

An aerial night photograph of a city, likely Santiago, Chile, showing a dense urban landscape with numerous buildings and a prominent highway with light trails from traffic. The city is set against a backdrop of hills and a distant body of water under a twilight sky.

Accounts & performance

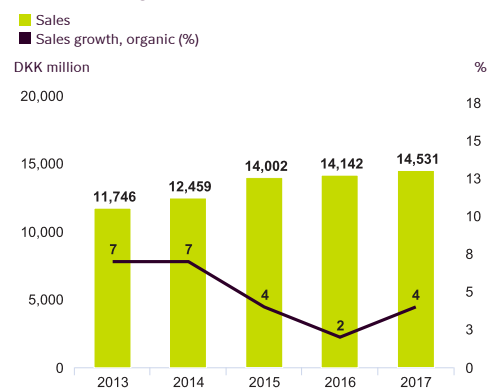
Sales and earnings

Sales

Total sales in 2017 were DKK 14,531 million, an increase of 4% organically and 3% in DKK.

“Sales to Food & Beverages and Bioenergy were the most significant contributors to organic sales growth.”

Sales and sales growth



Gross profit and margin

Gross profit increased by 4% to DKK 8,413 million from DKK 8,126 million in 2016. The gross margin was 57.9%, up from 57.5% in 2016. Productivity improvements had a positive impact on the gross margin, somewhat offset by unfavorable mix and price changes.

Operating costs

Operating costs increased by 2% to DKK 4,363 million. Operating costs as a percentage of sales were 30%.

- Sales and distribution costs were unchanged, representing 11% of sales
- Research and development costs increased by 3%, representing 13% of sales
- Administrative costs increased by 3%, representing 6% of sales

Other operating income

Other operating income was a net loss of DKK 3 million, compared with a net income of DKK 117 million in 2016. The decrease in 2017 was mainly caused by a loss of DKK 66 million relating to the divestment of Alumedix late 2017. After careful review of Alumedix's future activities and needs, Novozymes concluded that the entity no longer benefits from being part of the Group. Novozymes and Alumedix have found a good future ownership solution for Alumedix, with Novozymes retaining 8% ownership of the company.

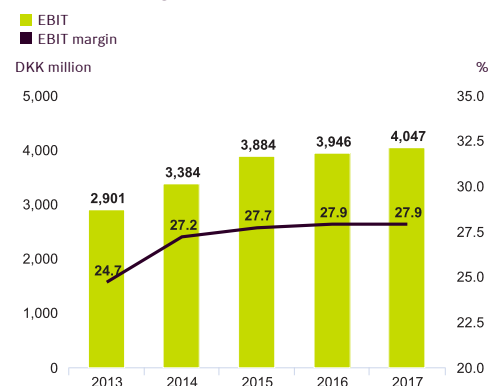
EBITDA

EBITDA increased by 3% to DKK 5,114 million, up from DKK 4,960 million in 2016. Depreciation, amortization and impairment losses were DKK 1,067 million in 2017, up 5% from DKK 1,014 million in 2016. The increase in depreciation was mainly attributable to acquisitions, such as Organobalance GmbH in 2016.

EBIT and EBIT margin

EBIT increased by 3% to DKK 4,047 million, up from DKK 3,946 million in 2016. The EBIT margin ended at 27.9%, unchanged from 2016. Excluding the one-time costs relating to layoffs at the beginning of 2017, the cost associated with the change to the Executive Leadership Team during the year and the loss on the divestment of Alumedix, the EBIT margin was around 29%.

EBIT and EBIT margin



Net finance

Net financial costs were DKK 157 million in 2017, compared with DKK 34 million in 2016. Net financial costs in 2017 were impacted by a write-down of DKK 120 million on a financial asset related to a guarantee provided by M&G. Due to financial difficulties in the M&G Group, it is now assessed that the financial asset will not be recovered and it has been written down.

Tax

The effective tax rate was 19.5%, compared with 21.4% in 2016. In 2017, Novozymes transferred intellectual property from Switzerland to Denmark. This had a positive impact on the effective tax rate of roughly 2 percentage points. The one-time negative impact of adjusting the deferred tax to the new US tax rate was almost 1 percentage point.

Net profit

Net profit grew by 2% to DKK 3,120 million in 2017, up from DKK 3,050 million in 2016, driven by higher EBIT and a lower tax rate, but partly offset by the write-down included in financial items.

Earnings per share

Earnings per share increased by 4% to DKK 10.56, compared with DKK 10.15 in 2016, due to higher net profit and cancellation of shares.

[Read more about the Novozymes stock in The Novozymes stock](#)

Consolidated statements of income

Income statement

DKK million	Note	2017	2016
Revenue	2.1, 2.2	14,531	14,142
Cost of goods sold	2.3, 3.1, 3.2, 4.1	(6,118)	(6,016)
Gross profit		8,413	8,126
Sales and distribution costs	2.3, 3.1, 3.2	(1,619)	(1,622)
Research and development costs	2.3, 2.4, 3.1, 3.2	(1,913)	(1,865)
Administrative costs	2.3, 3.1, 3.2	(831)	(810)
Other operating income, net	2.5	(3)	117
Operating profit / EBIT		4,047	3,946
Share of result in associates	3.4	(14)	(31)
Financial income	5.2	90	32
Financial costs	5.2	(247)	(66)
Profit before tax		3,876	3,881
Tax	2.6	(756)	(831)
Net profit		3,120	3,050
Attributable to			
Shareholders in Novozymes A/S		3,119	3,050
Non-controlling interests		1	-
		3,120	3,050
Proposed dividend per share		DKK 4.50	DKK 4.00
Earnings per share	2.7	DKK 10.56	DKK 10.15
Earnings per share, diluted	2.7	DKK 10.49	DKK 10.06

Statement of comprehensive income

DKK million	Note	2017	2016
Net profit		3,120	3,050
Items that may be reclassified subsequently to the income statement:			
Currency translation adjustments			
Subsidiaries and non-controlling interests		(970)	140
Tax on currency translation adjustments		37	(8)
Currency translation adjustments		(933)	132
Cash flow hedges			
Fair value adjustments		115	(70)
Tax on fair value adjustments		(25)	15
Cash flow hedges reclassified to financial costs		(5)	(8)
Tax on reclassified fair value adjustments		1	2
Cash flow hedges		86	(61)
Other comprehensive income		(847)	71
Comprehensive income for the year		2,273	3,121
Attributable to			
Shareholders in Novozymes A/S		2,273	3,121
Non-controlling interests		-	-
		2,273	3,121

Balance sheet and financial position

Total assets

Total assets decreased from DKK 18,659 million at December 31, 2016, to DKK 18,373 million at December 31, 2017. The decrease was mainly caused by changes in currency, the divestment of Albumedix and the write-down of DKK 120 million on a financial asset related to a guarantee from M&G, partly offset by higher net investments.

ROIC

Return on invested capital (ROIC), including goodwill, was 25.6%, up 0.5 percentage points from 25.1% in 2016. The increase was mainly a result of a higher EBIT and a lower tax rate, partly offset by higher net investments.

Invested capital

Invested capital increased from DKK 12,584 million in 2016 to DKK 12,880 million in 2017. This was mainly a result of high net investments, partly offset by the impact of changes in currency.

Net working capital

Novozymes' net working capital decreased to DKK 2,023 million, down from DKK 2,088 million in 2016, mainly due to an increase in trade payables and a decrease in trade receivables, which has been partly offset by release of deferred income.

