

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 2017 in DKK million

**67**

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Realized audit fee ratio during  
2017

**1.14**

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No. of Danish and foreign  
subsidiaries in the Group

**44**

## Other financial notes

# 6.1 Management remuneration

DKK million	2017			2016		
	Executive Leadership Team	Board of Directors	Total	Executive Leadership Team	Board of Directors	Total
Salaries and other short-term benefits	37	7	44	38	7	45
Defined contribution plans	9	-	9	9	-	9
Expensed stock-based incentive programs	40	-	40	36	-	36
Severance package	34	-	34	62	-	62
<b>Remuneration</b>	<b>120</b>	<b>7</b>	<b>127</b>	<b>145</b>	<b>7</b>	<b>152</b>
Total remuneration for registered members of the Executive Leadership Team *	43			48		

\* Registered as of December 31.

General guidelines for remuneration of the Board of Directors and the Executive Leadership Team of Novozymes A/S, assessed by the Board of Directors according to recommendations of the Nomination and Remuneration Committee, are approved at the Annual Shareholders' Meeting and can be found on Novozymes.com. Detailed information on Management remuneration is available in the Remuneration report found in the Governance section.

### 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. The stock-based incentive programs are described in Note 6.2.

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 an executive officer's contract of employment is terminated by the company without any misconduct on the part of the executive officer, the executive officer has a notice period of 12 months. In addition to the notice period, the executive officer has a right to compensation which amounts to between one and two years' base salary and pension contributions, depending on the position held.

### Board of Directors

Remuneration to the Board of Directors comprises a fixed fee and is not incentive based.

### Changes in the Executive Leadership Team

In December 2017, Novozymes announced the appointment of a new Chief Financial Officer, Prisca Havranek-Kosicek, who will join the Executive Leadership Team on February 1, 2018. Prisca Havranek-Kosicek replaces former CFO Benny D. Loft, who left Novozymes in June 2017. Benny D. Loft's severance package was fully expensed in 2017. The severance package consists of salary and bonuses during the notice period (12 months) as well as termination compensation (24 months), totaling DKK 20.1 million. Furthermore, Benny D. Loft was awarded stock and stock options representing a fair value of DKK 13.7 million.

## 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 2017, a three-year incentive program for the Executive Leadership Team was established, covering the period 2017-2019. The program is a combination of stock options and stock, with half of the incentive program allocated in stock options and half in stock. Stock options will be awarded annually in 2017, 2018 and 2019, while the stock will be allocated in 2020. The final grant will depend on accumulated economic profit generated as well as average organic sales growth during the period.

- A total of up to 75% of the program will be allocated if economic profit accumulated for the three years attains DKK 7.5 billion. If economic profit of DKK 5.5 billion is generated over the period, 50% of the stock and stock options allocated to the economic profit pool will be awarded. Between the two points, stock options and stock will be granted proportionally. If the accumulated economic profit is below DKK 5.5 billion, no

stock or stock options will be awarded under the economic profit pool

- A total of up to 25% of the program will be allocated if Novozymes achieves 6% organic sales growth on average during the three years. If average organic sales growth of 3% is achieved, 50% of the stock and stock options allocated to the sales growth pool will be awarded. Between the two points, stock options and stock will be awarded proportionally. If the average sales growth is below 3%, no stock or stock options will be awarded under the sales growth pool

The total fair value of the program at grant date was DKK 162 million, which will be expensed over a six-year period. The value of the stock will be expensed over the three-year qualifying period (2017-2019). 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 qualifying years (2017-2019). The recognition of the program expense is based on the expected target achievement, which is reassessed annually.

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 324 million at the end of the program in January 2020.

Furthermore, three-year programs have been established for vice presidents and directors covering the period 2017-2019 (approximately 180 vice presidents and directors). The total fair value at grant date is DKK 175 million, and the maximum-value clause is approximately DKK 350 million. The grant date fair value will be expensed over a six-year period, based on the expected target achievement, which is reassessed annually. The program for the vice presidents largely follows the same mechanisms as the program for the Executive Leadership Team. The new program for directors is a stock option program with the same targets for sales and economic profit as the incentive program for the Executive Leadership Team. Furthermore, there are awards linked to annual EBIT and sustainability targets.

