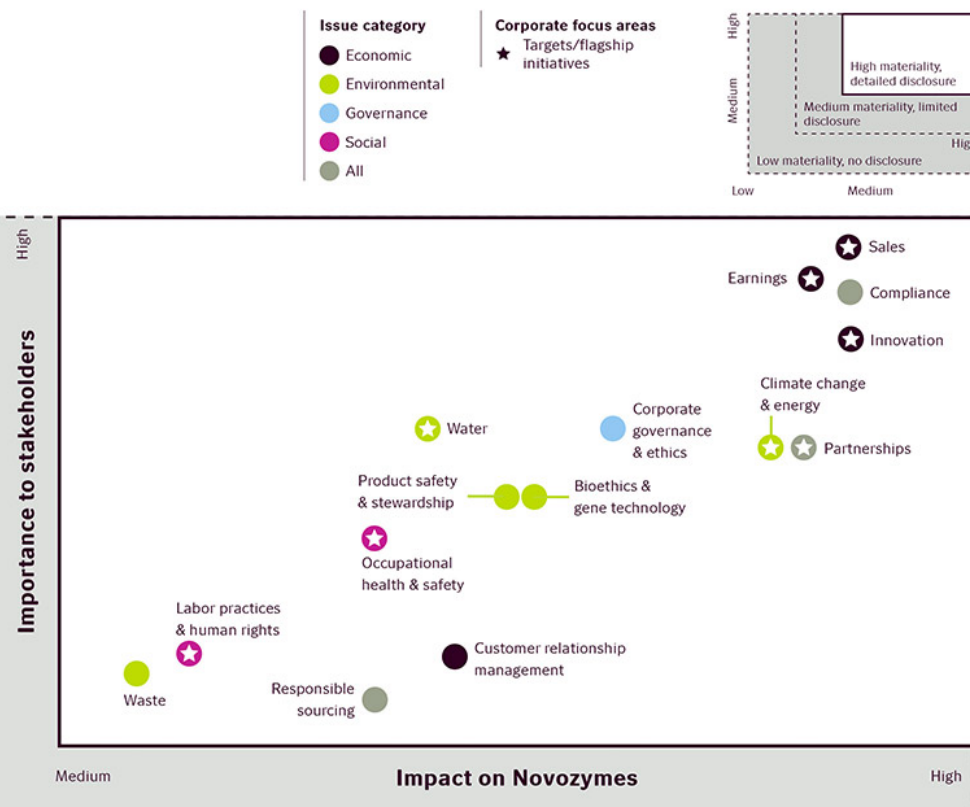
## Basis of reporting

# 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:

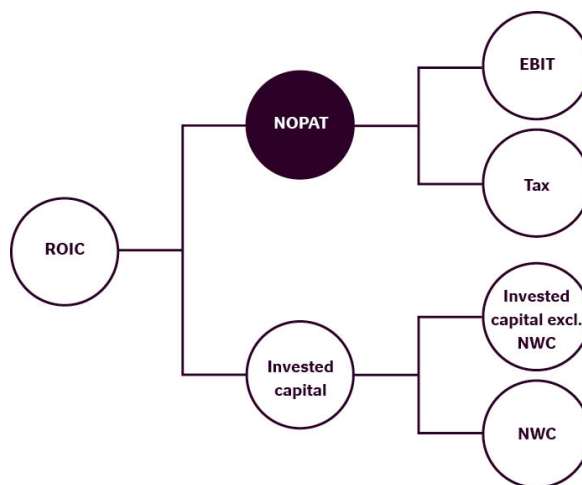
- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the reporting date
- Translation of long-term intercompany balances, which are considered to be an addition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

Net operating profit after tax

# Net operating profit after tax



Organic sales growth

2%

EBIT grew by DKK 62 million to DKK million

3,946

The EBIT margin grew by 0.2 percentage points to

27.9%

DKK million	Note	2016	2015
Revenue	2.2	14,142	14,002
Cost of goods sold		(6,016)	(5,873)
<b>Gross profit</b>		<b>8,126</b>	<b>8,129</b>
Sales and distribution costs		(1,622)	(1,571)
Research and development costs	2.4	(1,865)	(1,896)
Administrative costs		(810)	(876)
Other operating income, net	2.5	117	98
<b>Operating profit (EBIT)</b>		<b>3,946</b>	<b>3,884</b>
Exchange gains/(losses)		(2)	(158)
Tax on adjusted operating profit		(844)	(820)
Share of loss in associates	3.4	(31)	(6)
<b>Adjusted operating profit (NOPAT)</b>		<b>3,069</b>	<b>2,900</b>
<b>Average invested capital</b>		<b>12,238</b>	<b>11,213</b>
<b>ROIC</b>		<b>25.1%</b>	<b>25.9%</b>

## 2.1 Segments

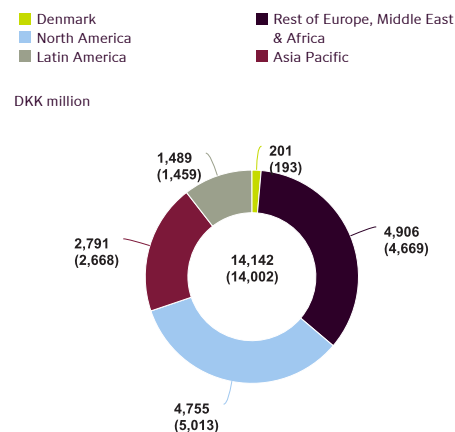
### No segment reporting

The internal reporting framework used for reporting on revenue and expenses to the Executive Leadership Team and the Board of Directors has been set up to reflect and report on the global functional responsibility setup at Novozymes. This setup consolidates functions by type, and Management reviews the results of the Group as a whole to assess performance thus, there is only one operating segment.

### Worldwide operations

The Group operates in four geographical regions: Europe, Middle East & Africa (including Denmark), North America, Asia Pacific and Latin America. From a revenue perspective, the US is the single largest market, contributing around 31% of the Group's revenue (2015: around 33%).

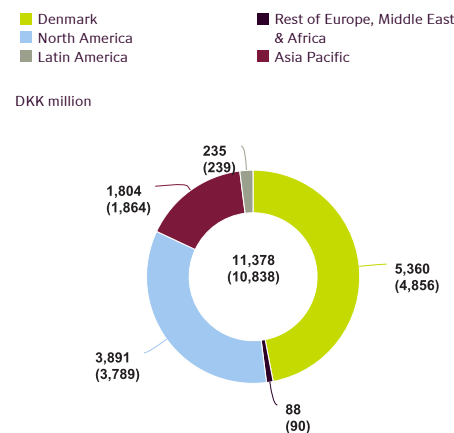
#### Revenue 2016 (2015)



The geographical distribution of revenue is based on the country in which the goods are delivered. With a number of customers, central deliveries are made to specified locations and the final recipient is unknown.

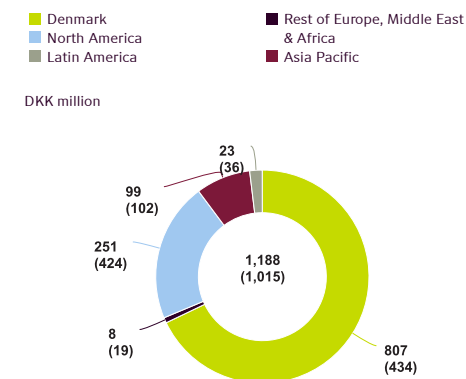
The stated geographical distribution of revenue may therefore vary from year to year if the delivery destination for these strategic customers changes.

#### Intangible assets and property, plant and equipment 2016 (2015)



The major part of the Group's intangible assets and property, plant and equipment are located in Denmark, the US and China at ~47%, ~33% and ~14% respectively (2015: ~45%, ~34% and ~15%).

#### Net investments 2016 (2015)



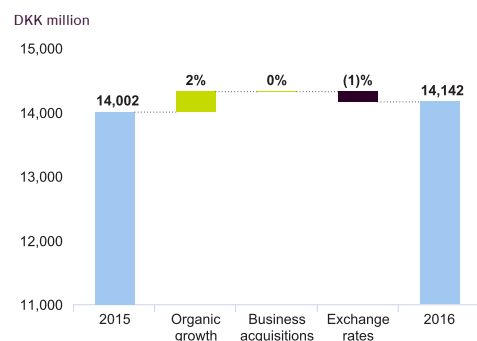


## 2.2 Revenue

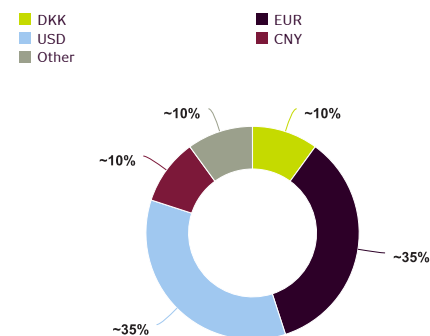
DKK million	2016	2015
Household Care	4,702	4,632
Food & Beverages	3,740	3,715
Bioenergy	2,438	2,543
Agriculture & Feed	2,206	2,130
Technical & Pharma	1,056	982
<b>Revenue</b>	<b>14,142</b>	<b>14,002</b>
Sales to the five largest customers as a percentage of revenue	33%	32%

A very limited part of the Group's total revenue arises from royalties.

### Sales growth 2016



### Sales by currency 2016



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group has entered into partnerships and collaboration agreements that include complex mechanisms for sharing profit and expenses. The complexity of the agreements

means there are several uncertainties in relation to interpretation. Revenue recognition for these partnerships and collaboration agreements is complex and requires significant judgment and estimates by Management.



### ACCOUNTING POLICIES

Revenue includes sales of goods and related services, commission income and royalties, less goods returned and volume and cash discounts. Sales are recognized at the time of risk transfer relating to the goods sold, provided that the revenue can be measured on a reliable basis and payment is expected to be received. A liability is recognized when it is permitted for goods to be returned and this is likely.

The Group has entered into agreements where the other contracting party undertakes sales to third parties and the

profit is distributed between the Group and the other contracting party on the basis of a predetermined formula.

Sales from these arrangements are recognized using information on the other contracting party's realized sales. Distribution of the profit is calculated and settled periodically, and a receivable/liability is recognized for any unsettled profit at the reporting date.

The Group has entered into commission agreements where agents undertake sales to third parties in return for commission on realized sales.

## Net operating profit after tax

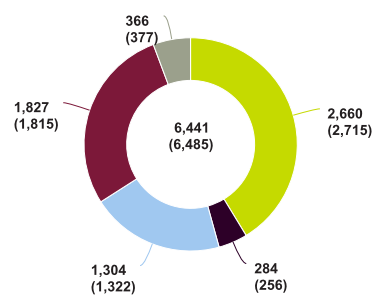
# 2.3 Employees

DKK million	2016	2015
Wages and salaries	3,007	2,998
Pensions – defined contribution plans	302	292
Other social security costs	262	267
Other employee costs	131	147
Stock-based payment	144	108
<b>Employee costs</b>	<b>3,846</b>	<b>3,812</b>
Recognized in the income statement under the following items:		
Cost of goods sold	1,378	1,352
Sales and distribution costs	830	831
Research and development costs	1,106	1,058
Administrative costs	517	538
	<b>3,831</b>	<b>3,779</b>
Change in employee costs recognized in Inventories	15	33
<b>Employee costs</b>	<b>3,846</b>	<b>3,812</b>

Number of employees 2016 (2015)



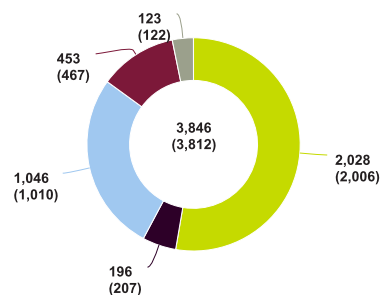
DKK million



Employee costs 2016 (2015)



DKK million



## 2.3 Employees (continued)

	2016	2015
Average number of employees in the Group	6,408	6,515
Average number of employees who work with R&D	1,502	1,566
Number of employees outside Denmark as a percentage of total number of employees	59%	58%
Part-time employees	292	301
Full-time employees	6,149	6,184
<b>Employees</b>	<b>6,441</b>	<b>6,485</b>
Senior management	207	213
Management	1,169	1,150
Professional	1,868	1,884
Administrative	571	575
Skilled workers, laboratory technicians and other technicians	1,422	1,440
Process operators	1,204	1,223
<b>Employees by category</b>	<b>6,441</b>	<b>6,485</b>



### ACCOUNTING POLICIES

The number of employees is derived from contractual obligations but does not include employees on unpaid leave, temporary replacements, student interns, agency employees, consultants or PhD students. In calculating the number of full-time employees, employees with a working-time ratio of 95% or over are stated as full-time employees.

The average number of employees is calculated as the average of the number of permanent employees at the end of each quarter.

Job categories are defined as follows: Senior management comprises the CEO, executive vice presidents, vice presidents and directors. Management comprises middle managers and specialists. Professional comprises employees with academic backgrounds as well as team leaders. Process operators comprises operators and unskilled workers.

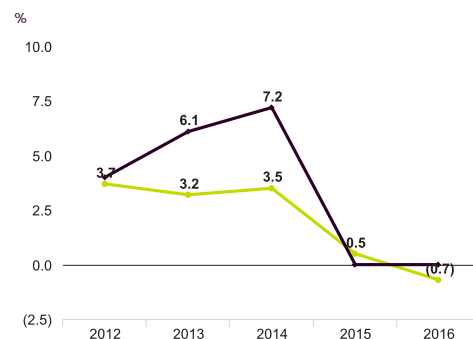
### Women in management and senior management 2016 (2015)

Women  
Men



### Employee growth

Growth in number of total employees  
Growth in number of female employees



## 2.4 Research and development costs

DKK million	Note	2016	2015
Internal and external research and development costs		573	671
Employee costs	2.3	1,106	1,058
Amortization and impairment losses, intangible assets	3.1	92	79
Depreciation and impairment losses, property, plant and equipment	3.2	94	88
<b>Total research and development costs</b>		<b>1,865</b>	<b>1,896</b>
As a percentage of revenue		13.2%	13.5%

In 2016, Novozymes launched eight new products (2015: six new products). New products comprises products with new or improved characteristics launched during the year.

In 2016, Novozymes had 1,123 active patent families (2015: 1,164). Active patent families comprises the number of inventions for which there are one or more active patent applications or active patents at year-end.

Reference is made to the Innovation pipeline update in the business model for an overview of significant market-expanding opportunities that are currently being pursued in Research & Development.



### ACCOUNTING POLICIES

Research and development costs primarily comprise employee costs, internal and external costs related to ongoing optimization of production processes for existing products or to development of new products, and amortization, depreciation and impairment losses related to intangible assets and property, plant and equipment used in the research and development activities.

Costs related to the development phase are expensed as incurred where lack of approval by the authorities, acceptance by customers and other uncertainties mean the development costs do not fulfill the criteria for recognition in the balance sheet.

Income received from research and collaboration agreements is recognized as part of Other operating income, net.



## 2.5 Other operating income, net

DKK million	2016	2015
Income and grants concerning research projects/ collaborations	29	17
Other secondary income, net	88	81
<b>Other operating income, net</b>	<b>117</b>	<b>98</b>



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group is party to various outlicensing and research and collaboration agreements, which can involve upfront and milestone payments that may occur over several years and may also involve certain future obligations.

Income is recognized only when, in Management's judgment, the significant risks and rewards of ownership have been transferred and the Group does not retain managerial involvement in or effective control over the assets sold, or when the obligation has been fulfilled. These assessments are essential for timing of income recognition and for classification of income as Revenue or Other operating income according to the revenue definitions.



### ACCOUNTING POLICIES

Other operating income comprises income that is not product related. This includes income from research and collaboration agreements, government grants, sale of

licenses, patents, etc., and other income of a secondary nature in relation to the main activities in the Group. This item also includes non-recurring income items in respect of damages, outlicensing, etc.

