

Financial statements for Novozymes A/S

Financial statements

Income statement
Balance sheet
Statement of shareholders' equity

Basis of reporting

1 Accounting policies

Primary operations

2.1 Revenue
2.2 Employee costs
2.3 Other operating income

Other assets and liabilities

3.1 Intangible assets
3.2 Property, plant and equipment
3.3 Financial fixed assets
3.4 Other receivables
3.5 Deferred tax

Financial activities

4.1 Financial income and costs
4.2 Credit institutions

Other notes

5.1 Contingent liabilities and pending litigation
5.2 Related party transactions
5.3 Fees to statutory auditor
5.4 Statement of cash flows
5.5 Segment information
5.6 Common stock and treasury stock

Income statement, Novozymes A/S

DKK million	Note	2016	2015
Revenue	2.1	7,648	7,647
Cost of goods sold	2.2	(3,637)	(3,696)
Gross profit		4,011	3,951
Sales and distribution costs	2.2	(998)	(978)
Research and development costs	2.2	(1,451)	(1,431)
Administrative costs	2.2	(574)	(544)
Other operating income	2.3	1,600	1,517
Operating profit / EBIT		2,588	2,515
Income from investments in subsidiaries	3.3	1,683	747
Share of losses in associates	3.3	(31)	(6)
Financial income	4.1	96	220
Financial costs	4.1	(62)	(209)
Profit before tax		4,274	3,267
Tax		(589)	(628)
Net profit		3,685	2,639
Proposed appropriation of net profit			
Dividend to shareholders		1,142	1,062
Revaluation reserve according to the equity method		133	854
Retained earnings		2,410	723
		3,685	2,639
Proposed dividend per share		DKK 4.00	DKK 3.50

Balance sheet, Novozymes A/S

Assets

DKK million	Note	Dec. 31, 2016	Dec. 31, 2015
Intangible assets	3.1	1,056	835
Property, plant and equipment	3.2	3,320	2,884
Investments in subsidiaries	3.3	8,638	8,195
Investments in associates	3.3	60	91
Other long-term receivables	3.4	4	89
Other financial assets		130	121
Receivables from Group enterprises	3.3	1,458	1,421
Financial fixed assets		10,290	9,917
Fixed assets		14,666	13,636
Raw materials and consumables		149	131
Work in progress		382	325
Finished goods		787	719
Inventories		1,318	1,175
Trade receivables		941	990
Receivables from Group enterprises		510	1,291
Tax receivables		92	-
Other receivables	3.4	117	181
Receivables		1,660	2,462
Cash at bank and in hand		429	382
Current assets		3,407	4,019
Assets		18,073	17,655

Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2016	Dec. 31, 2015
Common stock	5.6	620	626
Treasury stock		(4,355)	(3,363)
Revaluation reserve according to the equity method		1,787	1,654
Reserve for development cost		136	-
Retained earnings		12,534	11,092
Proposed dividend		1,142	1,062
Shareholders' equity		11,864	11,071
Deferred tax	3.5	367	207
Other provisions		29	98
Provisions		396	305
Credit institutions	4.2	1,727	1,215
Payables to Group enterprises		-	861
Non-current liabilities		1,727	2,076
Credit institutions		119	48
Trade payables		546	602
Payables to Group enterprises		2,684	2,819
Tax payable		-	21
Other payables		737	713
Current liabilities		4,086	4,203
Liabilities		5,813	6,279
Liabilities and shareholders' equity		18,073	17,655

Statement of shareholders' equity, Novozymes A/S

DKK million	Common stock	Treasury stock	Revaluation reserve according to the equity method	Reserve for development costs	Retained earnings	Proposed dividend	Total
Shareholders' equity at January 1, 2016	626	(3,363)	1,654		11,092	1,062	11,071
Adjusted opening balance				86	(86)		-
Net profit for the year			133		3,552		3,685
Capitalized development costs				50	(50)		-
Dividend paid						(1,104)	(1,104)
Dividend paid relating to treasury stock						42	42
Proposed dividend, gross					(1,190)	1,190	-
Proposed dividend relating to treasury stock					48	(48)	-
Purchase of treasury stock		(2,000)					(2,000)
Sale of treasury stock		69					69
Write-down of common stock	(6)	939			(933)		-
Currency translation adjustments of investments in subsidiaries, etc.					133		133
Value adjustment of derivatives					(61)		(61)
Other adjustments					29		29
Shareholders' equity at December 31, 2016	620	(4,355)	1,787	136	12,534	1,142	11,864

1 Accounting policies

The financial statements of Novozymes A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class D) and the regulations of Nasdaq OMX Copenhagen on the presentation of financial statements by listed companies. Novozymes has adopted the amended Danish Financial Statements Act effective for annual reports beginning on or after January 1, 2016. The adoption has not had effect on recognition or measurement but has resulted in increased disclosures for the financial statements of Novozymes A/S for 2016.