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 are 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 measured with reference to the fair value of the stock options and stock awards granted. The fair value is measured using the Black-Scholes option-pricing model.

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.

## Other financial notes

# 6.2 Stock-based payment (continued)

### Stock options

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

	Number of options				DKK		DKK million
	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
Outstanding at January 1, 2017	1,443,244	4,157,065	2,756,676	8,356,985	230		
Change in Management	(249,614)	249,614		-			
Granted*	478,444	990,999	543	1,469,986	250	45	67
Allocation adjustment	-	(54,837)	(155,173)	(210,010)	269		
Exercised**	(136,824)	(1,104,587)	(304,605)	(1,546,016)	121		
Forfeited	-	(135,413)	(99,995)	(235,408)	270		
Expired	-	(6,545)	(35,501)	(42,046)	78		
<b>Outstanding at December 31, 2017</b>	<b>1,535,250</b>	<b>4,096,296</b>	<b>2,161,945</b>	<b>7,793,491</b>	<b>253</b>		
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>		
Number of exercisable options at December 31, 2017				972,760	178		
Number of exercisable options at December 31, 2016				1,200,563	89		

\* The allocation of stock options for 2017-2019 will be adjusted in January 2020 based on the cumulative level of target achievement in the period.

\*\* The weighted average share price for stock options exercised during 2017 was DKK 297 (2016: DKK 287).

	2017			2016		
	Remaining term to maturity of up to five years	Remaining term to maturity of above five years	Total	Remaining term to maturity of up to five years	Remaining term to maturity of above five years	Total
Stock options outstanding	No.	2,892,905	4,900,586	2,461,568	5,895,417	8,356,985
Weighted average term to maturity	Years	5	7	3	7	6
Range of exercise prices	DKK	83-317	249-317	78-209	233-317	78-317
Average exercise price	DKK	215	276	138	268	230

## Other financial notes

# 6.2 Stock-based payment (continued)

During 2017, DKK 107 million arising from stock-based payment has been recognized in the income statement (2016: DKK 144 million), of which DKK 104 million is from equity-settled programs (2016: DKK 136 million) and DKK 3 million from cash-settled programs (2016: DKK 8 million). The amount includes DKK 12 million related to the remaining total costs from outstanding programs, which was recognized in connection with the change of Chief Financial Officer.

Most programs are equity settled, and no liability is recognized for these. If allocations under the programs are made in countries where ownership of foreign stock is not permitted, the value of stock options is settled in cash instead, and a liability of DKK 29 million has been recognized for this in 2017 (2016: DKK 24 million). The intrinsic value of exercisable cash-settled programs in 2017 was DKK 34 million (2016: DKK 16 million).

The fair value of employee services received is measured with reference to the fair value of the equity instruments granted. Fair value at grant date is measured in accordance with the Black-Scholes model, using the average exercise price, the option term and the following significant assumptions:

		2017	2016
Expected future dividends per share	DKK	31.6	28.5
Volatility	%	26.6	25.1
Annual risk-free interest rate	%	0.0	0.1
Weighted average share price at grant date	DKK	250	274

Furthermore, the options are assumed 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.

### Stock awards

In 2017, 500,918 stock awards were granted with a fair value of DKK 125 million (2016: DKK 0 million).

The total number of outstanding stock awards at December 31, 2017 was 460,175 (2016: 612,577). The fair value of these at December 31, 2017, was DKK 163 million (2016: DKK 149 million), which will be expensed over the three-year period (2017-2019).

### Warrants

At the beginning of 2016, a four-year incentive program was established for the Albumedix leadership team, covering the period 2016-2019. The program was a warrant program conferring the right to purchase new shares in Albumedix A/S.

The vesting conditions are not expected to be satisfied, and previously recognized expenses have been reversed.