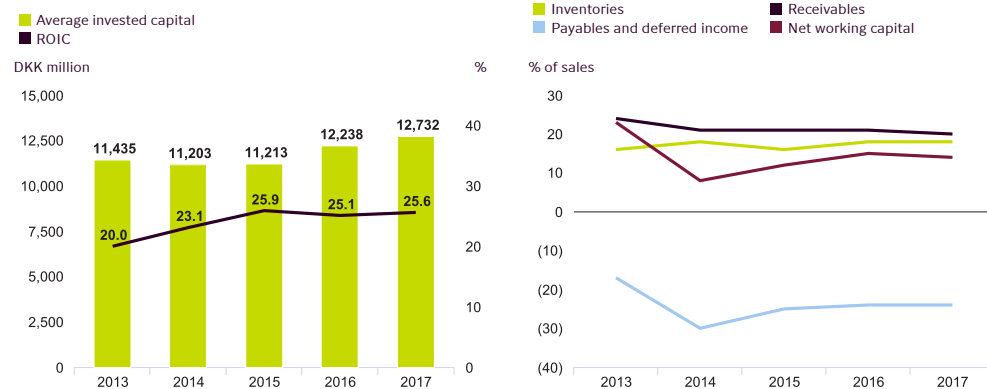
Net interest-bearing debt

Novozymes had net interest-bearing debt of DKK 1,642 million at December 31, 2017, compared with DKK 990 million at December 31, 2016. Net interest-bearing debt was impacted by cash outflows from dividend payments of DKK 1,192 million, stock buybacks of DKK 2,000 million and net investments of DKK 1,668 million, which exceeded cash inflows from operating activities of DKK 4,063 million.

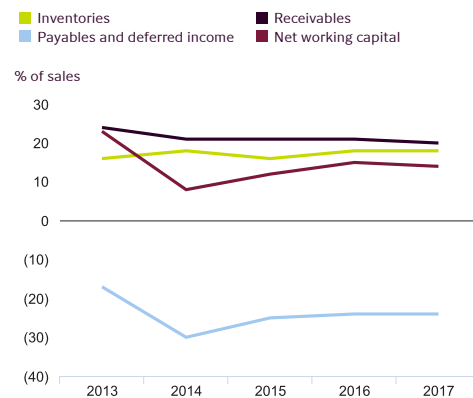
Net interest-bearing debt-to-EBITDA

Net interest-bearing debt-to-EBITDA was 0.3 at December 31, 2017, compared with 0.2 at December 31, 2016.

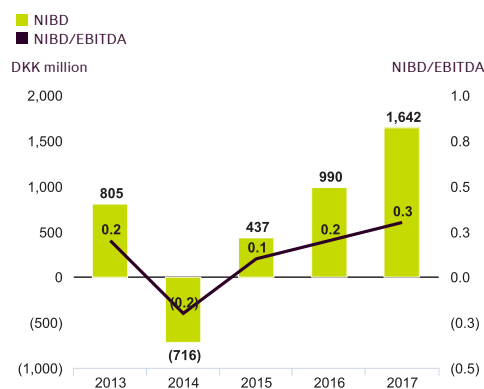
ROIC and invested capital



Net working capital



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



Consolidated balance sheet

Assets

DKK million	Note	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	2.1, 3.1	2,432	2,737
Land and buildings	2.1, 3.2	2,697	2,931
Plant and machinery	2.1, 3.2	4,019	4,239
Other equipment	2.1, 3.2	562	615
Assets under construction and prepayments	2.1, 3.2	1,648	856
Deferred tax assets	2.6	755	607
Other financial assets		29	151
Investments in associates	3.4	59	73
Other receivables	4.3	35	57
Non-current assets		12,236	12,266
Inventories	4.1	2,586	2,488
Trade receivables	4.2	2,554	2,680
Tax receivables	2.6	135	142
Other receivables	4.3	214	267
Other financial assets		16	4
Cash and cash equivalents	6.6	632	812
Current assets		6,137	6,393
Assets		18,373	18,659

Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2017	Dec. 31, 2016
Common stock	5.5	610	620
Currency translation adjustments		(262)	670
Cash flow hedges		45	(41)
Retained earnings		10,861	10,483
Equity attributable to shareholders in Novozymes A/S		11,254	11,732
Non-controlling interests		13	13
Shareholders' equity		11,267	11,745
Deferred tax liabilities	2.6	721	854
Provisions	3.3	159	231
Deferred income	4.4	337	540
Other financial liabilities	5.3	1,312	1,727
Non-current liabilities		2,529	3,352
Provisions	3.3	86	61
Other financial liabilities	5.3	979	200
Trade payables		1,341	1,194
Deferred income	4.4	205	248
Tax payables	2.6	483	437
Other liabilities	4.5	1,483	1,422
Current liabilities		4,577	3,562
Liabilities		7,106	6,914
Liabilities and shareholders' equity		18,373	18,659

Equity and shareholder return

Shareholders' equity

At December 31, 2017, shareholders' equity was DKK 11,267 million, down 4% from DKK 11,745 million at December 31, 2016, as dividend payments and stock buyback in 2017 more than offset comprehensive income.

Equity ratio

Shareholders' equity represented 61% of the balance sheet total, down from 63% at December 31, 2016.

Return on equity

Return on equity was 27.1%, up 1.0 percentage point from 26.1% in 2016. The increase was a result of higher net profit and a decrease in equity.

Treasury stock

At December 31, 2017, the holding of treasury stock was 12.1 million B shares, equivalent to 4.0% of the common stock.

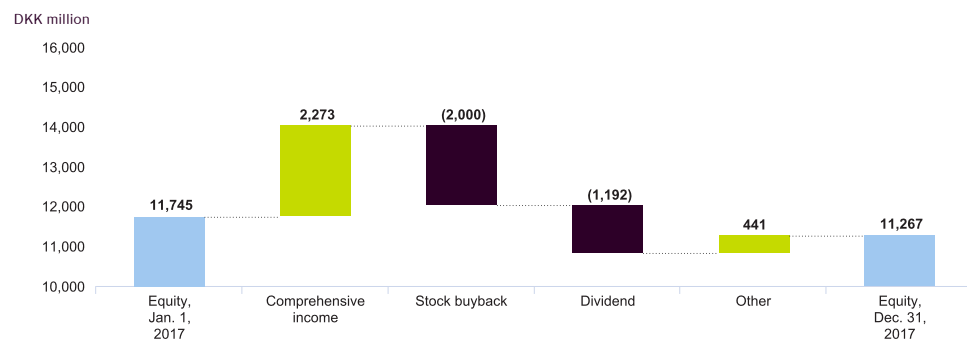
Dividend

The Board of Directors proposes that the Annual Shareholders' Meeting approve a dividend of DKK 4.50 per share for the 2017 financial year, an increase of 13% compared with 2016. This will result in an expected total dividend payment of approximately DKK 1,318 million, corresponding to a payout ratio of 42.3%.

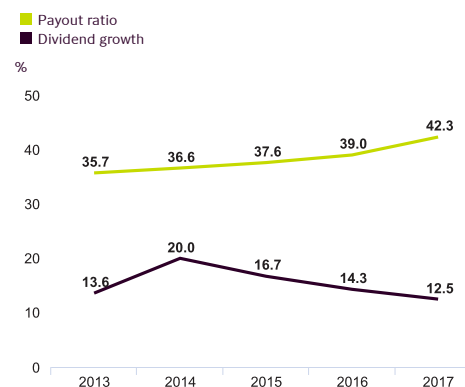
Stock buyback program

In 2017, Novozymes bought back 6.8 million B shares with a transaction value of DKK 2,000 million under the stock buyback program initiated on January 25, 2017, and completed on November 9, 2017. 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.