The accounting policies are the same as for the consolidated financial statements with the adjustments described below. For a description of the Group's accounting policies, please refer to the consolidated financial statements.

Recognition and measurement in general

Income is recognized in the income statement as it is earned. Value adjustments of financial assets and liabilities measured at fair value or amortized cost are also recognized in the income statement.

All costs incurred in generating the year's revenue are also recognized in the income statement, including depreciation, amortization and impairment losses.

Assets are recognized in the balance sheet when it is considered probable that future economic benefits will flow to the company and the value of the asset can be measured on a reliable basis. Liabilities are recognized in the balance sheet when they are considered probable and can be measured on a reliable basis. When first recognized, assets and liabilities are measured at cost. Thereafter assets and liabilities are measured as described below for each item.

The recognition and measurement principles take due account of predictable losses and risks occurring prior to the presentation of financial statements that confirm or refute the conditions prevailing on the reporting date.

Intangible assets

The accounting policies for intangible fixed assets follow those of the Group with the exception of goodwill, which is amortized over its useful life.

An amount equal to the total capitalized development costs after tax is recognized under Shareholders' equity in the Reserve for development costs.

Financial assets

Investments in subsidiaries and investments in associates are recognized initially at cost including transaction costs and measured subsequently using the equity method. The company's share of the equity of subsidiaries, based on the fair value of the identifiable net assets on the acquisition date, minus or plus unrealized intercompany profits or losses, with addition of any residual value of goodwill, is recognized under Investments in subsidiaries and Investments in associates respectively in the balance sheet. If the shareholders' equity of subsidiaries or associates is negative and Novozymes A/S has a legal or constructive obligation to cover the company's negative equity, a provision is recognized.

Net revaluation of investments in subsidiaries and associates is recognized under Shareholders' equity in the Revaluation reserve according to the equity method. The reserve is reduced by payments of dividends to the parent company and adjusted to reflect other changes in the equity of subsidiaries.

The proportionate share of the net profits of subsidiaries less goodwill amortization is recognized under Income from investments in subsidiaries in the income statement. Goodwill is amortized over 15 years using the straight-line method.

Dividend

The dividend proposed for the financial year is shown as a separate item under Shareholders' equity.

NOTE SECTION 2

2.1 Revenue

DKK million	2016	2015
Geographical distribution:		
Denmark	196	177
Rest of Europe, Middle East & Africa	4,660	4,505
North America	1,080	1,267
Asia Pacific	1,370	1,281
Latin America	342	417
Revenue	7,648	7,647

2.2 Employee costs

DKK million	2016	2015
Wages and salaries	1,639	1,663
Pensions - defined contribution plans	173	170
Other social security costs	25	26
Other employee costs	187	141
Employee costs	2,024	2,000
Average number of employees in Novozymes A/S	2,660	2,767

Reference is made to Note 6.1 to the consolidated financial statements concerning remuneration of the Board of Directors and Executive Leadership Team.

2.3 Other operating income

DKK million	2016	2015
Royalty income relating to subsidiaries	1,560	1,494
Other	40	23
Other operating income	1,600	1,517

NOTE SECTION 3

3.1 Intangible assets

DKK million	2016				2015	
	Goodwill	Acquired patents, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total	Total
Cost at January 1	366	1,112	340	24	1,842	1,694
Additions from business acquisitions	-	-	-	-	-	98
Additions during the year	22	227	43	72	364	51
Disposals during the year	-	-	(20)	-	(20)	(1)
Transfers to/(from) other items	-	-	47	(47)	-	-
Cost at December 31	388	1,339	410	49	2,186	1,842
Amortization and impairment losses at January 1	(69)	(684)	(254)	-	(1,007)	(703)
Amortization for the year	(24)	(68)	(51)	-	(143)	(131)
Impairment losses	-	-	-	-	-	(174)
Disposals during the year	-	-	20	-	20	1
Amortization and impairment losses at December 31	(93)	(752)	(285)	-	(1,130)	(1,007)
Carrying amount at December 31	295	587	125	49	1,056	835

No impairment losses on intangible assets have been recognized in 2016 (2015: An impairment loss of DKK 174 million was recognized on the intangible asset related to the partnership

with Beta Renewables S.p.A. Reference is made to note 3.1 in the consolidated financial statement concerning intangible assets).