## 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.

## Net operating profit after tax

# 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	B/S	607	459
Deferred tax liabilities	B/S	(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	142	156
Tax payables	(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>

## 2.7 Earnings per share

DKK million		2016	2015
<b>Profit used to calculate earnings per share</b>	I/S	<b>3,050</b>	<b>2,823</b>
<b>Average number of shares</b>			
Weighted average number of shares in circulation		300,466,604	306,004,982
Average dilutive effect of outstanding stock options and stock awards		2,653,533	3,369,639
<b>Average number of diluted shares</b>		<b>303,120,137</b>	<b>309,374,621</b>
Earnings per share		DKK 10.15	DKK 9.23
Earnings per share, diluted		DKK 10.06	DKK 9.12



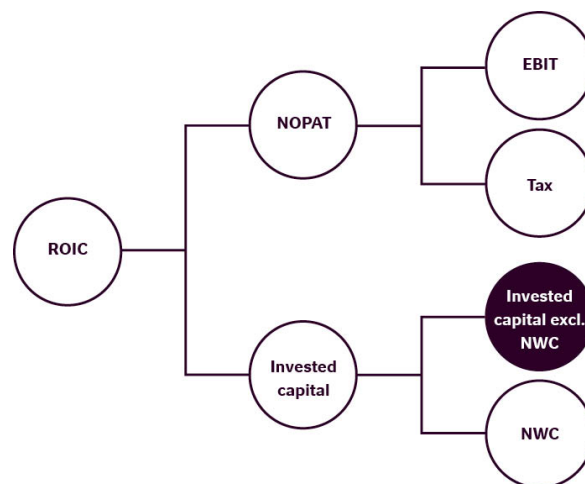
### ACCOUNTING POLICIES

Basic earnings per share is calculated as net profit attributable to shareholders in Novozymes A/S divided by the average number of shares in circulation.

Diluted earnings per share is calculated as net profit attributable to shareholders in Novozymes A/S divided by the average number of shares in circulation, including the dilutive effect of stock options “in the money.”

## Invested capital

# Invested capital



ROIC down from 25.9% in 2015 to

# 25.1%

Increase in average invested capital of DKK million

# 1,025

Net investments up from DKK 1,015 million in 2015 to DKK million

# 1,188

DKK million	Note	2016	2015
Intangible assets	3.1	2,737	2,676
Property, plant and equipment	3.2	8,641	8,162
Investments in associates	3.4	73	91
Net working capital (see Net working capital section)		2,088	1,708
Financial assets, non-interest-bearing		4	20
Provisions	3.3	(292)	(241)
Other non-current financial liabilities, non-interest-bearing		(14)	(14)
Other financial liabilities, non-interest-bearing		(111)	(42)
Tax, net		(542)	(469)
<b>Invested capital</b>		<b>12,584</b>	<b>11,891</b>
<b>Average invested capital</b>		<b>12,238</b>	<b>11,213</b>



## 3.1 Intangible assets and impairment test of goodwill

DKK million	Goodwill	Acquired patents, trademarks, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total
Cost at January 1, 2016	1,140	2,912	349	24	4,425
Currency translation adjustments	(3)	2	2	-	1
Additions from business acquisitions	22	216	-	-	238
Additions during the year	-	26	42	72	140
Disposals during the year	-	-	(20)	-	(20)
Transfers to/(from) other items	-	-	47	(47)	-
<b>Cost at December 31, 2016</b>	<b>1,159</b>	<b>3,156</b>	<b>420</b>	<b>49</b>	<b>4,784</b>
Amortization and impairment losses at January 1, 2016		(1,487)	(262)		(1,749)
Currency translation adjustments		(1)	(2)		(3)
Amortization during the year		(224)	(51)		(275)
Impairment losses		(40)	-		(40)
Disposals during the year		-	20		20
<b>Amortization and impairment losses at December 31, 2016</b>		<b>(1,752)</b>	<b>(295)</b>		<b>(2,047)</b>
<b>Carrying amount at December 31, 2016</b>	<b>1,159</b>	<b>1,404</b>	<b>125</b>	<b>49</b>	<b>2,737</b>

### Impairment

In 2016, an impairment loss of DKK 40 million on licenses has been recognized and included in Cost of goods sold. The impairment loss was the result of an impairment test performed on a specific asset where indication of impairment had been identified due to reduced cash flow projections for the assets in question. The cash flow used for impairment was based on business plans for the period 2017-2021. A WACC of 11% was used to calculate the discounted cash flows.

### Impairment test of goodwill

With effect from 2016, Management has identified two cash-generating units (CGUs): Novozymes' main activities and the Albedix Group. In 2015, Management monitored goodwill for the Novozymes Group as a whole, which meant that the impairment test of goodwill was performed for the Novozymes Group as a whole.

The market value of Novozymes is significantly greater than equity, and no further key assumptions are used in determining whether impairment of goodwill

exists for Novozymes' main activities (2015: no impairment).

The recoverable amount of the Albedix Group has been determined based on a value-in-use calculation. The key assumptions used in testing for impairment are based on Management's expectations for operational development and growth, which are partly based on past experience. This calculation uses risk-adjusted cash flow projections based on financial budgets and business plans approved by Management covering a budget period of 5 years. Cash



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

If there is any indication that an asset may be impaired, the asset's value in use is estimated and compared with the carrying amount. The calculation of value in use is based on the discounted cash flow method using estimates of future cash flows from the continuing use of the asset. The key parameter is the expected revenue streams. This parameter is based on estimates of the future, and the value in use calculated thus aggregates the natural uncertainty of these estimates. More information related to the estimates made may become available in future periods, which may give rise to changes in the estimated value in use.

flows beyond the 5-year budget period are extrapolated using an estimated growth rate of 3%. This growth rate does not exceed the long-term average growth rate for the markets in which the CGU operates. A WACC of 11% has been used to calculate the discounted cash flows for the Albedix Group.

As the value in use for the Albedix Group is greater than its carrying amount, no impairment has been identified.

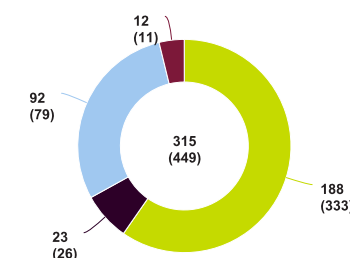
## 3.1 Intangible assets and impairment test of goodwill (continued)

DKK million	Goodwill	Acquired patents, trademarks, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total
Cost at January 1, 2015	1,113	2,836	314	-	4,263
Currency translation adjustments	(3)	13	1	-	11
Additions from business acquisitions	30	68	-	-	98
Additions during the year	-	4	21	38	63
Disposals during the year	-	(9)	(1)	-	(10)
Transfers to/(from) other items	-	-	14	(14)	-
<b>Cost at December 31, 2015</b>	<b>1,140</b>	<b>2,912</b>	<b>349</b>	<b>24</b>	<b>4,425</b>
Amortization and impairment losses at January 1, 2015		(1,077)	(232)		(1,309)
Currency translation adjustments		-	(1)		(1)
Amortization during the year		(245)	(30)		(275)
Impairment losses		(174)	-		(174)
Disposals during the year		9	1		10
<b>Amortization and impairment losses at December 31, 2015</b>		<b>(1,487)</b>	<b>(262)</b>		<b>(1,749)</b>
<b>Carrying amount at December 31, 2015</b>	<b>1,140</b>	<b>1,425</b>	<b>87</b>	<b>24</b>	<b>2,676</b>

Recognition of amortization and impairment losses by function 2016 (2015)

Cost of goods sold Sales and distribution  
Research and development Administration

DKK million



### Impairment

The intangible asset related to the partnership with Beta Renewables S.p.A has been fully written down by recognizing an impairment loss of DKK 174 million in 2015. This was partly offset by a compensation of DKK 120 million in accordance with the Beta Renewables

agreement. The net impairment loss of DKK 54 million has been recognized in Cost of goods sold.

The impairment loss was the result of an impairment test performed on the specific asset as the expectations for the cash flows

related to the asset had been reduced. The impairment test compared the discounted cash flow related to the future use of the asset with the carrying amount of the asset. The cash flow used was based on business plans for the period 2016-2022. A WACC of 13% was used to calculate the discounted cash flows.

## 3.1 Intangible assets and impairment test of goodwill (continued)

### § ACCOUNTING POLICIES

Intangible assets other than goodwill are measured at cost less accumulated amortization and impairment losses. Goodwill and IT development projects in progress are not subject to amortization.

Costs associated with large IT projects for the development of software for internal use are capitalized if they are incurred with a view to developing new and improved systems.

Amortization is based on the straight-line method over the expected useful lives of the finite-lived assets, as follows:

- Completed IT development projects are amortized over the useful life. IT development assets are amortized over a period of 3-5 years
- Acquired patents, trademarks, licenses and know-how are amortized over their useful lives. The useful lives of patents and trademarks are normally identical to the patent period. Licenses are amortized over the agreement period. Recognized patents, trademarks, licenses and know-how are amortized over a period of 7-15 years

Expected useful lives are reassessed regularly.

Research costs and development costs pertaining to ongoing optimization of production processes for existing products, or to development of new products where lack of approval by the authorities, acceptance by customers and other uncertainties mean that the development costs do not fulfill the criteria for recognition in the balance sheet, are expensed as incurred.

The Group regularly reviews the carrying amounts of its finite-lived intangible assets to determine whether there is an indication of an impairment loss. An impairment loss is recognized to the extent that the asset's carrying amount exceeds its estimated recoverable amount. Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Goodwill is tested for impairment annually or whenever there is an indication that the asset may be impaired.

## 3.2 Property, plant and equipment

DKK million	Land and buildings	Plant and machinery	Other equipment	Assets under construction and prepayments	Total
Cost at January 1, 2016	5,183	9,564	1,598	649	16,994
Currency translation adjustments	31	42	11	11	95
Additions from business acquisitions	-	-	2	-	2
Additions during the year*	326	197	82	530	1,135
Disposals during the year	(20)	(61)	(35)	-	(116)
Transfers to/(from) other items	84	215	35	(334)	-
<b>Cost at December 31, 2016</b>	<b>5,604</b>	<b>9,957</b>	<b>1,693</b>	<b>856</b>	<b>18,110</b>
Depreciation and impairment losses at January 1, 2016	(2,518)	(5,327)	(987)		(8,832)
Currency translation adjustments	(11)	(9)	(5)		(25)
Depreciation for the year	(148)	(426)	(125)		(699)
Disposals during the year	4	44	39		87
<b>Depreciation and impairment losses at December 31, 2016</b>	<b>(2,673)</b>	<b>(5,718)</b>	<b>(1,078)</b>		<b>(9,469)</b>
<b>Carrying amount at December 31, 2016</b>	<b>2,931</b>	<b>4,239</b>	<b>615</b>	<b>856</b>	<b>8,641</b>

\* Additions during the year include finance lease arrangements of DKK 59 million.

### Capitalized interest and pledges

Interest of DKK 4 million (2015: DKK 0 million) has been capitalized under Additions during the year above and included as Investing activities in the statement of cash flows.

Capitalization rate: 1.78%.

Land and buildings with a carrying amount of DKK 397 million (2015: DKK 412 million) have been pledged as security to credit institutions. The mortgage loan expires in 2029.

### Impairment

No impairment losses on property, plant and equipment have been recognized in 2016 (2015: no impairment losses).



### ACCOUNTING POLICIES

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Borrowing costs in respect of construction of major assets are capitalized.

Depreciation is based on the straight-line method over the expected useful lives of the assets, as follows:

- Buildings: 12-50 years
- Plant and machinery: 5-25 years
- Other equipment: 3-18 years

The assets' residual value and useful life are reviewed on an annual basis, and adjusted if necessary at each reporting date.

The Group regularly reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.

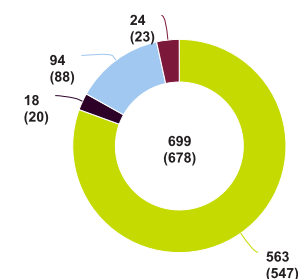
## 3.2 Property, plant and equipment (continued)

DKK million	Land and buildings	Plant and machinery	Other equipment	Assets under construction and prepayments	Total
Cost at January 1, 2015	4,838	8,779	1,431	524	15,572
Currency translation adjustments	186	376	53	18	633
Additions from business acquisitions	2	-	-	-	2
Additions during the year	92	328	108	440	968
Disposals during the year	(14)	(114)	(53)	-	(181)
Transfers to/(from) other items	79	195	59	(333)	-
<b>Cost at December 31, 2015</b>	<b>5,183</b>	<b>9,564</b>	<b>1,598</b>	<b>649</b>	<b>16,994</b>
Depreciation and impairment losses at January 1, 2015	(2,301)	(4,895)	(878)		(8,074)
Currency translation adjustments	(58)	(146)	(30)		(234)
Depreciation for the year	(169)	(389)	(120)		(678)
Disposals during the year	10	103	41		154
<b>Depreciation and impairment losses at December 31, 2015</b>	<b>(2,518)</b>	<b>(5,327)</b>	<b>(987)</b>		<b>(8,832)</b>
<b>Carrying amount at December 31, 2015</b>	<b>2,665</b>	<b>4,237</b>	<b>611</b>	<b>649</b>	<b>8,162</b>

Recognition of depreciation and impairment losses by function 2016 (2015)

■ Cost of goods sold  
■ Research and development  
■ Sales and distribution  
■ Administration

DKK million



## 3.3 Provisions

DKK million	2016			2015		
	Dismantling and restoration	Legal, contingent consideration and other	Total	Dismantling and restoration	Legal, contingent consideration and other	Total
Provisions at January 1	101	140	241	129	150	279
Currency translation adjustments	(1)	1	-	6	-	6
Additions during the year	1	72	73	1	22	23
Reversals during the year	-	(16)	(16)	(35)	(29)	(64)
Utilization during the year	-	(6)	(6)	-	(3)	(3)
<b>Provisions at December 31</b>	<b>101</b>	<b>191</b>	<b>292</b>	<b>101</b>	<b>140</b>	<b>241</b>
Recognized in the balance sheet as follows:						
Non-current	B/S 96	135	231	96	90	186
Current	B/S 5	56	61	5	50	55
<b>Provisions at December 31</b>	<b>101</b>	<b>191</b>	<b>292</b>	<b>101</b>	<b>140</b>	<b>241</b>

### Dismantling and restoration

Dismantling and restoration relates to estimated future costs of environmental restoration – Novozymes aims for production sites not to have a negative environmental impact – and restoration of leased premises when terminating the lease and vacating the premises. These liabilities relate to established circumstances, and these costs are expected to be incurred either when concrete measures are implemented or when the sites are vacated. The expected costs and timing are by nature uncertain.

Amounts with regard to restoration of leased premises are considered uncertain, as the final settlements will depend on thorough inspection of the premises and negotiations with the lessor at the time of vacating. The costs are expected to be incurred in a minimum of two years/maximum of 15 years.

### Legal, contingent consideration and other

Novozyymes is involved in a number of ongoing legal disputes, and provision is made for the estimated costs of these based on the current evaluation of the outcomes. The cases are expected to be finalized in 2017-2018. In Management's opinion, the outcome of

these cases will not give rise to any significant loss beyond the amounts provided for at December 31, 2016.

Contingent consideration and other provisions cover a number of obligations, including liability for returned goods, contingent consideration, etc. Other long-term employee benefits are also included but at only a minor amount, as the main part of Novozymes' pension plans are defined contribution plans, covering approximately 99% of employees. These obligations are mainly expected to be incurred over a long period.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Management assesses the need for provisions on an ongoing basis. This assessment takes account of the likelihood of Novozymes being obliged to expend financial resources and the amount at which the liabilities are expected to be settled. As these assessments are based on estimates of the future, they are subject to a high level of uncertainty and may give rise to changes in amounts in future accounting periods.