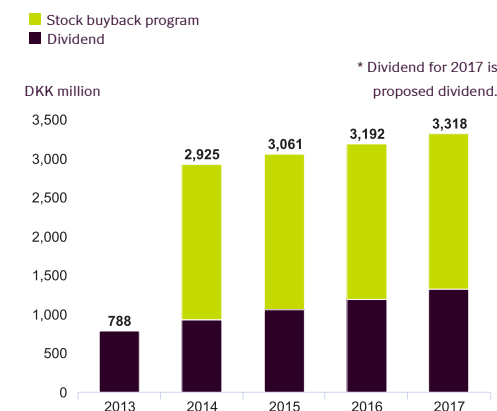
Movements in equity 2017



Payout ratio and dividend growth



Shareholder return



[Read more about the Novozymes stock in The Novozymes stock](#)

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		
Shareholders' equity at January 1, 2017	620	670	(41)	10,483	11,732	13	11,745
Net profit for the year				3,119	3,119	1	3,120
Other comprehensive income for the year		(932)	86		(846)	(1)	(847)
Total comprehensive income for the year		(932)	86	3,119	2,273	-	2,273
Purchase of treasury stock				(2,000)	(2,000)		(2,000)
Sale of treasury stock				179	179		179
Write-down of common stock	(10)			10	-		-
Dividend				(1,192)	(1,192)		(1,192)
Stock-based payment				104	104		104
Tax related to equity items				158	158		158
Changes in shareholders' equity	(10)	(932)	86	378	(478)	-	(478)
Shareholders' equity at December 31, 2017	610	(262)	45	10,861	11,254	13	11,267
Shareholders' equity at January 1, 2016	626	538	20	10,396	11,580	13	11,593
Net profit for the year				3,050	3,050	-	3,050
Other comprehensive income for the year		132	(61)		71		71
Total comprehensive income for the year		132	(61)	3,050	3,121	-	3,121
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)
Changes in shareholders' equity	(6)	132	(61)	87	152	-	152
Shareholders' equity at December 31, 2016	620	670	(41)	10,483	11,732	13	11,745

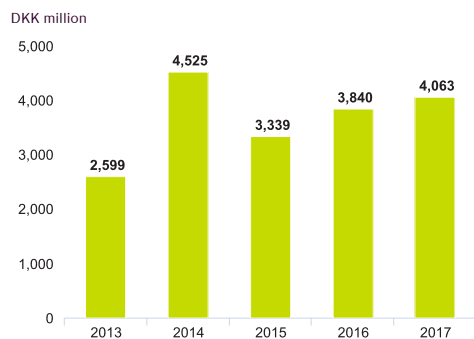
The proposed dividend of DKK 1,318 million for 2017 is included in Retained earnings.

Cash flow

Cash flow from operating activities

Cash flow from operating activities was DKK 4,063 million, up from DKK 3,840 million in 2016. Higher net profit impacted cash flow positively, while changes in net working capital impacted cash flow negatively by DKK 249 million. The higher net working capital was mainly due to higher inventory levels.

Cash flow from operating activities

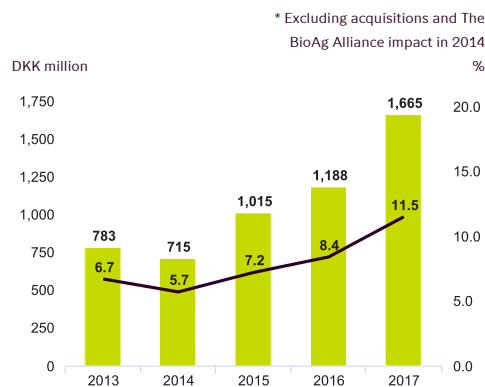


Net investments

Net investments excluding acquisitions were DKK 1,665 million, up from DKK 1,188 million in 2016. Net investments in property, plant and equipment amounted to DKK 1,566 million, compared with DKK 1,048 million in 2016. The higher net investments were related to the construction of the innovation campus in Denmark, new production facilities in Mumbai, India, and capacity expansions in Nebraska, US.

Net investments

■ Net investments
■ Net investments (% of sales)



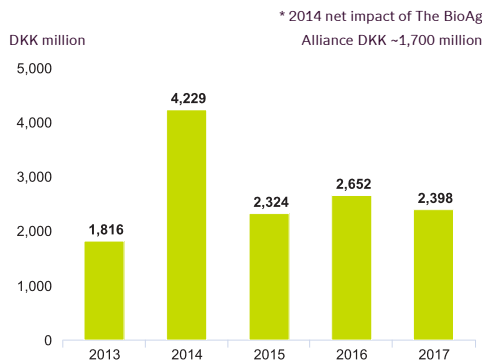
Free cash flow before acquisitions

Free cash flow before net acquisitions was DKK 2,398 million, compared with DKK 2,652 million in 2016. The decrease of 10% was mainly caused by higher investments, partly offset by positive development in cash flow from operating activities.

Free cash flow

Free cash flow was DKK 2,395 million in 2017, compared with DKK 2,491 million in 2016.

Free cash flow before acquisitions



Financing activities

Cash flow from financing activities was negative at DKK 2,815 million, compared with a negative cash flow of DKK 2,484 million in 2016. The negative cash flow from financing activities was mainly due to completion of the stock buyback program (DKK 2,000 million) and dividend payments (DKK 1,192 million).

Cash position

Cash and cash equivalents at December 31, 2017, amounted to DKK 363 million, down from DKK 805 million at December 31, 2016. Undrawn committed credit facilities were DKK 3,944 million at December 31, 2017.

Consolidated statement of cash flows

DKK million	Note	2017	2016	DKK million	Note	2017	2016
Net profit		3,120	3,050	Financing			
Reversal of non-cash items	6.6	2,065	2,035	Borrowings		636	1,281
Income tax paid	2.6	(852)	(905)	Repayments of borrowings		(438)	(773)
Interest received		7	4	Purchase of treasury stock		(2,000)	(2,000)
Interest paid		(28)	(30)	Sale of treasury stock		179	69
Cash flow before change in working capital		4,312	4,154	Dividend paid		(1,192)	(1,061)
Change in working capital				Cash flow from financing activities		(2,815)	(2,484)
(Increase)/decrease in receivables		(96)	13	Net cash flow		(420)	7
(Increase)/decrease in inventories		(224)	(199)	Unrealized gain/(loss) on currencies and financial assets included in cash and cash equivalents		(22)	2
Increase/(decrease) in payables and deferred income		74	(125)	Net change in cash and cash equivalents		(442)	9
Currency translation adjustments		(3)	(3)	Cash and cash equivalents, net, at January 1		805	796
Cash flow from operating activities		4,063	3,840	Cash and cash equivalents, net, at December 31	6.6	363	805
Investments							
Purchase of intangible assets	3.1	(99)	(140)				
Purchase of property, plant and equipment	3.2	(1,593)	(1,076)				
Sale of property, plant and equipment		27	28				
Business acquisitions, divestments and purchase of financial assets	6.6	(3)	(161)				
Cash flow from investing activities		(1,668)	(1,349)				
Free cash flow		2,395	2,491				

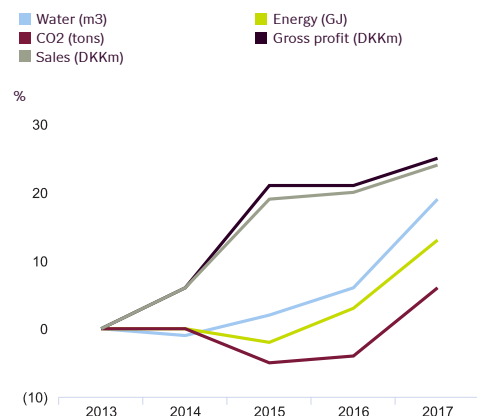
Environmental performance

Operational ecoefficiency

Novozymes strives to decouple environmental impact from business growth. We have 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 2017, absolute energy and water consumption and CO₂ emissions increased at a higher rate than gross profit, resulting in reduced performance compared with 2016. This increase in consumption was due to significantly higher capacity utilization at Novozymes' production sites.

Developments in sales, gross profit and environmental impact



Climate change

Novozymes' CO₂ intensity reduction compared with the base year 2014 fell to 11% in 2017 from 16% in 2016.

Despite this, Novozymes' net overall impact on climate change remains positive, as its products result in lower CO₂ emissions over their life cycles compared with conventional technologies. In 2017, our customers avoided an estimated 76 million tons of CO₂ emissions by applying our solutions in their products or processes, up from 69 million tons in 2016. This is equivalent to taking 32 million cars off the road.

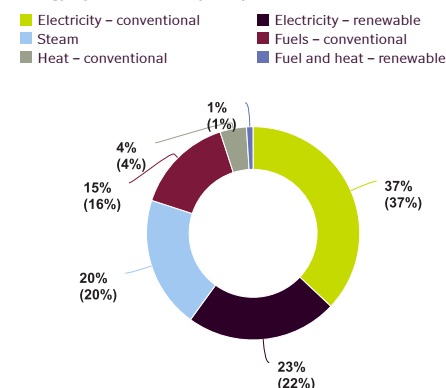
“Novozymes' net overall impact on climate change remains positive.”