NOTE SECTION 3

3.2 Property, plant and equipment

DKK million	2016				2015	
	Land and buildings	Production equipment and machinery	Other equipment	Property, plant and equipment under construction	Total	Total
Cost at January 1	2,216	4,293	822	273	7,604	7,376
Additions during the year	234	67	28	343	672	328
Disposals during the year	-	(1)	(3)	-	(4)	(100)
Transfers to/(from) other items	24	69	15	(108)	-	-
Cost at December 31	2,474	4,428	862	508	8,272	7,604
Depreciation and impairment losses at January 1	(1,171)	(2,959)	(590)		(4,720)	(4,589)
Depreciation for the year	(46)	(140)	(48)		(234)	(221)
Disposals during the year	-	1	1		2	90
Depreciation and impairment losses at December 31	(1,217)	(3,098)	(637)		(4,952)	(4,720)
Carrying amount at December 31	1,257	1,330	225	508	3,320	2,884

Capitalized interest

Interest of DKK 4 million (2015: DKK 0 million) has been capitalized under Additions during the year above and under 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.

NOTE SECTION 3

3.3 Financial fixed assets

DKK million	Investments in subsidiaries	Investments in associates	Receivables from Group companies	Total
Cost at January 1, 2016	6,504	128	1,421	8,053
Additions during the year	397	-	58	455
Disposals during the year	(118)	-	(21)	(139)
Cost at December 31, 2016	6,783	128	1,458	8,369
Revaluation reserve at January 1, 2016	1,691	(37)		1,654
Share of net profit/(loss)	1,683	(31)		1,652
Dividends received	(1,567)	-		(1,567)
Currency translation adjustment	96	-		96
Other adjustments	(48)	-		(48)
Revaluation reserve at December 31, 2016	1,855	(68)		1,787
Carrying amount at December 31, 2016	8,638	60	1,458	10,156

Reference is made to Note 6.8 to the consolidated financial statements concerning investments in subsidiaries.

Reference is made to Note 3.4 to the consolidated financial statements concerning joint operations and associates.

NOTE SECTION 3

3.4 Other receivables

DKK million	2016	2015
Prepaid expenses	63	117
Derivatives	5	20
Other receivables	53	133
Other receivables at December 31	121	270
Recognized in the balance sheet as follows:		
Non-current	4	89
Current	117	181
Other receivables at December 31	121	270

3.5 Deferred tax

DKK million	2016	2015
Deferred tax at January 1	207	246
Adjustment for previous years	21	2
Tax related to the income statement	57	6
Tax on shareholders' equity items	82	(47)
Deferred tax at December 31	367	207

NOTE SECTION 4

4.1 Financial income and costs

DKK million	2016	2015
Interest income relating to subsidiaries	69	97
Interest costs relating to subsidiaries	(11)	(12)

4.2 Credit institutions

DKK million	2016	2015
Long-term debt to credit institutions falling due after 5 years	527	245

NOTE SECTION 5

5.1 Contingent liabilities and pending litigation

Rental and leasing commitments related to noncancelable operating lease contracts expire within the following periods from the reporting date:

DKK million	2016	2015
Recognized in the income statement in respect of rentals	61	56
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	47	46
Between 1 and 2 years	34	25
Between 2 and 3 years	16	8
Between 3 and 4 years	8	4
Between 4 and 5 years	3	3
More than 5 years	9	12
Contingent liabilities at December 31	117	98
Other contingent liabilities		
Contractual obligations to third parties relating to property, plant and equipment	833	364
Other guarantees and commitments to related companies	2,203	2,210
Other guarantees and commitments to third parties	58	114

Pending litigation and arbitration

Reference is made to Note 6.3 to the consolidated financial statements concerning pending cases.

NOTE SECTION 5

5.2 Related party transactions

Transactions

DKK million	2016	2015
The Novo Nordisk Group		
Sales	149	148
Purchases	(152)	(172)
The NNIT Group		
Purchases	(41)	(48)
The Chr. Hansen Group		
Sales	22	14

Outstanding balances

DKK million	2016	2015
The Novo Nordisk Group		
Receivables	23	22
Payables	(73)	(68)
The NNIT Group		
Payables	(9)	(12)
The Chr. Hansen Group		
Receivables	3	-

Reference is made to Note 6.4 to the consolidated financial statements concerning other transactions with related parties.

5.3 Fees to statutory auditor

DKK million	2016	2015
Statutory audit	4	4
Other assurance engagements	-	-
Tax advisory services	2	2
Other services	-	3
Fees to statutory auditor	6	9

Reference is made to Note 6.5 to the consolidated financial statements concerning fees to statutory auditor.

NOTE SECTION 5

5.4 Statement of cash flows

Reference is made to the Consolidated statement of cash flows.

5.5 Segment information

Reference is made to Note 2.1 to the consolidated financial statements concerning segment information.

5.6 Common stock and treasury stock

Reference is made to Note 5.5 to the consolidated financial statements concerning common stock and treasury stock.