### ACCOUNTING POLICIES

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events and it is probable it will lead to an outflow of financial resources. Provisions are measured at the present value of the expected expenditure required to settle the obligation.

No provisions are discounted, as discounting does not have any significant impact on the carrying amounts.

## 3.4 Joint operations and associates

### Joint operations

In 2012, Novozymes formed a strategic partnership with Beta Renewables S.p.A. The objective of the partnership is to market, demonstrate and guarantee cellulosic biofuel solutions based on technologies held by Beta Renewables S.p.A. and Novozymes on a global basis. The parties have joint control of the partnership. The partnership had no material impact on revenue and earnings in 2016 (2015: no material impact).

Novozymes has interests in joint operations with Novo Nordisk. These are houseowners' associations and related utility facilities in connection with the shared Danish production sites in Kalundborg and Bagsvaerd. The operations had no impact on revenue and earnings in 2016 (2015: no impact). Novozymes

and Novo Nordisk share control of the arrangements equally.

### Associates

Novozymes holds 9.95% of the shares in Beta Renewables S.p.A., with which Novozymes has formed a jointly controlled operation within cellulosic biofuel solutions.

Novozymes holds 23.1% of the shares in Microbiogen Pty Ltd., with which Novozymes collaborates exclusively on the exploration and development of yeast for the ethanol industry.

In 2016, a minor investment was made in MagnaBioAnalytics LLC.

None of the associates is individually material to the Group.

DKK million		2016	2015
<b>Associates</b>			
Share of losses	I/S	(31)	(6)
<b>Comprehensive income for the year</b>		<b>(31)</b>	<b>(6)</b>
<b>Investments in associates</b>	B/S	<b>73</b>	<b>91</b>



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Although Novozymes holds less than 20% of the equity shares in Beta Renewables S.p.A., the Group exercises significant influence

by virtue of its contractual right to appoint members of key management boards, and has the power to participate in Beta Renewables' financial and operating policy decisions. Consequently, this investment has been classified as an associate.



### ACCOUNTING POLICIES

#### Joint operations

The Group's holdings in joint operations are consolidated by including its interest in the joint operations' assets, liabilities, revenue and costs.

#### Associates

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is initially recognized at cost, and the carrying amount is increased or decreased to recognize Novozymes' share of the profit or loss of the associate after the date of acquisition. The Group's investment in associates includes the fair value of the net assets and goodwill identified on acquisition.

The accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group. Gains and losses resulting from transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investors' investments in the associates.

In a step acquisition, the previously held equity interest in the acquiree is remeasured at its fair value on the acquisition date, and the resulting gain or loss is recognized in profit and loss. The estimated total fair value of the equity interest held immediately after the step acquisition is recognized as the cost of the equity interest.



## 3.5 Business acquisitions

The final purchase price allocation for Organobalance GmbH acquired in 2016 is as follows:

DKK million	Organobalance GmbH
The assumed fair value of acquired assets and liabilities is as follows:	
Intangible assets	216
Property, plant and equipment	2
Trade and other receivables	7
Cash	2
Deferred tax liabilities	(64)
Provisions	(2)
Financial and other liabilities	(5)
<b>Acquired net assets</b>	<b>156</b>
The purchase price is as follows:	
Cash	148
Contingent consideration	30
<b>Total purchase price</b>	<b>178</b>
<b>Goodwill</b>	<b>22</b>
Cash flow for acquisition:	
Cash payment	148
Less cash and cash equivalents in acquired business	(2)
<b>Cash outflow for acquisition</b>	<b>146</b>

On September 15, 2016, Novozymes acquired 100% of the voting shares in Organobalance GmbH. Organobalance GmbH owns a large collection of microbial strains and has strong capabilities in microbial screening and assay technology. The company specializes in developing natural microbial solutions for customers and partners across a number of industries, including Food, Feed and Animal Health.

Goodwill of DKK 22 million is attributable to expected synergies within Novozymes' existing microbial technologies and business areas. The goodwill is not tax-deductible.

The purchase agreement includes a contingent consideration of up to DKK 30

million. The consideration is contingent on achievement of a number of specific project development targets and sales targets, and is recognized at the anticipated acquisition-date fair value.

The net revenue and profit Organobalance GmbH has contributed to the consolidated income statement are immaterial for the period. This would also have been the case if the acquisition had been completed on January 1, 2016.

The transaction cost amounts to DKK 4 million and is included in administrative costs.

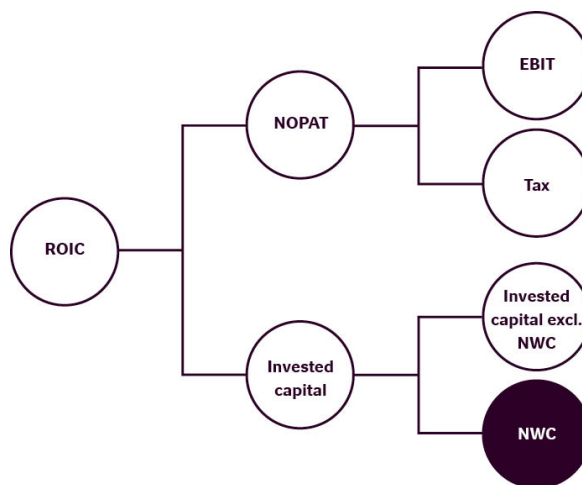
### § ACCOUNTING POLICIES

On acquisition of companies, the identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized at the fair values at the acquisition date. The consideration transferred includes the fair value at the acquisition date of any contingent consideration arrangement.

Goodwill may subsequently be adjusted for changes in the fair value of the consideration transferred and/or changes in the fair value of the identifiable net assets acquired until 12 months after the acquisition date, to the extent such changes relate to facts and circumstances present at the acquisition date. Acquired companies are consolidated from the date of acquisition. Acquisition-related costs are expensed as incurred.

## Net working capital

# Net working capital



Average net working capital in DKK million

# 1,898

Net working capital as % of sales

# 14.8%

Deferred income related to The BioAg Alliance released as revenue in 2016 in DKK million

# 194

DKK million	Note	2016	2015
Other receivables, non-current	4.3	57	116
Inventories	4.1	2,488	2,281
Trade receivables	4.2	2,680	2,558
Other receivables	4.3	267	294
Other liabilities, non-current		-	(12)
Deferred income	4.4	(788)	(992)
Trade payables		(1,194)	(1,189)
Other liabilities	4.5	(1,422)	(1,348)
<b>Net working capital</b>		<b>2,088</b>	<b>1,708</b>
Average net working capital		1,898	1,384

## 4.1 Inventories

DKK million	2016	2015
Raw materials and consumables	327	339
Work in progress	671	578
Finished goods	1,490	1,364
<b>Inventories at December 31</b>	<b>2,488</b>	<b>2,281</b>
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.

## 4.2 Trade receivables

DKK million	2016	2015
Trade receivables	2,792	2,694
Allowances for doubtful trade receivables	(179)	(179)
	<b>2,613</b>	<b>2,515</b>
Amounts owed by related companies	67	43
<b>Trade receivables at December 31</b>	<b>2,680</b>	<b>2,558</b>
Changes in allowances for doubtful trade receivables:		
At January 1	179	168
Allowances during the year	66	108
Write-offs during the year	(18)	(7)
Reversed allowances	(48)	(90)
<b>Allowances at December 31</b>	<b>179</b>	<b>179</b>
Age of trade receivables that are past due but not impaired:		
Up to 30 days	131	154
Between 30 and 90 days	36	52
More than 90 days	13	3
<b>Trade receivables past due but not impaired at December 31</b>	<b>180</b>	<b>209</b>

Novozymes has collateral held as security for trade receivables in selected countries of DKK 50 million (2015: DKK 51 million).



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The credit risk on trade receivables is mitigated by thorough, regular analyses based on customer type, country and specific terms and conditions.

Allowances for doubtful trade receivables are based on a country-specific credit rating by external rating agencies. However, the allowances also reflect Management's assessment and review of the individual receivables based on individual customer creditworthiness, receivables past due and current economic trends.

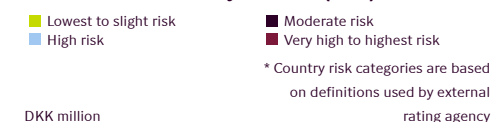


### ACCOUNTING POLICIES

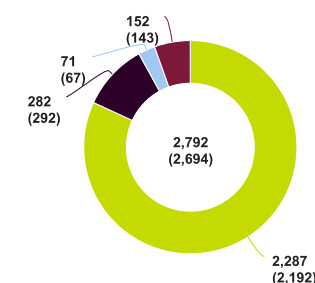
Trade receivables are measured at amortized cost or net realizable value equivalent to

nominal value less allowances for doubtful receivables, whichever is lower. The cost of allowances for doubtful trade receivables is included in Sales and distribution costs.

Trade receivables - country risk\* 2016 (2015)



DKK million



## 4.3 Other receivables

DKK million	2016	2015
Deposits	21	29
Prepaid expenses	114	165
Loans	5	-
Other	184	216
<b>Other receivables at December 31</b>	<b>324</b>	<b>410</b>
Recognized in the balance sheet as follows:		
Non-current <span>B/S</span>	57	116
Current <span>B/S</span>	267	294
<b>Other receivables at December 31</b>	<b>324</b>	<b>410</b>

## 4.4 Deferred income

DKK million	Amortization ends (year)	2016	2015
The BioAg Alliance	2023	741	950
Other	Up to 2022	47	42
<b>Other income at December 31</b>		<b>788</b>	<b>992</b>
Recognized in the balance sheet as follows:			
Non-current	B/S	540	769
Current	B/S	248	223
<b>Other income at December 31</b>		<b>788</b>	<b>992</b>
Expected to be recognized in the income statement:			
Within 1 year		248	223
Between 1 and 5 years		430	602
After 5 years		110	167
<b>Deferred income at December 31</b>		<b>788</b>	<b>992</b>

At December 31, 2016, deferred income amounted to DKK 788 million. This amount relates mainly to payments from Monsanto in connection with formation of The BioAg

Alliance in 2014. The planned release of deferred income is based on an assessment of the earnings process and the underlying deliverables, which are reassessed annually.

The reassessment in 2016 has not changed the planned release of deferred income.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Assessing the earnings process and the underlying deliverables for The BioAg Alliance requires judgment and is based on estimates of the future. These estimates are by nature subject to a high degree of uncertainty, and changes in such estimates may impact the timing of revenue recognition in future periods.



### ACCOUNTING POLICIES

Deferred income reflects the portion of payments received that relates to future periods and deliverables, and for which the criteria for revenue recognition are not yet met. Deferred income is measured at nominal value.

## 4.5 Other liabilities

DKK million		2016	2015
Employee costs payable		712	753
Stock-based payment settled in cash		24	45
Other payables		686	550
<b>Other liabilities at December 31</b>	B/S	<b>1,422</b>	<b>1,348</b>

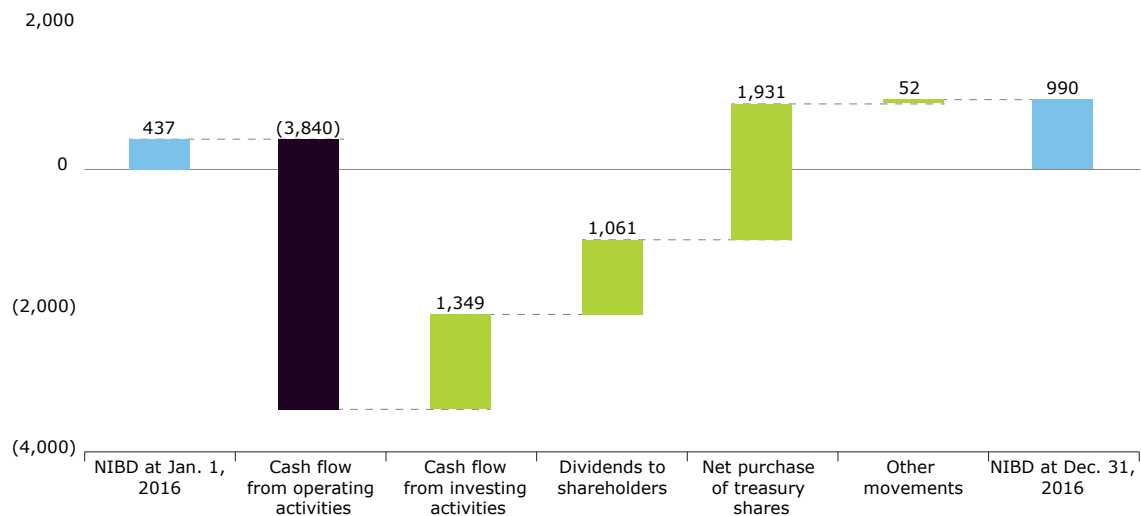


# Capital structure and financing



## Net interest bearing debt, 2016

DKK million



NIBD/EBITDA at December 31, 2016

0.2

Return on equity up from 24.7% to

26.1%

Novozymes bought back 6.8 million B shares under the stock buyback program with a transaction value of DKK million

2,000

## 5.1 Financial risk factors and risk management

Novozymes' international operations mean that its earnings and financial position are exposed to a number of financial risk factors. Financial risks are managed centrally for the entire Group. The treasury policy is approved by Novozymes' Board of Directors, and sets the limits for the various financial risks and the derivatives used to hedge the risks. The treasury policy is adjusted on an ongoing basis to adapt to the market situation, and contains rules on which derivatives can be used for hedging, which counterparties can be used and the risk profile that is to be applied.

### Currency risk

Currency risk arises due to imbalances between income and costs in each individual currency and because Novozymes has more assets than liabilities in foreign currencies in connection with its global operations.

Hedging of currency risk is carried out in the currencies where Novozymes has the largest exposure. The hedging is managed by entering into derivatives such as forward contracts, currency options and swaps. Loans and deposits in foreign currencies are also utilized as hedging. Hedge effectiveness is assessed on a regular basis.

Currency risk related to net investments in foreign subsidiaries is hedged where this is deemed appropriate by taking out loans and entering into swaps. Currently, there are no open transactions used to hedge equity investments.

### Foreign exchange sensitivity - 2016

The sensitivity analysis below shows the impact on net profit and other comprehensive income of a 5% change in the DKK versus the key

currencies to which Novozymes was exposed on December 31, 2016. For other comprehensive income, the analysis shows the impact on currency translation of net investments and does not include the impact of cash flow hedges, as these relate to future commercial transactions.

The sensitivity analysis reflects the transaction and translation risk, and assumes that the exchange rates are changed on December 31, 2016, and that all other variables remain constant. A similar negative change in exchange rates would have a similar opposite effect on net profit and other comprehensive income.

### Foreign exchange sensitivity - 2017 estimate

Operating profit/EBIT is exposed to currency changes, as the effect of hedges is included in

Financial income/costs.

Operating profit/EBIT is mainly exposed to the USD and EUR. A movement of 5% in the USD would result in a change in the expected operating profit/EBIT for 2017 of around DKK 100-120 million (2016: DKK 90-110 million). A 5% movement in the EUR would result in a change in expected operating profit/EBIT for 2017 of around DKK 150-200 million (2016: DKK 150-200 million). Of the expected USD cash flows for 2017, 100% has been hedged by forward contracts and currency options at an average rate of DKK 6.65. As a result, the impact on net profit from changes in the USD has been reduced significantly compared with the impact on operating profit/EBIT.

### Foreign exchange analysis 2016

DKK million	Increase in exchange rates	2016		2015	
		Change in net profit	Change in other comprehensive income	Change in net profit	Change in other comprehensive income
CHF	5.0%	-	37	1	66
CNY	5.0%	-	108	3	133
USD	5.0%	1	229	1	212
Other	5.0%	(2)	93	-	85
<b>Total</b>		<b>(1)</b>	<b>467</b>	<b>5</b>	<b>496</b>

## 5.1 Financial risk factors and risk management (continued)

### Interest rate risk

Interest rate risk arises in relation to interest-bearing assets and liabilities. In accordance with Novozymes' treasury policy, a minimum of 30% of loans must be at fixed interest rates. Hedging of the interest risk is managed by entering into fixed-rate loans and interest rate swaps.