Energy

In 2017, Novozymes' energy efficiency improved by 4% compared with the base year 2014, down from 10% in 2016.

Energy consumption from renewable sources remained at 24% in 2017. All our electricity in Denmark and Brazil comes from offshore windfarms and hydropower.

Energy by source 2017 (2016)



Water

In 2017, Novozymes' water efficiency declined by 2% compared with the base year 2014, down from a 6% improvement in 2016.

The total volume of wastewater generated in 2017 increased by 15% from 2016. In 2017, we invested significantly to increase wastewater treatment capacity at our largest production site in Kalundborg, Denmark.

Waste

Novozymes recovered 97% of its total solid waste and biomass generated in 2017 from landfill, on par with 2016.

Specifically, for solid waste, the rate of recycling across our global production sites decreased to 43%, compared with 44% in 2016.

Environmental compliance

The number of breaches of regulatory limits recorded worldwide declined to 24 in 2017 from 37 in 2016. Most of these breaches relate to wastewater treatment. Novozymes is addressing these incidents.

In addition, we received 12 complaints in 2017, compared with nine in 2016, mostly related to air pollution and waste management.

Consolidated environmental data

	Note		2017	2016
Climate change				
Estimated CO ₂ reductions from customers' application of Novozymes' products in their products or processes	7.1	Million tons	76	69
Greenhouse gas emissions	7.1	1,000 tons CO ₂ -eqv.	447	413
CO ₂ intensity reduction	7.1	%	11	16
Energy				
Energy consumption	7.2	1,000 GJ	4,760	4,380
Renewable energy	7.2	%	24	24
Energy efficiency improvement	7.2	%	4	10
Water				
Water consumption	7.3	1,000 m ³	8,106	7,225
Volume of wastewater	7.3	1,000 m ³	6,182	5,392
Water efficiency improvement	7.3	%	(2)	6
Waste				
Solid waste	7.4	1,000 tons	14	13
Recycling rate for solid and hazardous waste	7.4	%	43	44
Biomass volume	7.4	1,000 tons	602	550
Environmental compliance, etc.				
Breaches of regulatory limits	7.5	No.	24	37
Neighbor complaints	7.5	No.	12	9
References to notes without data				
Bioethics & biodiversity	7.6		n.a.	n.a.
Product stewardship	7.7		n.a.	n.a.

Social and governance performance

Labor practices & human rights

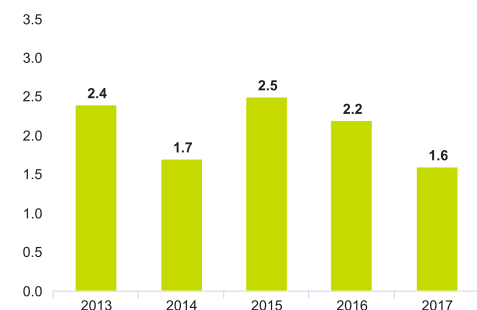
At the end of 2017, the total number of employees was 6,245, compared with 6,441 in 2016. The employee absence rate was 2.1% in 2017, compared with 2.0% in 2016.

Novozymes promotes equal opportunities and strengthens diversity in the global workplace. At the end of 2017, 26% of senior management (directors and higher) were women.

Occupational health & safety

Our continuous focus on building awareness and keeping employees safe and healthy has resulted in a lower frequency of occupational accidents: 1.6 per million working hours in 2017, compared with 2.2 in 2016.

Frequency of accidents (per million working hours)



Innovation

Novozymes is committed to delivering bioinnovation and launched eight new products in 2017. In 2017, Novozymes had 1,049 active patent families, which comprise the number of inventions that have active patent applications or active patents. See more details about our new products in Novozymes in a nutshell.

Customer engagement

Novozymes conducts an annual customer satisfaction survey and tracks progress on its Net Promoter Score (NPS), which is assessed on a scale from -100 to +100. In 2017, we received an NPS score of +39, compared with +45 in 2016. Despite this decline in score, which can be attributed to changing customer perceptions of account management, the survey results are largely positive.

Community engagement

In 2017, Novozymes engaged more than 188,000 learners, compared with approximately 106,000 in 2016. The increase was due to expansion of our 2016 projects across regions.

“We believe that the more people we educate, the more likely they are to get involved in creating sustainable biological solutions.”

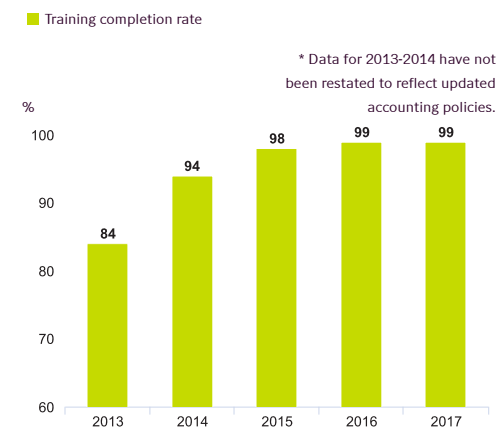
**- Peder Holk Nielsen
President & CEO**

Business ethics

In 2017, Novozymes reinforced its commitment to its business integrity principles. 99% of Novozymes' employees completed business integrity training in 2017, on par with 2016.

There were no breaches of competition law in 2017. The number of investigated fraud cases increased to 49 in 2017, compared with 44 in 2016. None of the investigated fraud cases had a material financial impact on Novozymes.

Business integrity training for employees*



Consolidated social and governance data

	Note		2017	2016
Labor practices & human rights				
Employees, total	2.3	No.	6,245	6,441
Women	2.3	%	37.7	37.7
Rate of absence	8.1	%	2.1	2.0
Women in senior management	8.1	%	26	25
Occupational health & safety				
Fatalities		No.	-	-
Frequency of occupational accidents	8.2	Per million working hours	1.6	2.2
Frequency of occupational diseases	8.2	Per million working hours	0.2	0.7
Innovation				
New products	2.4	No.	8	8
Active patent families	2.4	No.	1,049	1,123
Business ethics				
Completion of business integrity training for employees	8.3	%	99	99
Breaches of competition law	8.3	No.	-	-
Investigated fraud cases	8.3	No.	49	44
Community engagement				
Estimated number of learners reached	8.4	No.	188,000	106,000
Customer engagement				
Customer satisfaction, Net Promoter Score (NPS)	8.5	No.	39	45
Reference to notes without data				
Responsible sourcing	8.6		n.a.	n.a.

Notes

Basis of reporting

- 1** Basis of reporting

Net operating profit after tax

- 2.1** Segments
- 2.2** Revenue
- 2.3** Employees
- 2.4** Research and development costs
- 2.5** Other operating income, net
- 2.6** Tax
- 2.7** Earnings per share

Invested capital

- 3.1** Intangible assets and impairment test of goodwill
- 3.2** Property, plant and equipment
- 3.3** Provisions
- 3.4** Joint operations and associates
- 3.5** Business acquisitions

Net working capital

- 4.1** Inventories
- 4.2** Trade receivables
- 4.3** Other receivables
- 4.4** Deferred income
- 4.5** Other liabilities

Capital structure and financing

- 5.1** Financial risk factors and risk management
- 5.2** Financial income and Financial costs
- 5.3** Other financial liabilities
- 5.4** Derivatives – hedge accounting
- 5.5** Common stock and treasury stock
- 5.6** Financial assets and liabilities by category

Other financial notes

- 6.1** Management remuneration
- 6.2** Stock-based payment
- 6.3** Commitments and contingencies
- 6.4** Related party transactions
- 6.5** Fees to statutory auditor
- 6.6** Cash flow

- 6.7** Events after the reporting date

- 6.8** Group companies

Environmental data

- 7.1** Climate change
- 7.2** Energy
- 7.3** Water
- 7.4** Waste
- 7.5** Environmental compliance, etc.
- 7.6** Bioethics & biodiversity
- 7.7** Product stewardship

Social and governance data

- 8.1** Labor practices & human rights
- 8.2** Occupational health & safety
- 8.3** Business ethics
- 8.4** Community engagement
- 8.5** Customer engagement
- 8.6** Responsible sourcing

1 Basis of reporting

Reading guide




The Accounts and performance section is presented in a manner that attempts to make the information provided 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 International Financial Reporting Standards (IFRS) 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.