## Other financial notes

# 6.3 Commitments and contingencies

DKK million	2017	2016
Recognized in the income statement in respect of rentals	115	119
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	104	107
Between 1 and 2 years	57	85
Between 2 and 3 years	44	59
Between 3 and 4 years	33	42
Between 4 and 5 years	21	28
After 5 years	123	139
<b>Rental commitments at December 31</b>	<b>382</b>	<b>460</b>

Of this, commitments to related parties at December 31, 2017, amounted to DKK 39 million, compared with DKK 31 million at December 31, 2016. The above rental

commitments relate to noncancelable operating leases, primarily for buildings and offices.

DKK million	2017	2016
<b>Other commitments</b>		
Contractual obligations to third parties relating to property, plant and equipment	804	979
<b>Other guarantees</b>		
Other guarantees and commitments to related companies	47	75
Other guarantees and commitments	309	288

Contractual obligations to third parties relating to capital expenditure continue to be

significantly impacted by the construction of Innovation campus, Lyngby 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 is 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, Denmark. The monetary commitment cannot be estimated reliably at the moment.

Novozymes is committed to increase 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 Holdings A/S, domiciled in Hellerup, Denmark, which holds 71.2% 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 Holdings 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	2017	2016
<b>The Novo Nordisk Group</b>		
Sale of goods and materials	63	74
Sale of services	100	76
Purchase of goods and materials	(71)	(91)
Purchase of services	(74)	(72)
<b>The NNIT Group</b>		
Purchase of services	(34)	(41)
<b>The Chr. Hansen Group</b>		
Sale of goods and materials	39	25

There has not been any 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	2017	2016
<b>The Novo Nordisk Group</b>		
Receivables	40	64
Payables	(99)	(117)
<b>The NNIT Group</b>		
Payables	(4)	(9)
<b>The Chr. Hansen Group</b>		
Receivables	5	3

## Other financial notes

# 6.5 Fees to statutory auditor

<b>DKK million</b>	<b>2017</b>	<b>2016</b>
Statutory audit	7	8
Other assurance engagements	-	-
Tax assurance services	7	4
Other services	1	1
<b>Fees to statutory auditor</b>	<b>15</b>	<b>13</b>
Audit fee ratio	1.14	0.63

### Audit fee policy

It is Novozymes' policy that the annual fee for nonaudit services provided by the statutory auditor should not exceed the annual fee for statutory audit services measured at Group level. The audit fee ratio can only exceed 1 with the approval of the Audit Committee.

In 2017, approval was given for extra advisory services of DKK 2.0 million related to applications for two major Bilateral Advance Pricing Agreements (BAPA).

No such approvals were given in 2016.

Implementation of the EU audit reform has led to restrictions on the nonaudit services that the auditor elected at the Annual Shareholders' Meeting may perform. The fee for nonaudit services performed for Novozymes by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab is DKK 3 million (2016: DKK 2 million) and comprises review of interim financial statements for special purposes, audit of project accounts, tax

advisory services concerning transfer pricing, and other general financial reporting and tax consultancy. None of the nonaudit services performed are prohibited. The EU audit reform will lead to future restrictions on the size of the nonaudit services that the elected auditor may perform while performing the audit.

## Other financial notes

# 6.6 Cash flow

DKK million	Note	2017	2016
<b>Non-cash items</b>			
Accrued interest income and interest costs		20	26
(Gain)/loss on financial assets, etc., net		139	(21)
Depreciation, amortization and impairment losses	3.1, 3.2	1,067	1,014
Realized loss and allowances for doubtful trade receivables		69	15
Financial (gain)/loss on sale of assets		(9)	(7)
Unrealized foreign exchange (gain)/loss		(142)	(20)
Tax	2.6	756	831
Stock-based payment	6.2	107	144
Change in provisions		(22)	22
Loss on divestment of Albumedix	2.5	66	-
Profit/loss in associates		14	31
<b>Non-cash items</b>		<b>2,065</b>	<b>2,035</b>
<b>Business acquisitions, divestments and purchase of financial assets</b>			
Acquisition of Organobalance GmbH	3.5	-	(146)
Divestment of Albumedix		4	-
Other acquisitions and purchase of financial assets		(7)	(15)
<b>Cash flow from acquisitions, net</b>		<b>(3)</b>	<b>(161)</b>
<b>Cash and cash equivalents, net</b>			
Cash and cash equivalents		632	812
Credit institutions - on demand		(269)	(7)
<b>Cash and cash equivalents, net, at December 31</b>		<b>363</b>	<b>805</b>

Undrawn committed credit facilities were DKK 3,944 million at December 31, 2017 (2016: DKK 3,500 million), all of which expires in 2019-2022.