An increase of 1 percentage point in the average interest rate on Novozymes' net interest-bearing debt would have a positive effect on profit of DKK 4 million (2015: DKK 4 million). At year-end 2016, 80% (2015: 75%) of the loan portfolio was at fixed interest rates.

### Credit risk

Credit risk arises especially on cash and cash equivalents, derivatives and trade receivables. Details of credit risk on trade receivables are included in Note 4.2. The credit risk on cash and cash equivalents as well as derivatives is mitigated by the treasury policy, which limits exposure solely to counterparties that have an investment-grade credit rating. The credit risk is calculated on the basis of net market values and is governed by the treasury policy. Novozymes has entered into netting agreements (ISDA or similar agreements) with all the banks used for trading in financial instruments, which means that Novozymes' credit risk is limited to net assets.

At December 31, 2016, the Group considered its maximum credit risk to be DKK 3,857 million (2015: DKK 3,801 million), which is the total of the Group's financial assets. At December 31, 2016, the maximum credit risk related to one counterparty was DKK 294 million (2015: DKK 232 million).

### Liquidity risk

In connection with the Group's ongoing financing of operations, including refinancing, efforts are made to ensure adequate and flexible liquidity. This is guaranteed by using committed credit facilities and placing free funds in deposits, government bonds or ultra-liquid mortgage bonds in accordance with the treasury policy.

At December 31, 2016, Novozymes' financial resources amounted to DKK 4,305 million (2015: DKK 2,796 million), consisting of net cash and cash equivalents and undrawn committed credit facilities of DKK 3,500 million, which expire in 2018-2021.

With the exception of credit institutions, the maturity dates are primarily within one year.

## 5.2 Financial income and Financial costs

DKK million		2016	2015
Interest income		5	4
Gain on cash flow hedges		8	-
Gains on fair value hedges, net		1	-
Fair value adjustments of cash-settled stock options		18	-
<b>Financial income</b>	I/S	<b>32</b>	<b>4</b>
Interest costs		(31)	(31)
Losses on cash flow hedges		-	(152)
Other financial costs		(24)	(57)
Other foreign exchange losses, net		(11)	(6)
Fair value adjustments of cash-settled stock options		-	(15)
<b>Financial costs</b>	I/S	<b>(66)</b>	<b>(261)</b>
<b>Financial income/costs, net</b>		<b>(34)</b>	<b>(257)</b>



### ACCOUNTING POLICIES

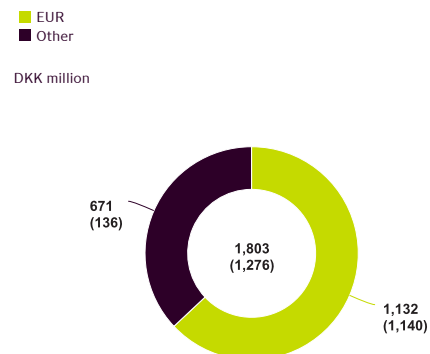
Financial income and Financial costs comprise interest income and interest costs, realized and unrealized foreign exchange gains and losses, as well as fair value adjustments of cash-settled stock-based incentive programs, which are offset against Other liabilities.

Financial income and Financial costs also include fair value adjustments of derivatives used to hedge assets and liabilities, and income and costs relating to cash flow hedges that are transferred from Other comprehensive income on realization of the hedged item.

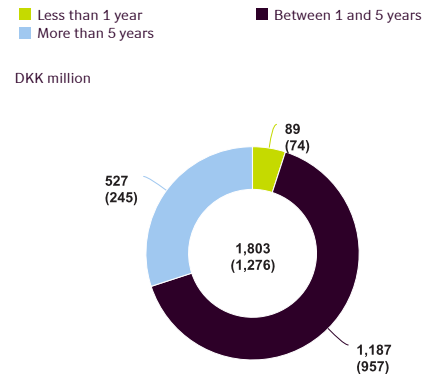
## 5.3 Other financial liabilities

DKK million	2016	2015
Credit institutions	1,803	1,276
Derivatives	124	56
<b>Other financial liabilities at December 31</b>	<b>1,927</b>	<b>1,332</b>
Recognized in the balance sheet as follows:		
Non-current	B/S 1,727	1,216
Current	B/S 200	116
<b>Other financial liabilities at December 31</b>	<b>1,927</b>	<b>1,332</b>

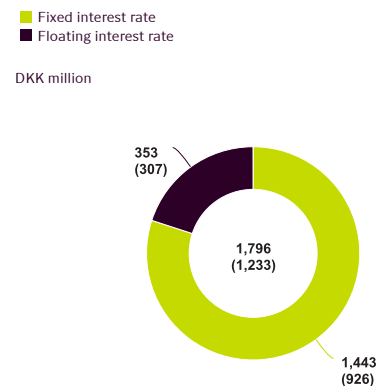
Credit institutions - currency 2016 (2015)



Credit institutions - time to maturity 2016 (2015)



Loan portfolio - fixed or floating interest rate 2016 (2015)



## 5.4 Derivatives – hedge accounting

### Fair value hedges

The table below shows the derivatives the Group has contracted to hedge currency exposure on financial assets and liabilities that give rise to currency adjustments in the income statement.

DKK million	2016		2015	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
<b>Forward exchange contracts</b>				
CAD	(340)	(5)	(290)	3
CHF	(693)	-	(429)	1
USD	103	(2)	326	(9)
Other	(170)	(5)	(234)	(1)
<b>Fair value hedges at December 31</b>	<b>(1,100)</b>	<b>(12)</b>	<b>(627)</b>	<b>(6)</b>

\* Positive contract amounts represent a sale of the respective currency, and negative amounts represent a purchase.

The forward exchange contracts fall due in the period January 2017 to April 2017 (2015: January 2016 to June 2016).

The fair value hedges were 100% effective, as the gain on forward exchange contracts was DKK 0.4 million (2015: loss of DKK 48 million),

compared with a loss on the hedged items of DKK 0.4 million (2015: gain of DKK 48 million).



### ACCOUNTING POLICIES

Hedge accounting consists of positive and negative fair values of derivatives, which are recognized in the balance sheet under Other financial assets and Other financial liabilities respectively.

Derivatives used for fair value hedges are measured at fair value on the reporting date, and value adjustments are recognized as Financial income or Financial costs.

Derivatives used for cash flow hedges and hedges of net investments in subsidiaries are measured at fair value on the reporting date, and value adjustments are recognized in Other comprehensive income.

Income and costs relating to cash flow hedges and hedges of net investments in subsidiaries are transferred from Other comprehensive income on realization of the hedged item and are recognized as Financial income or Financial costs.

Derivatives are recognized on the transaction date.

## 5.4 Derivatives – hedge accounting (continued)

### Cash flow hedges

The table below shows the derivatives that the Group has contracted to hedge currency and interest rate exposure in future cash flows.

DKK million	2016		2015	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
<b>Forward exchange contracts</b>				
EUR	-	-	369	(4)
USD	1,797	(95)	1,823	(13)
	<b>1,797</b>	<b>(95)</b>	<b>2,192</b>	<b>(17)</b>
<b>Currency options</b>				
USD	198	3	197	3
	<b>198</b>	<b>3</b>	<b>197</b>	<b>3</b>
<b>Interest rate swaps</b>				
EUR/EUR - pays fixed rate of 3.58% / earns variable rate of (0.191%) (2015: 0.049%)	111	(13)	112	(16)
DKK/DKK - pays fixed rate of 0.595% / earns variable rate of (0.025%)	521	(3)	-	-
	<b>632</b>	<b>(16)</b>	<b>112</b>	<b>(16)</b>
<b>Cash flow hedges at December 31</b>	<b>2,627</b>	<b>(108)</b>	<b>2,501</b>	<b>(30)</b>

\* Positive contract amounts represent a sale of the respective currency, and negative amounts represent a purchase.

The forward exchange contracts fall due in the period January 2017 to December 2017 (2015: January 2016 to December 2016), while the option contracts fall due in the period October 2017 to December 2017 (2015: July 2016

to September 2016), and the swaps fall due in July 2019 and May 2026 (2015: July 2019).

At the end of 2016, the Group had hedged 100% of expected future cash flows in USD

for 2017 at an average rate of DKK 6.65 (2015: 100% of expected future cash flows in USD for 2016 at an average rate of DKK 6.73).



## 5.5 Common stock and treasury stock

	2016		2015	
	No.	Nominal value DKK million	No.	Nominal value DKK million
<b>Common stock</b>				
A common stock (shares of DKK 2)	53,743,600	107	53,743,600	107
B common stock (shares of DKK 2)	256,256,400	513	259,256,400	519
<b>Common stock at December 31</b>	<b>310,000,000</b>	<b>620</b>	<b>313,000,000</b>	<b>626</b>
<b>Treasury stock - B stock</b>				
Treasury stock at January 1	9,618,693	19	11,489,888	23
Additions during the year	6,767,182	14	6,389,173	12
Disposals during the year	(1,004,137)	(2)	(1,560,368)	(3)
Cancellation of common stock	(3,000,000)	(6)	(6,700,000)	(13)
<b>Treasury stock at December 31</b>	<b>12,381,738</b>	<b>25</b>	<b>9,618,693</b>	<b>19</b>

No.	2016	2015
<b>Shares of common stock in circulation</b>		
Shares of stock at January 1	303,381,307	308,210,112
Purchase of treasury stock	(6,767,182)	(6,389,173)
Sale of treasury stock	1,004,137	1,560,368
<b>Shares of common stock in circulation at December 31</b>	<b>297,618,262</b>	<b>303,381,307</b>

Each A share gives an entitlement to 20 votes, while each B share gives an entitlement to two votes.

Each year the Board of Directors assesses whether the ownership structure with A and B common stock is optimal. The Board of Directors maintains that this is the best way to

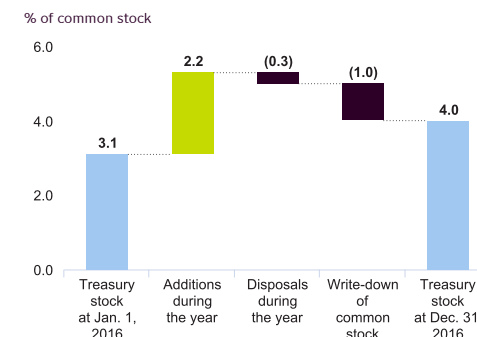
safeguard Novozymes' long-term development to the benefit of the company's shareholders and other stakeholders.

The treasury stock is used to reduce the common stock, and to hedge employees' exercise of granted stock awards and stock options.

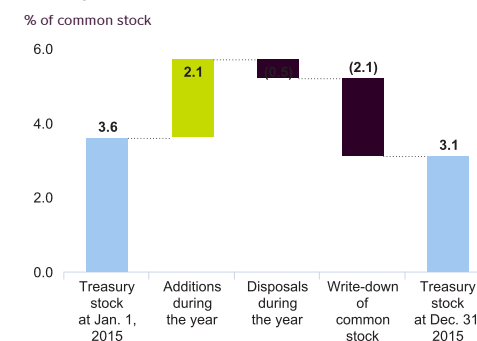
In 2016, Novozymes canceled 3 million treasury shares, reducing the common stock to 310 million shares.

From 2012 to 2015 the common stock was reduced with a DKK 11 million cancellation in 2013 and a DKK 13 million cancellation in 2015.

**Treasury stock 2016**



**Treasury stock 2015**



## 5.6 Financial assets and liabilities by category

The table below shows the Group's financial assets and financial liabilities at December 31 by category.

DKK million	Note	2016	2015
Trade receivables and other receivables, excl. prepaid expenses	4.2, 4.3	2,890	2,803
Cash and cash equivalents	6.6	812	839
<b>Loans and receivables</b>		<b>3,702</b>	<b>3,642</b>
Securities and other financial assets		151	139
<b>Available-for-sale financial assets</b>		<b>151</b>	<b>139</b>
Derivatives		4	20
<b>Hedge accounting (asset)</b>		<b>4</b>	<b>20</b>
<b>Financial assets</b>		<b>3,857</b>	<b>3,801</b>
Credit institutions	5.3	(1,803)	(1,276)
Trade payables		(1,194)	(1,189)
Other payables	4.5	(686)	(550)
<b>Financial liabilities at amortized cost</b>		<b>(3,683)</b>	<b>(3,015)</b>
Derivatives	5.3	(124)	(56)
<b>Hedge accounting (liability)</b>		<b>(124)</b>	<b>(56)</b>
<b>Financial liabilities</b>		<b>(3,807)</b>	<b>(3,071)</b>

### Measurement and fair value hierarchy

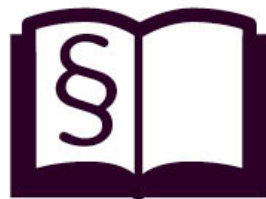
All financial assets and liabilities, except for derivatives and other financial assets, are measured at cost and amortized cost. The carrying amounts for these approximate fair value. Derivatives and other financial assets are measured at fair value on

observable data (level 2 input) according to the fair value hierarchy. The derivatives and other financial assets are not traded on an active market based on quoted prices, but are individual contracts. The fair value of these assets is determined using valuation techniques that utilize market-based data

such as exchange rates, interest rates, credit risk and volatilities. There are no financial instruments measured at fair value on the basis of quoted prices (level 1 input) or non-observable data (level 3 input).

Other financial notes

# Other financial notes



**This section contains other statutory disclosures not related to the previous sections.**

**Grant date fair value of options granted in 2016 in DKK million**

**103**

**In compliance with Novozymes' audit fee policy**

**Ratio < 1**

**No. of Danish and foreign subsidiaries in the Group**

**47**

## 6.1 Management remuneration

DKK million	2016			2015		
	Executive Leadership Team	Board of Directors	Total	Executive Leadership Team	Board of Directors	Total
Salaries and other short-term benefits	38	7	45	40	7	47
Defined contribution plans	9	-	9	9	-	9
Expensed stock-based incentive programs	36	-	36	34	-	34
Severance package	62	-	62	-	-	-
<b>Remuneration</b>	<b>145</b>	<b>7</b>	<b>152</b>	<b>83</b>	<b>7</b>	<b>90</b>

### Executive Leadership Team

Remuneration of the Executive Leadership Team comprises a base salary, pension contributions, a cash bonus scheme, stock-based incentive programs and other benefits (car, telephone, etc.). The variable part of the total remuneration (cash bonus and stock-based incentive programs) is relatively large compared with the base salary, and is dependent on achievement of individual targets and Novozymes' targets for financial, social and environmental performance. The maximum annual cash bonus is equivalent to five months' fixed base salary plus pension contributions. General guidelines for remuneration of the Executive Leadership Team are approved at the Annual Shareholders' Meeting, and more detailed

information is available in the Remuneration report.

Members of the Executive Leadership Team have contracts of employment containing standard conditions for executive officers of Danish listed companies, including the periods of notice that both parties are required to give and noncompetition clauses. If the executive officer's contract of employment is terminated by the company without misconduct on the part of the executive officer, the executive officer has the right to compensation, which, depending on the circumstances, may amount to a maximum of two years' base salary and pension contributions.

### Changes in the Executive Leadership Team

In February 2016, Novozymes announced a change in the organizational structure. As part of the reorganization, Novozymes appointed former Vice President of Sales Tina Sejersgård Fanø as Executive Vice President (EVP), Agriculture & Bioenergy; former Vice President of Sales Anders Lund as EVP, Household Care & Technical; and former EVP, Business Operations, Andrew Fordyce transferred into the role of EVP, Food & Beverages.