The notes for environmental and social and governance data also disclose Novozymes' management approach to the reported issue.

The symbols ,  and  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 IFRS as adopted by the EU and further requirements in the Danish Financial Statements Act. Novozymes has prepared the consolidated financial statements in accordance with all the IFRS standards effective at December 31, 2017. 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 data 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 voluntary 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 Novozymes' UNGC Communication on progress in the Sustainability section
- GRI Sustainability Reporting Standards 2016 (GRI Standards). Novozymes refers to GRI 101: Foundation 2016 to inspire its materiality assessment process and to GRI 102: General Disclosures 2016 to report contextual information about itself. 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

The principles are unchanged from last year.

Impact of new accounting standards

Novozymes has adopted the following new or amended standards and interpretations from January 1, 2017:

- Amendments to IAS 7 Disclosure Initiative was published in January 2016 and requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses was published in January 2016 and clarifies the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value
- Annual Improvements to IFRSs (2014-2016) was published in December 2016 and contains minor changes to three standards

The adoption of the amended standards and interpretations has not had any impact on recognition or measurement in the consolidated financial statements for 2017 and is not anticipated to have an impact on future periods.

1 Basis of reporting (continued)

New standards and interpretations not yet adopted

IASB has issued a number of new or amended accounting standards and interpretations that have not yet become effective and have consequently not been implemented in the consolidated financial statements for 2017. Novozymes expects to adopt the accounting standards and interpretations when they become mandatory. The following accounting standards are considered the most relevant for Novozymes:

- 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.

We have completed an analysis to assess the impact of implementing IFRS 9.

Based on the current treasury policy for hedging of risks, the implementation of IFRS 9 will not have an impact on the consolidated financial statements.

The simplified expected loss model will be applied to trade receivables, but will not significantly impact the allowance for doubtful trade receivables. However, the implementation of IFRS 9 will impact

disclosures on the allowance for doubtful trade receivables.

The standard will be implemented using January, 2018 as the date of initial application. We will make use of the relief from restating comparative figures and will only apply IFRS 9 as of January, 2018.

- IFRS 15 – Revenue from Contracts with Customers was published in May 2014 and establishes a single comprehensive framework for revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018.

During 2017, an analysis has been made of the impact of implementing IFRS 15. The analysis covered the most significant contracts, standard contracts and contracts where the analysis indicated that the implementation of IFRS 15 may impact revenue recognition.

The analysis concludes that the implementation of IFRS 15 will not have a significant impact on the income statement or the related key ratios in the consolidated financial statements. However, items currently recognized in the balance sheet will be presented separately as contract assets and contract liabilities, and the disclosures on revenue will be impacted.

The standard will be implemented using the modified retrospective method. Novozymes will make use of the relief from restating comparative figures and will only apply IFRS 15 to contracts that are not completed as of January 1, 2018.

- IFRS 16 – Leases was published in January 2016 and introduces a single lessee accounting model, requiring lessees to recognize leases in the balance sheet as a right-of-use asset and a lease liability, unless the lease term is 12 months or less or the underlying asset has a low value. In the income statement, the lease cost is replaced by depreciation of the leased asset and an interest expense for the financial liability.

We have started analyzing the Group's current contracts containing a lease to assess the impact of implementing IFRS 16. However, the full impact is not yet known. Based on the ongoing analysis, the new standard is expected to result in an increase in total assets of approx. 3-5%. Consequently, the related key ratios in the consolidated financial statements, such as EBITDA and ROIC, will be impacted. The right-of-use asset and lease liability are to be presented separately in the balance sheet or disclosed in the notes. Furthermore, the implementation of IFRS 16 will impact disclosures.

Defining materiality

Novozyymes' annual report is based on the concept of materiality, to ensure that the content is material and relevant to the readers.

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 a 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 senior leadership from Novozymes' business divisions, Investor Relations, Risk

Basis of reporting

1 Basis of reporting (continued)

Management & Controls, Public Affairs and Corporate Sustainability.

The process results in two outputs: 1) disclosures on key trends, which can be found in the section on Novozymes' business model, and 2) disclosures on material ESG issues, which can be found in the Notes sections.

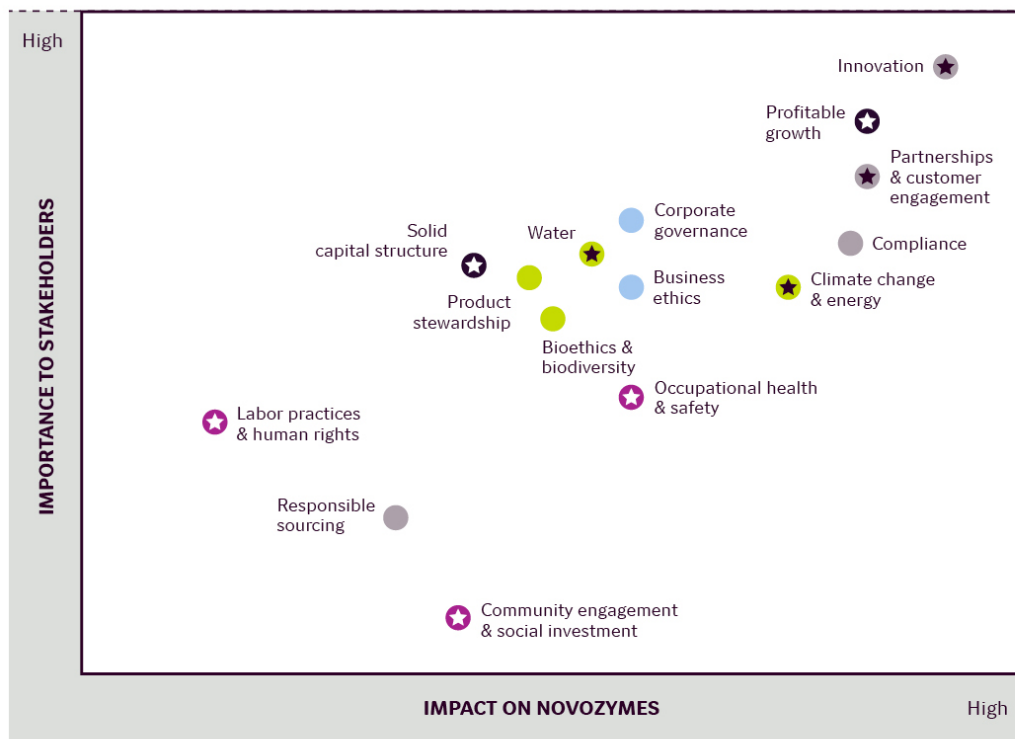
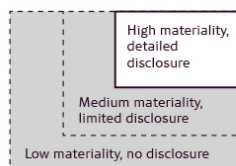
The illustration is a snapshot of the upper-right quadrant of Novozymes' materiality matrix and depicts 15 ESG issues that are most material to Novozymes' business. The materiality matrix includes some new issues and other changes compared with the previous year.

Issue category



Corporate focus areas

- ★ Targets/Flagship initiatives



For further details on the materiality assessment process and an explanation of all the changes in the matrix compared with 2016, see Materiality in detail in the Sustainability section.

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 can have a significant effect on 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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in 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.