## 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

	Activity	Percentage of shares owned		Activity	Percentage of shares owned	
<b>Parent company</b>						
Novozymes A/S, Denmark	■ □ ● ◆ ○					
<b>Subsidiaries</b>						
Novozymes BioAg S.A., Argentina	■ □ ● ◆	100	Novozymes Deutschland GmbH*, Germany	● ○	100	
Novozymes Australia Pty. Ltd.*, Australia	●	100	Organobalance GmbH, Germany	□ ● ◆	100	
Novozymes Belgium BVBA*, Belgium	●	100	Novozymes Hong Kong Ltd., Hong Kong		○	
Novozymes Latin America Ltda.*, Brazil	■ □ ● ◆	100	Novozymes South Asia Pvt. Ltd., India	■ □ ● ◆	100	
Novozymes BioAg Productos Para Agricultura Ltda., Brazil	□ ●	100	Novozymes Italia S.r.l.*, Italy	●	100	
Novozymes BioAg Limited, Canada	■ □ ● ◆ ○	100	Novozymes Japan Ltd.*, Japan	● ◆	100	
Novozymes Canada Limited, Canada	■ □ ●	100	Novozymes Malaysia Sdn. Bhd.*, Malaysia	●	100	
Novozymes (China) Biotechnology Co. Ltd., China	■ □ ●	100	Novozymes Mexicana, S.A. de C.V.*, Mexico	●	100	
Novozymes (China) Investment Co. Ltd., China	● ◆ ○	100	Novozymes Mexico, S.A. de C.V. , Mexico	●	100	
Novozymes (Shenyang) Biologicals Co. Ltd., China	■ □ ●	100	Novozymes Netherlands BVBA*, Netherlands	●	100	
Suzhou Hongda Enzyme Co. Ltd., China	■ □ ●	96	Novozymes RUS LLC*, Russia	●	100	
Novozymes Bioindustrial A/S*, Denmark		○	100	Novozymes Singapore Pte. Ltd.*, Singapore		○
Novozymes Bioindustrial China A/S*, Denmark		○	100	Novozymes South Africa (Pty) Ltd.*, South Africa	●	100
Novozymes Biopharma DK A/S*, Denmark		○	100	Novozymes Korea Limited*, South Korea	●	100
Novozymes BioAg A/S*, Denmark		○	100	Novozymes Spain S.A.*, Spain	●	100
Novozymes France S.A.S.*, France	● ◆	100	Novozymes Sweden AB*, Sweden	●	100	
			Novozymes Switzerland AG, Switzerland	■ ●	100	
			Novozymes Switzerland Holding AG*, Switzerland		○	
			Novozymes Enzim Dis Ticaret Ltd. Sirketi*, Turkey	●	100	
			Novozymes UK Ltd.*, UK	● ◆	100	

Other financial notes

## 6.8 Group companies (continued)

	Activity	Percentage of shares owned		Activity	Percentage of shares owned
Novozymes Biopharma US, Inc., USA	●	100	<b>Joint operations/associates</b>		
Novozymes BioAg, Inc., USA	■ □ ●	100	Houseowners' Association Smørrøsen*, Denmark		
Novozymes Biologicals, Inc., USA	■ □ ● ◆	100	Houseowners' Association Hallas Park*, Denmark		
Novozymes Blair, Inc., USA	■ □	100	Microbiogen PTY Ltd.*, Australia		23.10
Novozymes, Inc., USA	◆	100	Beta Renewables S.p.A.*, Italy		9.95
Novozymes North America, Inc., USA	■ □ ● ◆	100	MagnaBioAnalytics LLC, USA		19.35
Novozymes US, Inc.*, USA	○	100			
Pacific Vet Group-USA, Inc., USA	□ ● ◆	100			

■ 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.