Furthermore, Per Falholt, former Executive Vice President, R&D, stepped down from the Executive Leadership Team. He continues to support Novozymes in a consulting role on technology scouting. Thomas Nagy, former Executive Vice President, Supply

Operations, left Novozymes. Per Falholt and Thomas Nagy will continue to receive salary and bonuses during the notice period (12 months) as well as termination compensation (24 months), totaling DKK 40.7 million. Furthermore, they will participate in the stock-based incentive program during the notice period, the fair value of which is DKK 21.3 million. The severance packages were fully expensed in 2016.

## 6.2 Stock-based payment

Novozymes has established stock-based incentive programs for the Executive Leadership Team, vice presidents and directors, and other employees. The purpose of these programs is to ensure common goals for Management, employees and shareholders. Allocation of programs has been, and remains, dependent on profit, value-creation and, in most cases, sustainability targets being achieved. At the time of granting stock options, there is no difference between exercise price and share price.

In 2014, a three-year incentive program for the Executive Leadership Team was established, covering the period 2014-2016. The program was a combination of stock options and stock, with half of the incentive program allocated in stock and half in stock options. Stock options have been awarded annually in 2014, 2015 and 2016, while the stock will be allocated in 2017. The accumulated economic profit generated in the three-year period was DKK 6.1 billion, exceeding the DKK 5.5 billion target and resulting in the full program being awarded. A total of 215,974 shares will be released in January 2017, as shares purchased using dividends during the three-year period are included.

The program contains a maximum-value clause, allowing the Board of Directors to choose to limit the total allocation of stock and stock options if the intrinsic value of

the program exceeds DKK 268 million at the end of the program. However, there will be no limitation on the total allocation, as the intrinsic value is DKK 57 million for the current Executive Leadership Team.

The total fair value of the program at grant date was DKK 134 million, which is expensed over a six-year period. The value of the stock has been expensed over the three-year period. The stock options have a vesting period of four years, followed by an exercise period of five years. The fair value of the stock options will be expensed over a four-year period for each of the three allocations.

Furthermore, a three-year program was established for vice presidents and directors in 2014. The total fair value at grant date was DKK 150 million, which is expensed over a six-year period. The value of the stock has been expensed over the three-year period. To a large degree, the program used the same mechanisms as the program for the Executive Leadership Team. 100% of the program has been awarded to vice presidents and 93% to directors. In total, 98% of the program has been awarded with an intrinsic value of DKK 108 million, thereby below the maximum-value clause of DKK 300 million. The final number of shares of stock allocated under this program to be released in January 2017 is 404,505.

For other employees, a three-year incentive program was established in 2014 with annual awards in 2014, 2015 and 2016. The awarded stock options have a vesting period of four years, after which there is an exercise period of five years. The fair value of the three-year program is DKK 120 million, which will be expensed over a four-year period for each of the three allocations.

The cumulative targets for economic profit, EBIT and sustainability for 2014-2016 were partly met, triggering an allocation of 93% of the maximum possible allocation, with an intrinsic value of DKK 8 million. The Executive Leadership Team, vice presidents and directors, who were already included in existing incentive programs, were excluded from this program.

In previous years, stock option programs were established for all or selected groups of employees, conferring the right to purchase one share per stock option. Allocations were made on the basis of the individual employee's base salary and achievement of a series of business targets – both financial and nonfinancial – set by the Board of Directors for each year. The stock options have a vesting period of four years, followed by an exercise period of five years. In order to exercise the options, the employee must still be employed on the exercise date. This does not apply to persons who have retired, taken a voluntary early retirement pension or been given notice.



### ACCOUNTING POLICIES

The Group has established stock-based incentive programs comprising equity-settled and cash-settled programs.

The fair value of the employee services received in exchange for the grant of stock options and stock awards is calculated using the value of the granted stock options and stock awards.

The fair value of stock-based payment on the grant date is recognized as an employee cost over the period in which the stock options vest. In measuring the fair value, account is taken of the number of employees expected to gain entitlement to the options as well as the number of options the employees are expected to gain. This estimate is adjusted at the end of each period such that only the number of options to which employees are entitled or expected to be entitled is recognized.

The value of equity-settled programs is recognized in Shareholders' equity. The value of cash-settled programs, which are recognized as Other liabilities, is adjusted to fair value at the end of each period, and the subsequent adjustment in fair value is recognized in the income statement under Financial income or Financial costs.

## 6.2 Stock-based payment (continued)

The number of outstanding options (excl. stock awards) has developed as follows:

	Executive Leadership Team	Vice presidents and directors	Other employees	Total	Avg. exercise price per option	Grant date fair value per option	Grant date fair value total
	Number of options	Number of options	Number of options	Number of options	DKK	DKK	DKK Million
Outstanding at January 1, 2016	1,231,992	3,802,574	2,317,133	7,351,699	200		
Change in Management	(244,290)	244,290		-			
Granted*	467,927	745,634	837,438	2,050,999	274	50	103
Exercised	(12,385)	(599,133)	(264,069)	(875,587)	82		
Forfeited	-	(34,140)	(108,816)	(142,956)	278		
Expired	-	(2,160)	(25,010)	(27,170)	99		
<b>Outstanding at December 31, 2016</b>	<b>1,443,244</b>	<b>4,157,065</b>	<b>2,756,676</b>	<b>8,356,985</b>	<b>230</b>		
Outstanding at January 1, 2015	1,010,673	4,297,788	1,840,122	7,148,583	152		
Granted*	463,749	564,325	845,172	1,873,246	301	51	96
Exercised	(242,430)	(877,159)	(315,771)	(1,435,360)	309		
Forfeited	-	(180,910)	(52,390)	(233,300)	151		
Expired	-	(1,470)	-	(1,470)	69		
<b>Outstanding at December 31, 2015</b>	<b>1,231,992</b>	<b>3,802,574</b>	<b>2,317,133</b>	<b>7,351,699</b>	<b>200</b>		
Number of exercisable options at December 31, 2016				1,200,563	89		
Number of exercisable options at December 31, 2015				2,089,597	86		

\* The allocation of stock options for 2014-2016 will be adjusted in January 2017 based on the cumulative level of target achievement in the period.

For stock options outstanding at December 31, 2016, the range of exercise prices is DKK 78-317 per option (2015: DKK 78-317 per option), and the weighted average remaining term to maturity is six years (2015: six years). The weighted average share price for stock options exercised during 2016 was DKK 287 (2015: DKK 309). The number of stock options outstanding with a remaining term to maturity of up to five years is 2,461,568

(2015: 2,089,597), with a range of exercise prices of DKK 78-209 (2015: DKK 78-165) and an average exercise price of DKK 138 (2015: DKK 86). The remaining outstanding stock options have a weighted average remaining term to maturity of seven years (2015: seven years), a range of exercise prices of DKK 233- 317 (2015: DKK 178-317) and an average exercise price of DKK 268 (2015: DKK 246).

Most programs are equity settled, and no liability is recognized for these. In the case of allocations in countries where ownership of foreign stock is not permitted, the value of stock options is settled in cash, and a liability of DKK 24 million has been recognized for this in 2016 (2015: DKK 45 million). The intrinsic value of exercisable cash-settled programs in 2016 was DKK 16 million (2015: DKK 49 million).

During 2016, DKK 144 million arising from stock-based payment has been recognized in the income statement (2015: DKK 106 million), of which DKK 136 million is from equity-settled programs (2015: DKK 101 million). This includes DKK 21 million related to the remaining total costs from outstanding programs in connection with the reorganization redundancies.

## 6.2 Stock-based payment (continued)

The fair value of services received is measured with reference to the fair value of the equity instruments granted. Fair value at grant date is measured using the Black-Scholes model,

using the average exercise price (which is 0 for stock awards), the option term and the following significant assumptions:

	2016	2015
Expected future dividends per share, DKK	28.5	26.3
Volatility, %	25.1	22.9
Annual risk-free interest rate, %	0.1	0.0
Weighted average share price at grant date, DKK	274	301

The fair value of stock options granted during 2016 is to be expensed over the four-year vesting period.

Furthermore, the options are expected to be exercised two years after the vesting period, on average, or at the option's expiry date if this is within one year. Volatility is estimated using the historical volatility over the last three years. The risk-free interest rate is based on Danish government bonds with a maturity equivalent to the option's term to maturity.

The fair value of stock awards outstanding at December 31, 2016, is DKK 149 million (2015: DKK 257 million). The fair value of stock awards granted during 2016 was DKK 0 million (2015: DKK 0 million).

The number of non-vested stock awards at December 31, 2016, is 612,577 (2015: 777,076).

At the beginning of 2016, a four-year incentive program was established for the Albumedix leadership team, covering the period 2016-2019. The program is a warrant program conferring the right to purchase new shares in Albumedix A/S subject to a certain minimum increase in equity value, and includes a maximum value clause.

Total fair value at grant date was DKK 6 million, which will be expensed over a four-year period. The warrants have a vesting period of four years and will be granted in 2020.

## 6.3 Commitments and contingencies

DKK million	2016	2015
Recognized in the income statement in respect of rentals	119	112
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	107	100
Between 1 and 2 years	85	77
Between 2 and 3 years	59	52
Between 3 and 4 years	42	43
Between 4 and 5 years	28	31
After 5 years	139	71
<b>Rental commitments at December 31</b>	<b>460</b>	<b>374</b>

Of this, commitments to related parties at December 31, 2016, amount to DKK 31 million, compared with DKK 34 million at December 31,

2015. The above rental commitments relate to noncancelable operating leases, primarily for buildings and offices.

DKK million	2016	2015
<b>Other commitments</b>		
Contractual obligations to third parties relating to property, plant and equipment	979	452
<b>Other guarantees</b>		
Other guarantees and commitments to related companies	75	80
Other guarantees and commitments	288	359

Contractual obligations to third parties relating to capital expenditure were significantly impacted

in 2016 by the decision to establish a new innovation campus in Denmark.

### Pending litigation and arbitration

Novozymes is engaged in certain legal proceedings. In the opinion of the Board of Directors and Executive Leadership Team, settlement or continuation of these proceedings will not have a material effect on the Group's financial position. A liability has been recognized under provisions where the risk of a loss on a legal proceeding is considered more likely than not.

### Contract conditions

Several of the partnership contracts to which Novozymes is a party could be terminated by the opposite party in the event of significant changes concerning ownership or control of Novozymes. Furthermore, a few contracts contain provisions that restrict Novozymes' licenses to use specific forms of technology in such situations.

Novozymes is committed to establishing a biological learning center in conjunction with the innovation campus currently under construction in Lyngby. The monetary commitment cannot be estimated reliably at the moment.

Novozymes is committed to increasing its production capacity in Latin America if a specific customer reaches certain milestones. The amount required to meet this commitment cannot be estimated reliably at the moment.



## Other financial notes

# 6.4 Related party transactions

Novozymes A/S is controlled by Novo A/S, domiciled in Hellerup, Denmark, which holds 71% of the votes in Novozymes A/S. The remaining stock is widely held. The ultimate parent of the Group is the Novo Nordisk Foundation (incorporated in Denmark).

Related parties are considered to be Novo A/S and the Novo Nordisk Foundation, and the Board of Directors and the Executive Management of these entities together with their immediate families. Other related parties are considered to be the Novo Nordisk Foundation's subsidiaries and associates, such as the Novo Nordisk Group, the NNIT

Group and the Chr. Hansen Group, associates of Novozymes A/S, as well as the Board of Directors and the Executive Leadership Team of Novozymes A/S together with their immediate families. Related parties also include companies where the above persons have control or joint control.

All agreements relating to these transactions are based on market price (arm's length). The majority of the agreements are renegotiated regularly. The Group has had the following transactions with related parties:

### Transactions

DKK million	2016	2015
<b>The Novo Nordisk Group</b>		
Sale of goods and materials	74	57
Sale of services	76	108
Purchase of goods and materials	(91)	(92)
Purchase of services	(72)	(93)
<b>The NNIT Group</b>		
Purchase of services	(41)	(48)
<b>The Chr. Hansen Group</b>		
Sale of goods and materials	25	20

There have not been any material transactions with related parties other than the transactions described above, and normal remuneration

of the Board of Directors and Executive Leadership Team, which is presented in Note 6.1.

### Outstanding balances

DKK million	2016	2015
<b>The Novo Nordisk Group</b>		
Receivables	64	42
Payables	(117)	(102)
<b>The NNIT Group</b>		
Payables	(9)	(12)
<b>The Chr. Hansen Group</b>		
Receivables	3	1

## 6.5 Fees to statutory auditor

DKK million	2016	2015
Statutory audit	8	9
Other assurance engagements	-	-
Tax assurance services	4	6
Other services	1	5
<b>Fees to statutory auditor</b>	<b>13</b>	<b>20</b>
Audit fee ratio	0.63	1.22

### Audit fee policy

It is Novozymes' policy that the annual fee for nonaudit services provided by the statutory auditor elected by the Annual Shareholders' Meeting must not exceed the annual fee for statutory audit services measured at Group level. The audit fee ration can only exceed 1 with the approval

of the Audit Committee. In 2016, no such approvals were given.

In 2015, approval was given for a nonrecurring advisory service of DKK 3.5 million related to the potential spinoff or closing down of the hyaluronic acid activities.

New upcoming rules arising from the EU audit reform has led to restrictions on the size and type of nonaudit services that the auditor may perform while performing the audit. Novozymes does not receive any nonaudit services that are prohibited.

## Other financial notes

# 6.6 Cash flow

DKK million	Note	2016	2015
<b>Non-cash items</b>			
Accrued interest income and interest costs		26	27
(Gain)/loss on financial assets, etc., net		(21)	43
Depreciation, amortization and impairment losses	3.1, 3.2	1,014	1,127
Realized loss and allowances for doubtful trade receivables		15	11
Financial (gain)/loss on sale of assets		(7)	11
Unrealized foreign exchange (gain)/loss		(20)	(97)
Tax	2.6	831	796
Stock-based payment	6.2	144	106
Change in provisions		22	(38)
Profit/loss in associates		31	6
<b>Non-cash items</b>		<b>2,035</b>	<b>1,992</b>
<b>Business acquisitions and purchase of financial assets</b>			
Acquisition of Organobalance GmbH	3.5	(146)	-
Other acquisitions and purchase of financial assets		(15)	(242)
<b>Cash flow from acquisitions</b>		<b>(161)</b>	<b>(242)</b>
<b>Cash and cash equivalents, net</b>			
Cash and cash equivalents		812	839
Credit institutions - on demand		(7)	(43)
<b>Cash and cash equivalents, net, at December 31</b>		<b>805</b>	<b>796</b>

Undrawn committed credit facilities were DKK 3,500 million at December 31, 2016 (2015: DKK 2,000 million), all of which expires in 2018-2021.



## ACCOUNTING POLICIES

The Consolidated statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing and financing activities, and the Group's cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities comprises net profit adjusted for non-cash items, paid financial items, corporate income tax paid and change in working capital. Cash flow from investing activities comprises payments relating to the acquisition and sale of companies and non-controlling interests, intangible assets, and property, plant and equipment.

Cash flow from financing activities comprises proceeds from borrowings, repayment of principal on interest-bearing debt, payment of dividends, proceeds from stock issues, and the sale of treasury stock and other securities.

Cash and cash equivalents comprises cash at bank and in hand less current bank loans due on demand.

## Other financial notes

# 6.7 Events after the reporting date

No events have occurred after the balance sheet date of importance to the consolidated financial statements.