Descriptions of critical accounting estimates are included in the following notes:

Revenue	Note 2.2
Group tax charge	Note 2.6
Impairment of intangible assets and goodwill	Note 3.1
Cost of work in progress and finished goods	Note 4.1
Allowances for doubtful trade receivables	Note 4.2
Deferred income	Note 4.4

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 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:

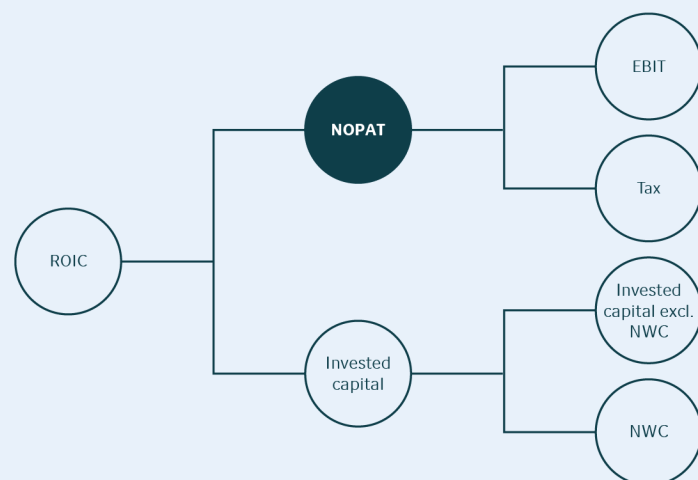
- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the reporting date
- Translation of long-term intercompany balances, which are considered to be an addition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



DKK million	Note	2017	2016
Revenue	2.2	14,531	14,142
Cost of goods sold		(6,118)	(6,016)
Gross profit		8,413	8,126
Sales and distribution costs		(1,619)	(1,622)
Research and development costs	2.4	(1,913)	(1,865)
Administrative costs		(831)	(810)
Other operating income, net	2.5	(3)	117
Operating profit (EBIT)		4,047	3,946
Exchange gains/(losses)		27	(2)
Tax on adjusted operating profit		(795)	(844)
Share of loss in associates	3.4	(14)	(31)
Adjusted operating profit (NOPAT)		3,265	3,069
Average invested capital		12,732	12,238
ROIC		25.6%	25.1%

Organic sales growth

4%

EBIT grew by 3% to DKK million

4,047

The EBIT margin was unchanged from 2016 at

27.9%



2.1 Segments

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 established 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 ~32% of the Group's revenue (2016: ~31%).

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 destination is unknown.

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

Most of the Group's intangible assets and property, plant and equipment are located in Denmark, the US and China at ~50%, ~30% and ~13% respectively (2016: ~47%, ~33% and ~14%).

Revenue 2017 (2016)



DKK million

Intangible assets and property, plant and equipment 2017 (2016)



DKK million

Net investments 2017 (2016)



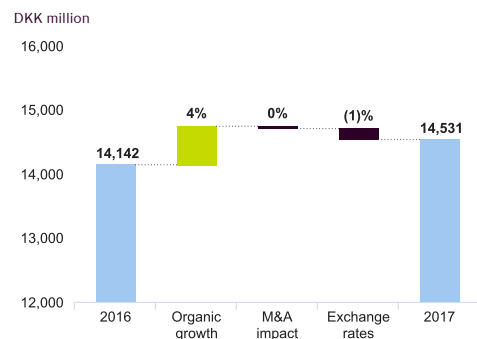
DKK million

2.2 Revenue

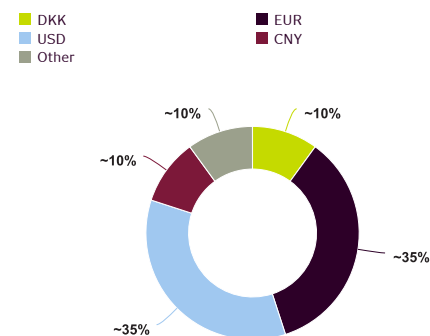
DKK million	2017	2016
Household Care	4,717	4,702
Food & Beverages	4,041	3,740
Bioenergy	2,644	2,438
Agriculture & Feed	2,108	2,206
Technical & Pharma	1,021	1,056
Revenue	14,531	14,142
Emerging markets	5,023	4,938
Developed markets	9,508	9,204
Revenue	14,531	14,142
Sales to the five largest customers as a percentage of revenue	30%	33%

Approximately 1% of the Group's total revenue arises from royalties.

Sales growth 2017



Sales by currency 2017



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group has entered into partnerships where the Group manufactures and sells products to a partner, who undertakes the sales to end customers, and where the profit on products sold to end customers is shared between the partner and the Group based on predetermined profit-sharing mechanisms. Revenue related to this type of

partnership comprises approximately 13% of Novozymes' total annual revenue.

A minor part of the revenue, which is related to the expected profit share on products sold to the partner, requires significant judgment and estimates by Management. This includes estimating future sales prices to end customers along with their impact on rebate schemes and estimating product returns from end customers.



ACCOUNTING POLICIES

Revenue includes sales of goods and related services 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 contractually agreed that goods can 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

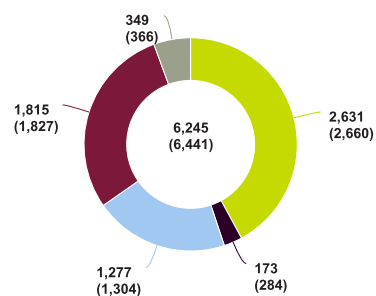
2.3 Employees

DKK million	2017	2016
Wages and salaries	2,965	3,007
Pensions – defined contribution plans	289	302
Other social security costs	273	262
Other employee costs	139	131
Stock-based payment	107	144
Employee costs	3,773	3,846
Recognized in the income statement under the following items:		
Cost of goods sold	1,342	1,378
Sales and distribution costs	811	830
Research and development costs	1,070	1,106
Administrative costs	531	517
	3,754	3,831
Change in employee costs recognized in Inventories	19	15
Employee costs	3,773	3,846

Number of employees 2017 (2016)



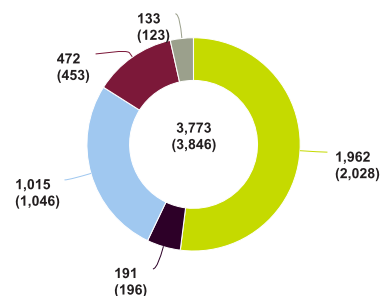
No.



Employee costs 2017 (2016)



DKK million



2.3 Employees (continued)

	2017	2016
Average number of employees in the Group	6,301	6,408
Average number of employees who work with R&D	1,473	1,502
Number of employees outside Denmark as a percentage of total number of employees	58%	59%
Part-time employees	272	292
Full-time employees	5,973	6,149
Employees	6,245	6,441
Senior management	186	207
Management	1,122	1,169
Professional	1,816	1,868
Administrative	558	571
Skilled workers, laboratory technicians and other technicians	1,344	1,422
Process operators	1,219	1,204
Employees by category	6,245	6,441



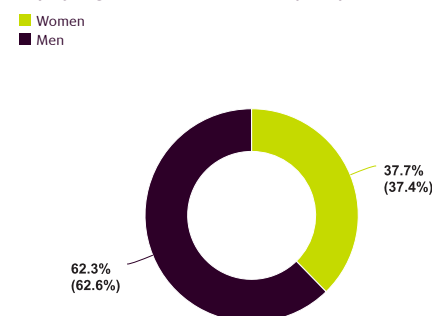
ACCOUNTING POLICIES

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 above are stated as full-time employees.

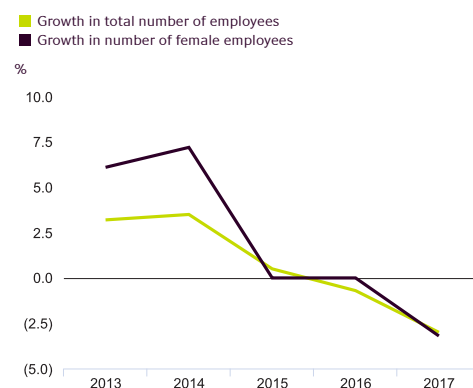
The average number of employees is calculated as the average of the number of permanent employees at the end of each quarter.

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.

Employee gender distribution 2017 (2016)



Employee growth



2.4 Research and development costs

DKK million	Note	2017	2016
Internal and external research and development costs		615	573
Employee costs	2.3	1,070	1,106
Amortization and impairment losses, intangible assets	3.1	122	92
Depreciation and impairment losses, property, plant and equipment	3.2	106	94
Total research and development costs	I/S	1,913	1,865
As a percentage of revenue		13.2%	13.2%

In 2017, Novozymes launched eight new products (2016: eight new products). New products comprises products with new or improved characteristics.

In 2017, Novozymes had 1,049 active patent families (2016: 1,123). 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 development of new products and to ongoing optimization of production processes for existing products, and amortization, depreciation and impairment losses related to intangible assets and property, plant and equipment used in the research and development activities.

Research and development costs are expensed as incurred unless the criteria for capitalization are deemed to have been met. Due to significant uncertainty associated with the development of new products, research and development costs are not capitalized.

Income received from research and collaboration agreements is recognized in Other operating income.

Net operating profit after tax

2.5 Other operating income, net

DKK million	2017	2016
Income and grants concerning research projects/ collaborations	26	29
Other secondary income, net	37	88
Loss on divestment of Albumedix	(66)	-
Other operating income, net	(3)	117



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., and gains and losses on divestments.

Net operating profit after tax

2.6 Tax

Tax risk

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

This leads to transactions between Group companies. Novozymes follows the OECD principles in setting internal transfer prices for these transactions, but this is a complicated area and entails a tax risk, partly because the area is subject to political judgment in every 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 Novozymes' Position on Tax on Novozymes.com.

Joint taxation

Novozymes A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Novo Holdings 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	2017	2016
Tax payable on net profit	(1,015)	(940)
Change in deferred tax	253	124
Revaluation of deferred tax due to changes in corporate tax rate	(33)	-
Adjustment for previous years	39	(15)
Tax in the income statement	(756)	(831)
Calculation of effective tax rate:		
Corporate tax rate in Denmark	(22.0)%	(22.0)%
Non-taxable income less non-deductible expenses	(0.6)%	(0.2)%
Difference in foreign tax rates	2.9%	0.4%
Revaluation of deferred tax due to changes in corporate tax rate	(0.8)%	-
Other adjustments	1.0%	0.4%
Effective tax rate	(19.5)%	(21.4)%



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

As the Group operates across many different countries, the calculation of the Group's total tax charge in the income statement necessarily involves a degree of estimation and judgment. Tax and transfer-pricing disputes with authorities in various countries may occur, and Management judgment is applied to assess the possible outcome of such disputes.

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.

In 2017, Novozymes transferred intellectual property (IP) from Switzerland to Denmark. This had a positive impact on the 2017 effective tax rate of roughly 2 percentage points, included in "Difference in foreign tax rates". The one-time impact of adjusting deferred tax to the new US tax rate is shown as "Revaluation of deferred tax due to changes in corporate tax rate".

Net operating profit after tax

2.6 Tax (continued)

Deferred tax

DKK million	Deferred tax assets		Deferred tax liabilities	
	2017	2016	2017	2016
Intangible assets and property, plant and equipment	536	484	(1,064)	(1,271)
Inventories	441	533	(156)	(163)
Tax loss carry-forwards	6	41	-	-
Stock options	185	70	-	-
Other	255	287	(169)	(228)
	1,423	1,415	(1,389)	(1,662)
Offsetting items	(668)	(808)	668	808
Deferred tax at December 31	755	607	(721)	(854)

The tax value of the unrecognized share of tax loss carry-forwards, tax credits, etc. that do not expire amounted to DKK 26 million (2016: DKK 13 million).

DKK million	2017	2016
Deferred tax at January 1	(247)	(256)
Currency translation adjustments	(33)	13
Effect of business acquisitions	-	(64)
Tax related to the income statement	240	172
Tax on shareholders' equity items	74	(112)
Deferred tax at December 31	34	(247)
Deferred tax assets	755	607
Deferred tax liabilities	(721)	(854)
Deferred tax at December 31	34	(247)



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		2017	2016
Tax payable, net, at January 1		(295)	(213)
Currency translation adjustments		(5)	9
Tax related to the income statement		(996)	(1,002)
Tax on shareholders' equity items		96	6
Tax paid for the current year, net		852	905
Tax payables, net, at December 31		(348)	(295)
Tax receivables	B/S	135	142
Tax payables	B/S	(483)	(437)
Tax payables, net, at December 31		(348)	(295)
Of which due within 12 months		(70)	(59)
Of which due after more than 12 months		(278)	(236)
Tax payables, net, at December 31		(348)	(295)
Corporate income taxes paid are specified as follows:			
Income taxes paid in Denmark		527	633
Income taxes paid outside Denmark		325	272
Total income taxes paid		852	905

2.7 Earnings per share

DKK million	2017	2016
Profit used to calculate earnings per share	3,119	3,050
Average number of shares		
Weighted average number of shares in circulation	295,338,610	300,466,604
Average dilutive effect of outstanding stock options and stock awards	1,863,742	2,653,533
Average number of diluted shares	297,202,352	303,120,137
Earnings per share	DKK 10.56	DKK 10.15
Earnings per share, diluted	DKK 10.49	DKK 10.06



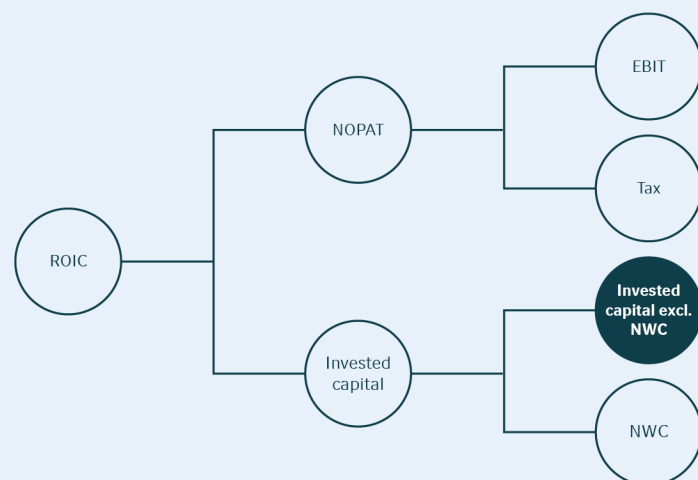
ACCOUNTING POLICIES

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



DKK million	Note	2017	2016
Intangible assets	3.1	2,432	2,737
Property, plant and equipment	3.2	8,926	8,641
Investments in associates	3.4	59	73
Net working capital (see Net working capital section)		2,023	2,088
Financial assets, non-interest-bearing		16	4
Provisions	3.3	(245)	(292)
Other non-current financial liabilities, non-interest-bearing		(9)	(14)
Other financial liabilities, non-interest-bearing		(8)	(111)
Tax, net		(314)	(542)
Invested capital		12,880	12,584
Average invested capital		12,732	12,238

ROIC up from 25.1% in 2016 to

25.6%

Increase in average invested capital of DKK million

494

Net investments excl. acq. up from DKK 1,188 million in 2016 to DKK million

1,665



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, 2017	1,159	3,156	420	49	4,784
Currency translation adjustments	(51)	(35)	(1)	-	(87)
Additions during the year	-	7	10	82	99
Disposals during the year	-	(205)	(7)	-	(212)
Transfers to/(from) other items	-	-	70	(70)	-
Cost at December 31, 2017	1,108	2,923	492	61	4,584
Amortization and impairment losses at January 1, 2017		(1,752)	(295)		(2,047)
Currency translation adjustments		14	1		15
Amortization during the year		(229)	(72)		(301)
Impairment losses		(27)	-		(27)
Disposals during the year		201	7		208
Amortization and impairment losses at December 31, 2017		(1,793)	(359)		(2,152)
Carrying amount at December 31, 2017	1,108	1,130	133	61	2,432



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Management assesses the risk of impairment of the Group's intangible assets. This requires judgment in relation to the identification of cash-generating units (CGUs) and the underlying assumptions in the Group's impairment model.

If there is any indication of impairment, 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. The key parameters are the expected revenue streams and the rate used to discount the cash flows.

Impairment

In 2017, an impairment loss of DKK 27 million on abandoned patents was recognized and included in Cost of goods sold and Research and development costs at DKK 15 million and DKK 12 million respectively.

Impairment test of goodwill

Since 2016, Management has identified two cash-generating units (CGUs): Novozymes' main activities and the Alumedix

Group. With the Alumedix divestment in late December 2017, the activity in the Alumedix CGU – now the Biopharma CGU – has been reduced to sales-based royalty agreements.

The market value of Novozymes is significantly greater than equity, thus no further key assumptions are used in determining whether impairment of goodwill exists for Novozymes' main activities (2016: no impairment).