# 6.8 Group companies

	Country	Activity						Issued common stock/paid-up stock	Percentage of shares owned
Parent company									
Novozymes A/S	Denmark	■	□	●	◆	○	DKK	620,000,000	
Subsidiaries									
Novozymes BioAg S.A.	Argentina	■	□	●	◆		ARS	70,260,400	100
Novozymes Australia Pty. Ltd.*	Australia			●			AUD	500,000	100
Novozymes Belgium BVBA*	Belgium			●			EUR	18,600	100
Novozymes Latin America Ltda.*	Brazil	■	□	●	◆		BRL	23,601,908	100
Novozymes BioAg Productos Para Agricultura Ltda.	Brazil		□	●			BRL	78,334,641	100
Novozymes BioAg Limited	Canada	■	□	●	◆		CAD	4,079,799	100
Novozymes Canada Limited	Canada	■	□	●			CAD	100	100
Novozymes (China) Biotechnology Co. Ltd.	China	■	□	●			CNY	859,058,400	100
Novozymes (China) Investment Co. Ltd.	China			●	◆		CNY	816,449,373	100
Novozymes (Shenyang) Biologicals Co. Ltd.	China	■	□	●			CNY	31,793,578	100
Suzhou Hongda Enzyme Co. Ltd.	China	■	□	●			CNY	356,744,150	96
Novozymes (China) Biopharma Co. Ltd.	China	■	□	●			CNY	327,242,564	100
Novozymes Bioindustrial A/S*	Denmark					○	DKK	1,100,000	100
Novozymes Bioindustrial China A/S*	Denmark					○	DKK	729,700,000	100
Albumedix A/S*	Denmark			●		○	DKK	612,000	100
Novozymes BioAg A/S*	Denmark					○	DKK	600,000	100
Novozymes France S.A.S.*	France			●			EUR	2,490,453	100

## 6.8 Group companies (continued)

	Country	Activity		Issued common stock/paid-up stock	Percentage of shares owned
Novozymes Deutschland GmbH*	Germany	●		EUR 255,646	100
Organobalance GmbH	Germany	□ ● ◆		EUR 34,000	100
Novozymes Hong Kong Ltd.	Hong Kong		○	HKD 768,285,140	100
Novozymes Biopharma Hong Kong Co. Ltd.	Hong Kong		○	HKD 1	100
Novozymes South Asia Pvt. Ltd.	India	■ □ ● ◆		INR 1,550,000,020	100
Novozymes Italia S.r.l.*	Italy	●		EUR 10,400	100
Novozymes Japan Ltd.*	Japan	● ◆		JPY 300,000,000	100
Novozymes Malaysia Sdn. Bhd.*	Malaysia	● ◆		MYR 6,666,414	100
Novozymes Mexicana, S.A. de C.V.*	Mexico	●		MXN 338,100	100
Novozymes Mexico, S.A. de C.V.	Mexico	●		MXN 35,224,200	100
Novozymes Netherlands BVBA*	Netherlands	●		EUR 18,000	100
Novozymes RUS LLC*	Russia	●		RUB 10,010,000	100
Novozymes Singapore Pte. Ltd.*	Singapore		○	SGD 59,071,000	100
Novozymes South Africa (Pty) Ltd.*	South Africa	●		ZAR 50,000,000	100
Novozymes Korea Limited*	South Korea	●		KRW 300,000,000	100
Novozymes Spain S.A.*	Spain	●		EUR 360,607	100
Novozymes Sweden AB*	Sweden	●		SEK 500,000	100
Novozymes Switzerland AG	Switzerland	■ ●		CHF 5,000,000	100
Novozymes Switzerland Holding AG*	Switzerland		○	CHF 3,000,000	100
Novozymes Enzim Dis Ticaret Ltd. Sirketi*	Turkey	●		TRY 21,000	100
Albumedix Ltd.	UK	□ ● ◆		GBP 22,535,113	100
Novozymes UK Ltd.*	UK	■ ●		GBP 1,000,000	100
Novozymes BioAg, Inc.	USA	■ □ ●		USD 1	100
Novozymes Biologicals, Inc.	USA	■ □ ● ◆		USD 3,000,000	100
Albumedix Inc.	USA	●		USD 1	100
Novozymes Blair, Inc.	USA	■ □		USD 1	100
Novozymes, Inc.	USA		◆	USD 1,000	100
Novozymes North America, Inc.	USA	■ □ ● ◆		USD 17,500,000	100
Novozymes US, Inc.*	USA		○	USD 115,387,497	100
Pacific Vet Group-USA, Inc.	USA	□ ● ◆		USD 11,237	100

## 6.8 Group companies (continued)

	Country	Activity	Issued common stock/paid-up stock	Percentage of shares owned
<b>Joint operations/associates</b>				
Houseowners' Association Smørmosen*	Denmark		DKK	
Houseowners' Association Hallas Park*	Denmark		DKK	
Microbiogen PTY Ltd.*	Australia		AUD	23.10
Beta Renewables S.p.A.*	Italy		EUR	9.95
MagnaBioAnalytics LLC	USA		USD	19.35

■ ISO 14001-certified sites. All major companies are also ISO 9001-certified.

□ Production

● Sales & Marketing

◆ Research & Development

○ Holding companies, etc.

\* Owned directly by Novozymes A/S

Environmental data

# Environmental data



We measure our environmental performance in areas that have an impact on the environment. One of the most important measures is our estimate of the CO2 emissions avoided as a result of customers' application of Novozymes' products in their products or processes. We also focus on our own CO2 emissions and use of resources, and the resulting impact on the environment.

Estimated CO2 savings from customers' application of  
Novozymes' products

**69** million tons

CO2 intensity reduction compared with 2014 baseline

**16%**

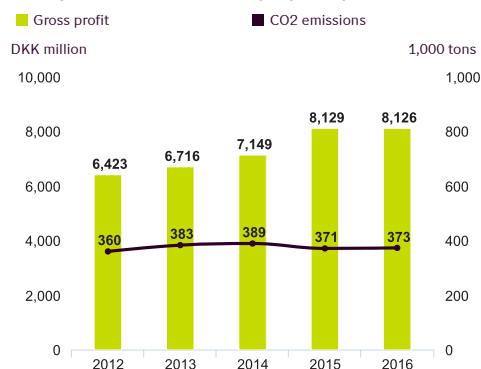
Renewable energy share of total energy consumption

**24%**

## 7.1 Climate change

Climate change and its associated impacts pose multiple risks to Novozymes' supply chain and operations, including regulatory action and physical or reputational damage. At the same time, increasing demand for low-carbon products and solutions offers further opportunities for Novozymes to grow its business. That is why mitigating climate change impacts remains high on Novozymes' agenda. Novozymes' approach to managing climate change impacts is well integrated into its business strategy and targets, and can be seen in its position paper on climate change. Several departments work closely together to influence the climate change agenda and drive performance, both inside and outside the organization.

**Gross profit vs. CO<sub>2</sub> emissions (scope 1+2)**



Novozyymes' CO<sub>2</sub> intensity reduction target is an indicator of its efforts to make operations less carbon intensive. In 2016, Novozymes' CO<sub>2</sub> emission intensity reduction was 16%, falling short of the 20% target, primarily due to slower-than-expected gross profit development.

Novozyymes strives to implement various energy efficiency projects that make its operations less carbon intensive. In 2016, effort was put into identifying a strong pipeline of projects that will help Novozymes achieve its 2020 CO<sub>2</sub> target. A key component of these projects will be ensuring that best practices are shared and implemented globally, across production plants.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Novozyymes uses LCAs to estimate the CO<sub>2</sub> emissions that customers avoid by using Novozymes' products in their processes or products. A calculation methodology to consolidate the LCAs has been defined and consistently applied, but the individual LCAs depend on assumptions and estimates, which means that the result of the calculation will be an approximation.

### ACCOUNTING POLICIES

The estimated reduction in CO<sub>2</sub> emissions resulting from customers' application of Novozymes' products is based on annually updated life cycle assessments (LCAs) of Novozymes' products. The LCAs are prepared and updated by Novozymes and subject to assumptions and estimates.

Reported CO<sub>2</sub> emissions comprise scope 1, scope 2 and emissions from outbound transport of products.

CO<sub>2</sub> from internally generated energy (scope 1) is calculated based on the amount of fuel consumed, using local emission factors.

CO<sub>2</sub> from externally generated energy (scope 2) is reported in accordance with both the market-based and the location-based method, as defined by the Greenhouse Gas (GHG) Protocol. The location-based method uses annually determined local emission factors from power plants or their organizations. If emission factors are not available, annually determined emission factors from Danish authorities and suppliers are used.

Transport-related CO<sub>2</sub> emissions (scope 3) are calculated based on principles described in the GHG Protocol. Reported quantities comprise CO<sub>2</sub> emissions related to transport

from all primary enzyme production sites to the customer where Novozymes pays for the freight. Transport between production sites is also included. Transport of raw materials to a production site is not included. CO<sub>2</sub> emissions generated at external warehouses are not included. Emission data are calculated based on distance and emission factors from the GHG Protocol.

The environmental impact potentials for global warming and ozone layer depletion are calculated on the basis of data published by the US Environmental Protection Agency (EPA) and the Montreal Protocol published by the United Nations Environment Programme (UNEP).


CO<sub>2</sub> intensity is measured as CO<sub>2</sub> emissions (scope 1+2) less emissions from energy offset by green energy produced from Novozymes' waste (i.e. net emissions added by Novozymes' processes), divided by gross profit. The intensity reduction is calculated as the relative improvement in intensity compared with the base year (2014).

For sites acquired in 2015 or later, the baseline index is calculated based on the data reported in the first full year of operating as a Novozymes site. Divested sites are removed from the index for the full period. Newly constructed sites are included from the first quarter after qualification.



## 7.1 Climate change (continued)

### CO<sub>2</sub>-equivalent emissions

1,000 tons	2016	2015
Natural gas	38	36
Gas oil, light fuel oil and diesel oil	-	1
HCFCs	1	2
<b>Scope 1</b>	<b>39</b>	<b>39</b>
District heat	8	9
Electricity	258	259
Steam	69	66
<b>Scope 2 (market-based)</b>	<b>335</b>	<b>334</b>
Ship	5	6
Truck	17	14
Air freight	17	15
<b>Scope 3</b>	<b>39</b>	<b>35</b>
<b>Emissions, total</b> 	<b>413</b>	<b>408</b>

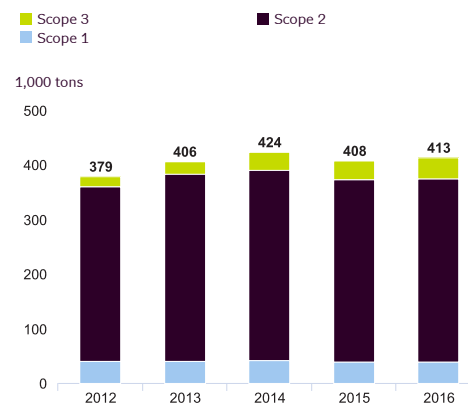
### Market-based vs. location-based scope 2 emissions

1,000 tons	2016	2015
Scope 2 CO <sub>2</sub> emissions (market-based)	335	334
Scope 2 CO <sub>2</sub> emissions (location-based)	389	414

In accordance with the Scope 2 Guidance from the GHG Protocol, scope 2 CO<sub>2</sub> emissions must be reported in two ways, referred to as a location-based and a market-based method.

At Novozymes, market-based reported CO<sub>2</sub> emissions differ from location-based emissions for emissions from electricity purchased at all Danish sites. This electricity comes from wind farms and makes up approximately 22% of total energy consumed.

5-year GHG emissions by scope (CO<sub>2</sub>-eqv.)

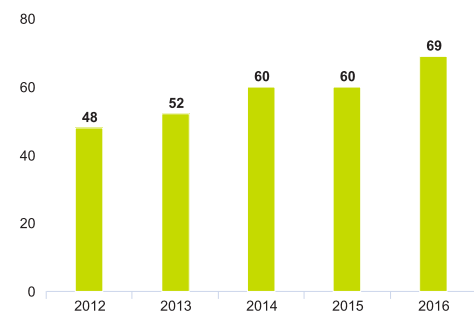


## 7.1 Climate change (continued)

The application of Novozymes' products enables customers and end consumers to reduce CO<sub>2</sub> emissions by lowering energy, water, raw material and chemical consumption in their operations compared with using conventional technologies. Novozymes' SAVE target measures the net positive CO<sub>2</sub> impact of Novozymes' products on society. Novozymes' customers avoided an estimated 69 million tons of CO<sub>2</sub> emissions by applying its products in 2016, meeting the target for the year. The annual savings achieved are equivalent to taking approximately 30 million cars off the road.

### Estimated annual CO<sub>2</sub> savings

Million tons of CO<sub>2</sub>



Since 2004, Novozymes has conducted peer-reviewed life cycle assessment (LCA) studies to document the environmental impact of its biosolutions, covering the entire life cycle of these products from cradle to grave. Results are used to show customers and partners ways

to reduce their CO<sub>2</sub> emissions and leverage the positive impact on climate change made possible by Novozymes' products. To learn more, please see Novozymes' approach to LCA.

In 2016, a life cycle assessment was carried out for the application of RONOZYME® HiStarch (an amylase) in chicken feed in Brazil. The study was externally reviewed in accordance with ISO 14040. RONOZYME® HiStarch improves the digestibility of starch, allowing farmers to change the composition of feed ingredients and reduce the demand for fat, which is the most expensive ingredient. The fat saved can be used for biodiesel production, thereby reducing fossil diesel combustion, or to replace vegetable oils.

Novozymes is the founding member of the Sustainable Bioenergy Group (SBG) of the Sustainable Energy For All (SE4ALL) initiative. The SBG aims to identify opportunities and deliver sustainable solutions for bioenergy, focusing on emerging markets and rural communities in developing countries. Read more about Novozymes' position on biofuels. In 2016, Novozymes became one of the founding members of Below50, an initiative launched by WBCSD in partnership with RSB (Roundtable for Sustainable Biomaterials) and the United Nations Sustainable Energy For All (Bioenergy Accelerator) initiative under the Low Carbon Fuels workstream to promote low-carbon transport fuels. Read more in

Issue-based and sector initiatives in the Communication on Progress.

Novozymes has a strong tradition of transparent reporting of its climate change impacts and submits its climate change performance data to recognized platforms, including CDP (formerly Carbon Disclosure Project) and RobecoSAM's Dow Jones Sustainability Index.

## Environmental data

# 7.2 Energy

Novozymes' biosolutions enable customers to save energy. Furthermore, with growing constraints on global energy reserves, continuously optimizing the energy used in its operations is material to Novozymes.

Novozymes' approach to operational energy management is based on two levers: improving energy efficiency in production by optimizing processes and implementing energy-saving projects, and increasing the sourcing of energy from renewable sources. Targets for energy efficiency and renewable energy drive overall energy performance. For more information on targets, please refer to the Targets section.

Novozymes' Supply Operations and Sourcing departments manage and monitor all energy efficiency and renewable energy sourcing efforts.

In 2016, Novozymes achieved a 10% improvement in energy efficiency compared with 2014. This was short of the 2016 target of 18%, primarily due to slower-than-expected gross profit development.

Furthermore, Novozymes' anaerobic digesters faced operational challenges globally, and site teams are therefore working to optimize their operations. In 2016, total energy from renewable sources accounted for 24% of the

total energy consumed. The majority of the renewable energy came from the Horns Rev II wind farm in Denmark.

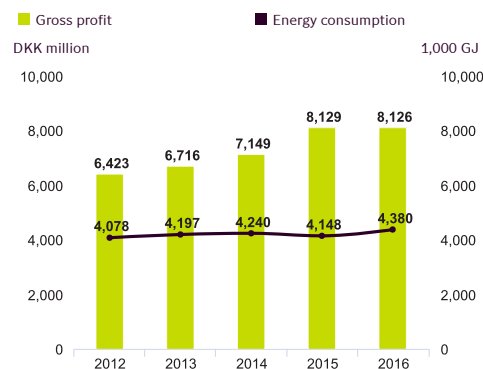
In 2016, Novozymes became a silver member of the Business Renewables Center (BRC) community. BRC is a member-based platform that focuses on streamlining and accelerating the process of procuring large-scale wind and solar energy.

Going forward, Novozymes will focus on replicating the best energy-saving projects globally to help achieve the 2020 energy efficiency target.

### Energy consumption by primary source

1,000 GJ	2016	2015
Natural gas	691	661
Biogas	55	24
Gas oil, light fuel oil and diesel oil	5	11
<b>Internally generated energy, total</b>	<b>751</b>	<b>696</b>
Electricity - conventional	1,636	1,525
Electricity - renewable	967	949
District heat - conventional	156	160
District heat - renewable	9	11
Steam	861	807
<b>Externally purchased energy, total</b>	<b>3,629</b>	<b>3,452</b>
<b>Energy consumption, total</b> <span>ESG</span>	<b>4,380</b>	<b>4,148</b>
Energy production from waste	72	77

### Gross profit vs. energy consumption



# 7.2 Energy (continued)

§ ACCOUNTING POLICIES		
Net energy consumption includes quantities consumed both in the production process and in other areas, less energy production from Novozymes' waste.	to Novozymes of externally generated electricity, heat and steam.	consumption, i.e. purchased energy less energy produced from Novozymes' biomass waste.
Internally generated energy is measured as fuel consumption converted to energy based on the lower combustion value and weight by volume, except in the US, where legal requirements for reporting of CO <sub>2</sub> state that the higher combustion value is to be applied. Fuel consumption comprises all types of fuels used to produce electricity, heat and steam on site and is converted to energy using factors supplied by utility providers or local authorities. Fuel for transportation is not included.	Energy produced from waste or wastewater is renewable and amounts to the total energy (heat, electricity or steam) produced by an internal or external utility provider. An example is energy produced from biomass waste or biogas.	For sites acquired in 2015 or later, the baseline index is calculated based on the data reported in the first full year of operating as a Novozymes site. Divested sites are removed from the index for the full period. Newly constructed sites are included from the first quarter after qualification.
Externally generated energy is the input	Reported quantities are based on meter readings, with the exception of steam, which may be subject to calculation.	The renewable energy percentage is calculated by dividing consumed renewable energy by total energy consumption. Renewable energy used at Novozymes sites comprises energy that is generated from natural processes and continuously replenished. Sources include solar, wind and hydro power-based electricity and energy from biogas.
	Energy efficiency is measured by dividing net energy consumption by gross profit. The efficiency improvement is calculated as the relative improvement in efficiency compared with the base year (2014). The quantities used in the calculation correspond to those reported as net energy	

## 7.3 Water

Enzyme manufacturing is a water-intensive process that also generates significant amounts of wastewater. Novozymes strives to use water efficiently and comply with wastewater discharge regulations in all regions of operation.

Many of the raw materials required in enzyme manufacturing are agriculture based and water intensive to produce. Downstream, some of Novozymes' biological solutions can help customers and consumers save water during application compared with conventional methods, and wastewater treatment solutions help to improve the quality of treated water generated in some cases, while improving treatment processes in others.

Novozymes focuses on managing water within its operations to mitigate the risks associated with water usage and wastewater disposal.

Novozymes' sustainability policy and its long-term target to improve water efficiency in its own operations drive water management within operations. For more information on water targets, please refer to the Targets section.

### Water by primary source

1000 m <sup>3</sup>	2016	2015
Drinking water	4,984	4,733
Industrial water	1,931	1,943
Steam	310	289
<b>Water, total</b> <span>ESG</span>	<b>7,225</b>	<b>6,965</b>



### ACCOUNTING POLICIES

Water includes drinking water, industrial water and externally supplied steam. Drinking water is water of drinking water quality. Industrial water is water that is not of drinking water quality, but is suitable for certain industrial processes, for example for use in cooling towers. Industrial water can come from lakes or wells.

The reported quantities are stated based on the metered intake of water to Novozymes and include quantities consumed both in the production process and in other areas. The reported quantities of steam are converted to volume of running water and are therefore subject to calculation.

Water efficiency is measured by dividing water consumption by gross profit. The efficiency improvement is calculated as the relative improvement in efficiency compared with the base year (2014). The quantities used in the calculation correspond to those reported as water consumption.

For sites acquired in 2015 or later, the baseline index is calculated based on the data reported in the first full year of operating as a Novozymes site. Divested sites are removed from the index for the full period. Newly constructed sites are included from the first quarter after qualification.

Wastewater is measured as the volume discharged by Novozymes or calculated based on water consumption.

## 7.3 Water (continued)

Two departments are responsible for water management: Supply Operations and Quality, Environment & Safety. Together, they implement projects that improve water efficiency and reduce wastewater in Novozymes' production. The wastewater is treated internally or externally in biological

wastewater treatment systems before being discharged to the recipient or used in agriculture for irrigation.

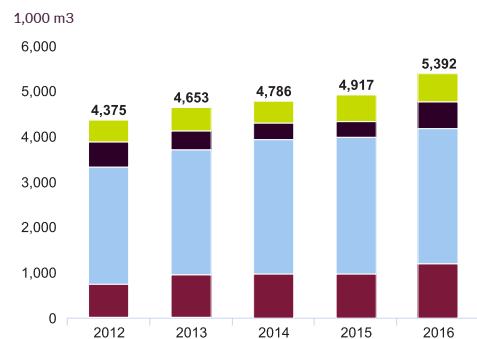
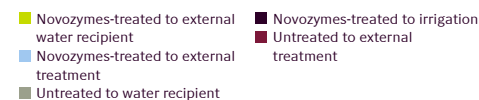
In 2016, Novozymes' water efficiency improvement was 6%. This was lower than expected because of slower-than-expected

gross profit development and ongoing challenges in the reverse osmosis system for water reuse at the Kalundborg site in Denmark. Going forward, the focus will be on replicating successful projects for wastewater capture and reuse across sites.

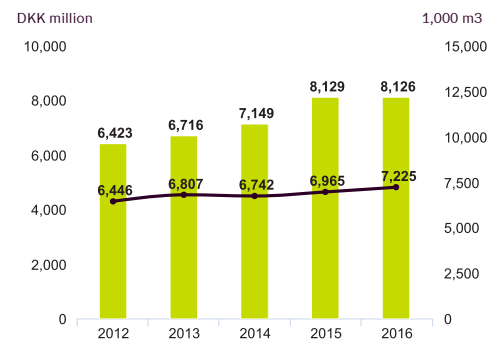
### Wastewater treatment

1,000 m <sup>3</sup>	2016	2015
Wastewater used for irrigation	596	358
Wastewater discharged	4,796	4,559
<b>Wastewater volume, total</b> <span>ESG</span>	<b>5,392</b>	<b>4,917</b>

### Wastewater by treatment method



### Gross profit vs. water consumption



## 7.4 Waste

Novozymes continuously strives to optimize its operations in order to reduce and mitigate negative impacts on the environment. That is why the responsible disposal of waste and by-products is important to Novozymes' operations.

Novozymes' waste and by-products consist of three broad categories: biomass, nonhazardous solid waste and hazardous waste. Each production site regularly reports waste and by-products generated according to category and disposal method.

Biomass, which accounts for approximately 98% of the total waste and by-products generated by Novozymes' manufacturing sites, is a by-product rich in nitrogen and phosphorus. The majority of biomass generated is recovered, converted and sold to local farmers as NovoGro®, an organic

agricultural fertilizer. In 2016, Novozymes diverted 97% of its biomass from landfill and incineration in this way.

Solid nonhazardous and hazardous waste include materials such as paper, food waste, laboratory waste and chemicals. This accounts for approximately 2% of the total waste and by-products generated. While Novozymes strives to increase the amount of solid waste diverted from landfill and incineration, the relative impact is too minor to set a target.

One example of how Novozymes worked to increase its diversion rate in 2016 comes from Brazil, where the site team developed new partnerships with local firms to co-process solid waste. The production site now sends the majority of its solid waste to a local cement kiln for energy recovery and the organic food waste for animal feed.

In 2016, the total solid waste disposed of to landfill and/or incineration was 6,420 tons. The rate of recycling of solid waste was 44% in 2016, compared with 50% in 2015.

Novozymes' management approach to waste and by-products is site specific. This is because waste handling is a complex issue that is regulated locally and involves many external service providers. Going forward, Novozymes intends to improve transparency regarding waste management and recycling potential across its production sites. In the coming years, Novozymes plans to pilot a new framework to identify opportunities to increase waste diversion across three of its largest production sites in Denmark, the US and China.

### § ACCOUNTING POLICIES

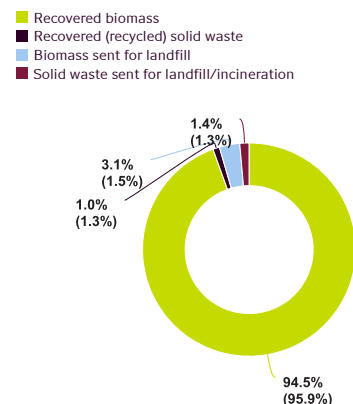
Biomass is measured or calculated on the basis of volume or weight produced and transported from Novozymes as liquid fertilizer (NovoGro®), converted to a fertilizer product with a higher dry matter content (NovoGro® 30 or compost) or dried and used as fuel for energy production. Biomass from a newly built plant is sent for landfill with energy production (biogas) as a temporary disposal method.

Waste is the registered volume of waste broken down into hazardous and nonhazardous waste, and by disposal method. The amount recycled is the quantity recycled internally or sent to an external service provider for recycling. Biomass is not included in the reported amounts of waste.

### Biomass


1,000 tons		2016	2015
NovoGro®		375	309
NovoGro® 30		152	153
Compost		13	47
Landfill		10	8
<b>Biomass, total</b>	<b>ESG</b>	<b>550</b>	<b>517</b>

Waste and by-products recovered 2016 (2015)



## 7.4 Waste (continued)

### Waste

1,000 tons	2016	2015
<b>Nonhazardous waste</b>		
Incineration	1.9	1.2
Landfill	4.1	3.8
Recycling (external)	4.3	4.4
Recycling (internal)	0.1	-
Other	-	0.2
<b>Nonhazardous waste, total</b>	<b>10.4</b>	<b>9.6</b>
<b>Hazardous waste</b>		
Incineration	1.4	1.4
Landfill	-	0.1
Recycling (external)	0.2	0.1
Recycling (internal)	1.4	2.1
Other	0.1	0.1
<b>Hazardous waste, total</b>	<b>3.1</b>	<b>3.8</b>
<b>Waste, total</b> 	<b>13.5</b>	<b>13.4</b>



## 7.5 Environmental compliance, etc.



### ACCOUNTING POLICIES

Breaches of environmental regulatory limits is measured as the number of incidents in

the reporting year considered not to be in conformity with environmental permits or requirements under environmental law. Breaches related to annual control

measurements of spills reported in previous years are not included, as they are not indicative of performance during the reporting year.

Neighbor complaints refers to the number of registered environmental complaints, primarily odor and noise related.

## 7.6 Bioethics & gene technology

Novozymes' business is based on bioinnovation – including, but not limited to, advances in biotechnology and gene technology. That is why bioethics and gene technology are material issues for Novozymes' operations and its relationships with external stakeholders. Novozymes' position paper on gene technology articulates its management approach to supporting safe and sustainable use, and the adoption of robust, science-based regulations

for processes and products involving gene technology. The company acknowledges the need for engaging with stakeholders to improve the general level of knowledge about bioinnovation and gene technology, and their role in society. Novozymes endorses the globally recognized principles on the utilization of genetic resources set out by the United Nations Convention on Biological Diversity (CBD). The

company has internal procedures to ensure that it lives up to its commitments to the CBD and is actively engaged with a number of industry associations and task forces in implementing the Nagoya Protocol on Access and Benefits Sharing. Going forward, Novozymes will assess the outcomes of CBD13 and undertake a broader strategic discussion regarding its management and reporting of biodiversity issues.

## 7.7 Product safety & stewardship

Many of Novozymes' biological solutions serve as ingredients in consumer goods (e.g. in laundry and dishwashing detergents) or are used as industrial processing aids (e.g. in the manufacture of bread and baked goods, juice and alcoholic beverages, cooking oil and textiles). That is why ensuring product safety and stewardship is material to Novozymes' operations and its customer relationships. Novozymes' approach to product safety and stewardship is to mitigate the risk of

potential harm to both human health and the environment during the manufacture, handling and use of its products. This approach is outlined in the Quality and Product Safety Policy and at Novozymes.com. Implementation of this policy is a central element of Novozymes' Quality Management System, which complies with ISO 9001 standards. In addition, Novozymes has outlined its approach and position on topics related to product safety and stewardship, such as

REACH, labeling of enzymes and animal testing. Structured and documented processes for product stewardship, from development to delivery of a product, are enforced globally and audited by the independent body Bureau Veritas. While this approach is implemented through a number of cross-functional teams, primary responsibility rests with the Vice President for Intellectual Property, Regulatory and Product Safety.

Social and governance data

# Social and governance data



We measure our social performance using a number of indicators in the areas of labor practices & human rights, occupational health & safety, business ethics, corporate citizenship and customer satisfaction. These indicators provide an overview of progress made and enable us to understand the trends, so we can respond to risks and opportunities related to talent attraction and retention as well as business development.

Share of promoted employees who are women

36%

No. of accidents per million working hours

2.2

Employee satisfaction and motivation score (on a scale of 0-100)

76

## 8.1 Labor practices & human rights

Employees are a key driver of Novozymes' growth and are essential to the successful execution of our strategies. Novozymes is responsible for ensuring that human rights are respected throughout its value chain. It is therefore crucial for Novozymes to focus on employee development and diversity in all its operations and on human rights throughout the value chain.

We have implemented a common management and reporting structure for labor practices and human rights. For a description of the

mechanisms that Novozymes implements to ensure a respectful and motivating working environment, please refer to our position on Human rights at Novozymes.com.

**Labor practices:** The responsibility for ensuring equal rights for all employees and promoting diversity rests with our People and Organization (P&O) function. Our approach to diversity and equal opportunities is detailed in our position on diversity and equal opportunities.

Employment and promotions are based on merit, without any discrimination, exclusion or preference. We give important consideration to diversity in the context of talent attraction, promotion and succession planning. Furthermore, Novozymes recognizes and respects the right to form and join associations and to bargain collectively. Our P&O function works to facilitate the fulfillment of these fundamental rights in countries with limited labor legislation.

In 2016, 36% of the employees promoted were women, meaning that we did not meet our 2016 target of ensuring that at least 40% of employees promoted were women. Our long-term target is to ensure that women hold at least 30% of senior management positions by 2020, and we believe that our continued focus and initiatives will support our journey toward meeting this target.

Employee turnover is an indication of organizational health. In 2016, the rate of employee turnover increased from 9.1% to 10.4%, mainly due to the reorganization in 2016, which led to an increase in voluntary terminations. The rate of absence has been broken down into grouped job categories, based on whether the work carried out is primarily office based, and is therefore not stated for each job category.

**Employee development:** Our P&O function conducts an annual People's Opinion survey to identify areas that need continuous attention and further improvement. The survey provides important insights into Novozymes' performance as an employer and into where improvements can be made. In 2016, our annual People's Opinion survey achieved a response rate of 93%. We met our targets related to workplace development for the third year in a row. "Employee satisfaction and motivation" scored 76 out of 100 in the survey, exceeding our target of 75.

		2016	2015
Rate of employee turnover - retirement	%	0.8	1.0
Rate of employee turnover - dismissal	%	2.6	2.7
Rate of employee turnover - voluntary	%	7.0	5.4
<b>Rate of employee turnover, total</b>	%	<b>10.4</b>	<b>9.1</b>
<b>Rate of absence</b>			
Senior management, management, professional and administrative	%	1.4	1.3
Skilled workers, laboratory technicians, other technicians and process operators	%	2.8	2.8
All employees	ESG %	2.0	2.0
<b>Other employee statistics</b>			
Average age	Years	41.2	40.9
Average seniority	Years	9.4	9.3
Number of expatriates	No.	37	53
Employees promoted who are women	%	36	41
Average spent per employee	DKK	3,353	4,814
Costs as percentage of total employee costs	%	0.6	0.8

## 8.1 Labor practices & human rights (continued)

Human rights: We seek to take appropriate measures to avoid and mitigate adverse human rights impacts. In 2016, we revamped our human rights risk-monitoring approach so as to meet growing expectations from our investors and customers and to comply with UN Guiding Principles. In order to identify risks of human rights violations in our value chain, Corporate Sustainability carried out a human rights impact assessment. Stakeholders from relevant functional areas, including Sourcing, Quality, Environment & Safety and P&O, across regions including China, India, Brazil, North America and EMEA, were trained in human rights risks specific to their respective regions and subsequently consulted. Their inputs were analyzed, and a plan to address gaps was discussed with the respective teams.

The human rights impact assessment identified

the following potential human rights risks in Novozymes' regions: discrimination, income equality, living wages, right to work and right to equal pay for equal work. No human rights violations were identified during the impact assessment. Novozymes has a number of practices and procedures in place that have been evaluated as sufficient to address these potential risks.

As a global company, Novozymes has both global and region-specific procedures and tools for managing employee relations and mitigating human rights risks. In 2017, we will focus on building employee awareness of these procedures and tools. Furthermore, we will strengthen internal human rights impact assessment capabilities across the relevant functions.



### ACCOUNTING POLICIES

Absence is stated as time lost due to the employee's illness, including pregnancy-related sick leave, and occupational accidents and diseases. The rate of absence is calculated as the number of registered days of absence as a percentage of the total number of normal working days in one year, less vacation and public holidays.

The rate of employee turnover is calculated as employee turnover divided by the average number of permanent employees. Employee turnover is measured as the number of permanent employees who left the Group during the last four quarters (excluding employees at divested entities transferred to the acquiring company).

Average age and seniority are calculated

as the sum of employees' total seniority in whole years at the reporting date, divided by the number of employees.

Expatriation refers to Novozymes employees temporarily reassigned within Novozymes from the country of original employment for a period that extends beyond six months.

Training costs is the costs of external training courses and seminars, translated into Danish kroner at average exchange rates. Training costs is also shown as a percentage of total employee costs.

Employees promoted who are women measures the percentage of women among those promoted to manager, senior manager, director, senior director or VP from a level below, or hired externally at these levels.

## 8.2 Occupational health & safety

As a sustainable company, the health and safety of employees is a fundamental part of our business strategy.

Novozymes' core OH&S strategy is to ensure that robust processes, hardware, standards, tools and training are fully integrated into our way of working. In addition to this, we ensure OH&S focus throughout the organization through initiatives driven locally as part of a global framework.

Several ongoing global initiatives to improve employees' physical and mental well-being are structured to meet local needs. Novozymes has stepped up its efforts to improve the psychosocial work environment through global

awareness and transformation training.

To improve our eye safety efforts, we have launched a new mandatory requirement for safety glasses to be worn in all laboratory areas globally. Across our business portfolios, a proactive health surveillance program has been implemented to identify and alleviate adverse health reactions – however unlikely – before they become serious.

At Novozymes, we know our OH&S responsibilities extend beyond our immediate employees, and we therefore conduct safety awareness programs for contract workers to ensure that they understand their rights and responsibilities.

In 2016, we experienced a decrease in the frequency of occupational accidents, resulting in a frequency of 2.2 lost-time injuries per million working hours, which is still above our target of 1.7 for 2016. We found that some of these accidents involved falling and tripping, and further investigation revealed that these occurred due to mobile device distractions. We have therefore launched various "Stop and Text" awareness campaigns to minimize slips, trips and falls that occur when employees use smartphones while in motion.

### Consequences of occupational accidents

No.		2016	2015
Return to original job		23	23
Return to a different job in the same department		-	2
Transfer to a different job outside Novozymes		-	1
Out of work or early retirement		1	-
Case pending		1	-
<b>Occupational accidents with absence, total</b>	<b>ESG</b>	<b>25</b>	<b>26</b>
Total days of absence related to accidents registered in the same year		272	765
Injury severity rate		11	29



### ACCOUNTING POLICIES

Occupational accidents is defined as the reported number of occurrences arising out of or in the course of work that result in fatal or nonfatal injury with at least one day's absence from work apart from the day of injury.

Occupational diseases is defined as the number of diseases contracted as a result of exposure to risk factors arising from work activity and notified as work related in accordance with national legislation.

The consequences of occupational accidents with absence and occupational diseases are measured by recording the work situation once the outcome of the incidents has stabilized, for example whether the employees have returned to their original jobs, and the total number of calendar days of absence.

Frequencies of occupational accidents with absence and occupational diseases are stated per million working hours.

The injury severity rate is calculated by dividing total days of absence related to accidents registered in the same year by the number of occupational accidents.

## 8.2 Occupational health & safety (continued)

### Consequences of occupational diseases

No.	2016	2015
Return to original job	2	5
Return to a different job in the same department	3	2
Transfer to a different job in another department	-	3
Transfer to a different job outside Novozymes	1	1
Out of work or early retirement	2	1
Case pending	-	-
<b>Occupational diseases, total</b> <span>ESG</span>	<b>8</b>	<b>12</b>
Total days of absence related to diseases registered in the same year	7	160

We have also increased focus on the psychosocial work environment through selected markers in the annual People's Opinion survey. The results show that scores are at a high level similar to 2015. This means that most employees are satisfied with the psychosocial work environment (scores are mainly above 80 out of 100) and that there are very few complaints about bullying and harassment (score of 91 out of 100). For the first time in 2016, the survey incorporated questions concerning safety

culture and management focus. All teams and sites will follow up on these results to ensure a healthy work environment and employees' physical and mental well-being.

Novozymes will be rolling out a new global OH&S performance management process that will seek to balance global and local standards and initiatives. The new setup will cascade relevant KPIs to appropriate functions.

### Types of occupational diseases

No.	2016	2015
Musculoskeletal disorder	1	3
Skin disease	4	2
Enzyme allergy	2	5
Respiratory disease	1	2
<b>Occupational diseases, total</b> <span>ESG</span>	<b>8</b>	<b>12</b>

## 8.3 Business ethics

Business ethics are essential to Novozymes' business operations, as acting ethically helps attract and retain investors, employees and customers. Novozymes seeks appropriate measures to work against all forms of corruption, including extortion and bribery. Novozymes has adopted six integrity principles to support the commitment to doing business in a responsible way – protecting the integrity of our business. These principles form the ground rules for engaging with third parties and apply to all employees anywhere in the world. Please see our Position on Business integrity at Novozymes.com.

Novozyymes' management approach to advancing anti-corruption and business integrity aspects is embedded in its corporate values and policies. Furthermore, a dedicated committee on business integrity follows up on employee training, handles reporting of business integrity-related matters and offers guidance requested by employees. All employees have access to guidance and may anonymously raise concerns about business ethics and corruption, including possible

breaches of our integrity principles, through a variety of grievance channels – see more about our grievance channels at Novozymes.com. Questions related to business integrity are included in our annual People's Opinion survey, as they help us to identify issues and areas that require further guidance and support.

Novozyymes is not only responsible for its own operations globally but also has a responsibility for ensuring that the business partners that represent us are equally committed to preventing corruption and bribery. Our stakeholders expect that of us, and legislators increasingly expect it too. And for Novozymes, engaging with the right business partners is a central part of sustainable business. In 2016, third-party due diligence and compliance processes were upgraded to obtain increased assurance that Novozymes' partners in the sales channel conduct business with integrity and that they share its values and requirements for legal compliance. In 2017, efforts will be made to further increase the span and robustness of these processes.



### ACCOUNTING POLICIES

Completion of business integrity training refers to the percentage of selected employees who have undergone business integrity training in the last training period. New entities are included within six months of acquisition. Business integrity training is conducted for employees who can potentially influence third-party interactions or decisions as part of their job role. This comprises employees in professional, managerial or administrative positions.

The reporting criteria for competition law violations are whether it has been established by an authority member of the International Competition Network or by a competent court anywhere in the world that

a company in the Novozymes Group has violated applicable anti-trust regulations.

All allegations of fraud are investigated until it can be determined whether they can be substantiated. The number of fraud cases represents substantiated and unsubstantiated matters reported to the Audit Committee in the reporting year.

Novozyymes defines fraud as an offence where an employee or third party either:

- takes or removes the company's property without its consent with the intent of depriving the company of it, or
- intentionally deceives the company by giving false documentation or by suppressing the truth in order to obtain a personal gain.

## 8.3 Business ethics (continued)

### Completion of business integrity training for employees

Novozymes conducts annual training in business integrity to ensure that employees are well equipped to uphold our business integrity principles and to handle ethical dilemmas that they may encounter in their everyday work. The global e-learning program has been designed and rolled out by Novozymes' Legal Compliance Officer under the supervision of Novozymes' Business Integrity Committee. The training includes a reinforcement of employees' commitment to business integrity as well as case studies mimicking real cases in Novozymes or from the media noted during the year. In 2016, we achieved a completion rate of 99%, compared with 98% in 2015. The 2015 result has been recalculated in accordance with updated accounting policies. In 2016, part of the training program focused on conflicts of interest as a corruption risk to help employees prepare for situations where such conflicts might occur.

### Breaches of competition law

There were no violations of competition law in 2016.

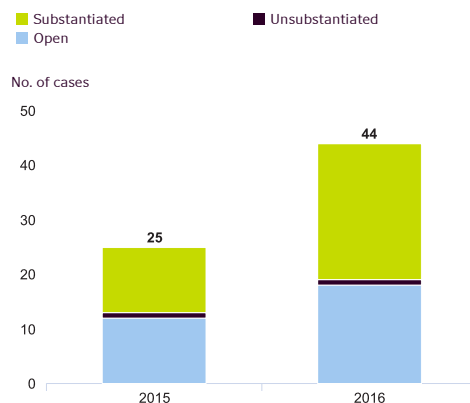
### Anti-trust

In 2016, relevant employee groups participated in the recurring anti-trust e-learning, launched in 2014. The compliance training has global reach and provides general guidance on compliance with anti-trust law. In 2016, the training focused on how to interact with competitors in a proper manner (anti-cartel guidance), one of the fundamental rules of anti-trust law.

### Fraud cases

Novozymes works proactively to prevent, detect and respond to fraud, and has continuously increased its internal awareness and proactive initiatives in relation to fraud.

#### Investigated fraud cases



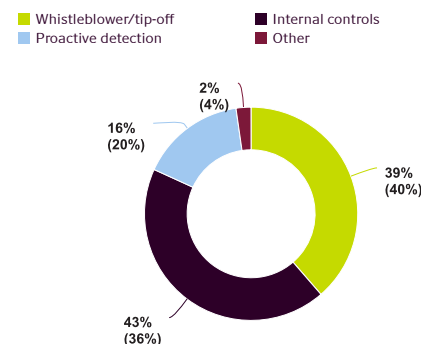
The increase in investigated fraud cases is primarily due to an increase in external fraud attempts by unknown perpetrators (such as CxO fraud and fraudulent invoices) and an increased organizational awareness, which has led to increased reports by employees.

The investigated fraud cases in 2016 did not have a material financial impact on Novozymes.

### Reporting channel

As part of the internal control system, all identified fraud cases and concerns raised, either through Novozymes' Whistleblower Hotline or other reporting channels, are reported to the Audit Committee on a quarterly basis.

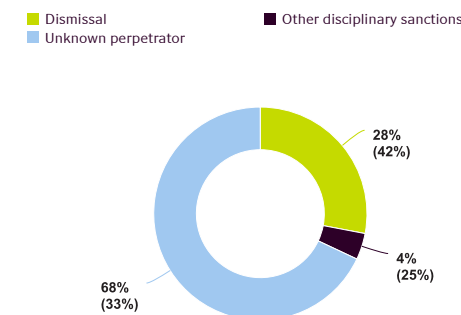
#### Reporting channels 2016 (2015)



### Disciplinary sanctions

All allegations of fraud are appropriately investigated and concluded in accordance with internal policies and procedures. Substantiated fraud will lead to proportionate disciplinary sanctions for the parties involved. Reporting to the police is assessed on a case-by-case basis. During 2016, eight cases were reported to the police.

#### Consequences of substantiated fraud cases 2016 (2015)





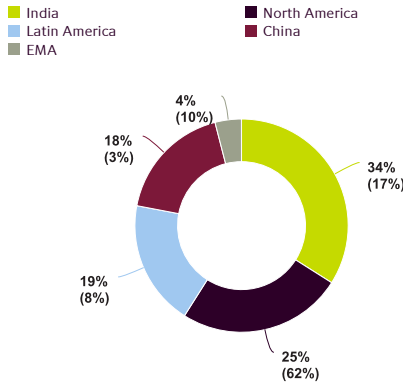
# 8.4 Corporate citizenship

Various educational programs have been implemented by different regions to meet our long-term target of educating 1 million people about the potential of biology.

Read more about Educate in the Target section.

In 2016, Novozymes engaged with more than 106,000 learners. An overview of the distribution of learners reached by the different regions is provided in the adjacent chart.

Learners reached by geography 2016 (2015)



## § ACCOUNTING POLICIES

Learners reached comprises the total number of learners Novozymes reaches via its Educate activities. An educate activity is an activity that engages the learner to a degree sufficient to confirm that awareness has been created.

## ! CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Methodologies to count and consolidate learners reached have been defined and are applied, but the reported numbers are still subject to assumptions and estimates, for example when recording the number of participants at a conference, which means that the result of the calculation will be an approximation.

## 8.5 Customer satisfaction measurement

Our customers' opinions are powerful indicators of whether our products and services are meeting our ambitions and of how we are perceived as a company. Novozymes has therefore set a corporate target for Customer Satisfaction Measurement (see Targets in Management's Review) in order to monitor the satisfaction of our customers and collect feedback on areas for improvement on an annual basis.

Novozymes' Commercial Development function ensures that customer satisfaction is measured annually and that the feedback is collected, analyzed and addressed in the relevant functional areas. Commercial Development

also ensures that our account managers get the necessary support to meet current customer demands as well as to engage with potential new customers.

In 2016, Novozymes conducted a survey using the Net Promoter Score (NPS) methodology. The NPS is based on customers' answers to a single question: "How likely are you to recommend Novozymes to others?" and ranges from -100 to +100. The response rate of Novozymes' direct customers invited to participate in the survey was approximately 70%. In 2016, Novozymes scored +45 points in the Customer Satisfaction Measurement survey. This is high compared with the survey

conducted in 2013, when the NPS was +34.

The survey shows that Novozymes' employees are well regarded and that our customers appreciate our commercial and technical services. Account managers, in particular, were seen as key drivers of impact with customers. The main areas for improvement for Novozymes were to become more proactive, share information better, and continue to hire knowledgeable and friendly people.

Going forward, our account managers will translate the learnings from the survey into action plans to better satisfy our customers.



### ACCOUNTING POLICIES

The Net Promoter Score is derived from an annual questionnaire measuring how likely the customer is to recommend Novozymes to others. The NPS is calculated as the share of promoters (on a scale of 0-100) less the share of detractors (also on a scale of 0-100). The resulting score is a number between -100 and +100.

## 8.6 Responsible sourcing

Novozymes' supplier management and responsible sourcing approach are the responsibility of the Sourcing & Global Services function.

Agricultural raw materials are a major constituent of our production processes, which is the reason for our continuous high focus on environmental, social and governance issues.

All our suppliers of directly sourced agricultural raw materials must meet our deforestation requirements in terms of not contributing to further deforestation and zero tolerance for land grabbing.

Since 2009, the scope of Novozymes' supplier program for responsible sourcing has been to systematically assess suppliers from both a

risk and opportunity perspective. The program evaluates suppliers based on their commercial, quality and sustainability performance, and sets out clear requirements for our suppliers through Novozymes' Supplier Guidelines, which include criteria related to quality, environment, employee health & safety, human & labor rights, business ethics and supply chain management.