The recoverable amount of the Biopharma CGU has been determined based on a value-in-use calculation. The expected future cash flows are based on a forecasting period of four years, reflecting the term of the royalty agreements. The key assumptions used in testing for impairment are based on Management's expectations of future royalty payments, which are partly based on experience, as well as input from external experts. Future royalty payments are on average expected to be on par with the

realized royalty payments in 2017. A WACC of 10% has been used to calculate the discounted cash flows for the Biopharma CGU.

As the value in use for the Biopharma CGU is greater than its carrying amount, no impairment has been identified (2016: no impairment).

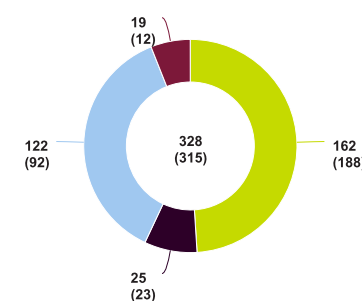
3.1 Intangible assets and impairment test of goodwill (continued)

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, 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)	-
Cost at December 31, 2016	1,159	3,156	420	49	4,784
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
Amortization and impairment losses at December 31, 2016		(1,752)	(295)		(2,047)
Carrying amount at December 31, 2016	1,159	1,404	125	49	2,737

Recognition of amortization and impairment losses by function 2017 (2016)

Cost of goods sold Sales and distribution
Research and development Administration

DKK million



Impairment

In 2016, an impairment loss of DKK 40 million on licenses was 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 asset 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.

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 and development costs are expensed as incurred unless the criteria for capitalization are deemed to have been met. Due to significant uncertainty associated with the development of new products, research and development costs are not capitalized.

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, 2017	5,604	9,957	1,693	856	18,110
Currency translation adjustments	(291)	(527)	(88)	(37)	(943)
Additions during the year	65	294	110	1,124	1,593
Disposals during the year	(8)	(126)	(66)	(10)	(210)
Transfers to/(from) other items	45	210	30	(285)	-
Cost at December 31, 2017	5,415	9,808	1,679	1,648	18,550
Depreciation and impairment losses at January 1, 2017	(2,673)	(5,718)	(1,078)		(9,469)
Currency translation adjustments	116	268	29		413
Depreciation for the year	(165)	(449)	(125)		(739)
Disposals during the year	4	110	57		171
Depreciation and impairment losses at December 31, 2017	(2,718)	(5,789)	(1,117)		(9,624)
Carrying amount at December 31, 2017	2,697	4,019	562	1,648	8,926
Of which assets held under finance leases	59	-	-	-	59

Capitalized interest and pledges

Interest of DKK 10 million (2016: DKK 4 million) has been capitalized under Additions during the year above and included as Investing activities in the statement of cash flows. Capitalization rate: 2.05% (2016: 1.78%).

Land and buildings with a carrying amount of DKK 377 million (2016: DKK 397 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 2017 (2016: 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 lower 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.

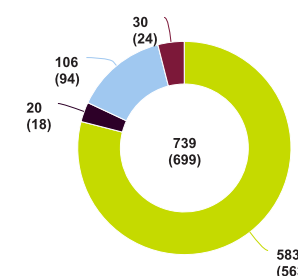
3.2 Property, plant and equipment (continued)

DKK million	Land and buildings	Plant and machinery	Other equipment	Assets under construction and prepayments	Total
Cost at January 1, 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)	-
Cost at December 31, 2016	5,604	9,957	1,693	856	18,110
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
Depreciation and impairment losses at December 31, 2016	(2,673)	(5,718)	(1,078)		(9,469)
Carrying amount at December 31, 2016	2,931	4,239	615	856	8,641
Of which assets held under finance leases	59	-	-	-	59

Recognition of depreciation by function 2017 (2016)

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

DKK million



3.3 Provisions

2017				2016			
DKK million	Dismantling and restoration	Legal, contingent consideration and other	Total	Dismantling and restoration	Legal, contingent consideration and other	Total	
Provisions at January 1	101	191	292	101	140	241	
Currency translation adjustments	(7)	-	(7)	(1)	1	-	
Additions during the year	-	21	21	1	72	73	
Reversals during the year	(20)	(26)	(46)	-	(16)	(16)	
Utilization during the year	-	(15)	(15)	-	(6)	(6)	
Provisions at December 31	74	171	245	101	191	292	
Recognized in the balance sheet as follows:							
Non-current	B/S	69	90	159	96	135	231
Current	B/S	5	81	86	5	56	61
Provisions at December 31	74	171	245	101	191	292	

Dismantling and restoration

Dismantling and restoration relates to estimated future costs of environmental restoration – Novozymes aims for our production sites to have no 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 1 year to a maximum of 15 years.

Legal, contingent consideration and other

Novozymes 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 2018-2019. 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, 2017.



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.

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.

3.4 Joint operations and associates

Joint operations

In 2012, Novozymes formed a strategic partnership with Beta Renewables S.p.A. The parties have joint control of the partnership. The partnership had no material impact on revenue and earnings in 2017 (2016: no material impact), because biomass projects have not commercialized as expected in Beta Renewables. The contractual partnership expired in 2017, as renegotiations could not be completed due to financial difficulties in the M&G Group, the majority owner of Beta Renewables S.p.A.

Novozymes has interests in joint operations with Novo Nordisk. These are homeowners' associations and related utility facilities in connection with the shared Danish production sites in Kalundborg and Bagsværd. The operations had no impact on revenue and

earnings in 2017 (2016: no impact). Novozymes and Novo Nordisk share control of the arrangements equally.

Associates

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.

Novozymes holds 19.35% of the shares in MagnaBioAnalytics LLC.

Novozymes holds 9.95% of the shares in Beta Renewables S.p.A., with which Novozymes formed a jointly controlled operation within biomass solutions up until 2017.

None of the associates is individually material to the Group.



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.

DKK million		2017	2016
Associates			
Share of result	I/S	(14)	(31)
Comprehensive income for the year		(14)	(31)
Investments in associates	B/S	59	73

3.5 Business acquisitions

No business acquisitions have taken place in 2017.

On September 15, 2016, Novozymes acquired 100% of the voting shares in Organobalance GmbH at a total purchase price of DKK 178 million. Organobalance GmbH owned a large collection of microbial strains and has strong capabilities in microbial screening and assay technology. The company is specialized in developing natural microbial solutions for customers and partners across a number of industries, including food, feed and animal health.

The purchase price allocation was finalized in 2016 and led to recognition of goodwill of DKK 22 million, intangible assets of DKK 216 million and a deferred tax liability of DKK 64 million.

The goodwill was attributable to expected synergies within Novozymes' existing microbial technologies and business areas. The goodwill was not tax deductible. The purchase agreement included a contingent consideration of up to DKK 30 million. In 2016, the cash outflow from the acquisition was DKK 146 million.

The consideration is contingent on achievement of a number of specific project development targets and sales targets in 2016-2018. DKK 12 million has been settled and the remaining part of the contingent consideration is unchanged.



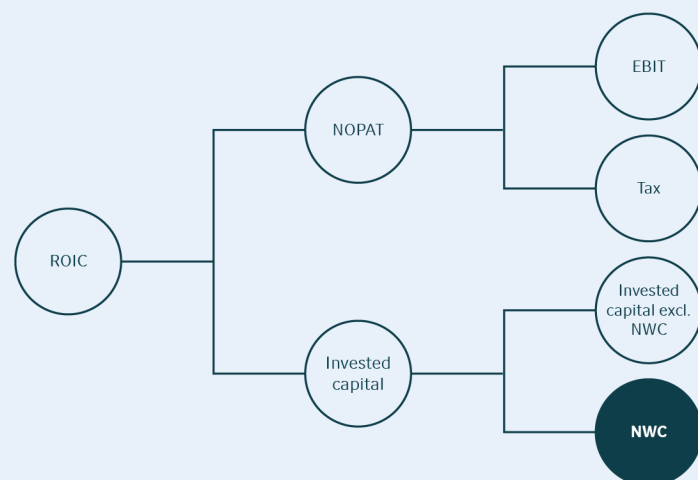
ACCOUNTING POLICIES

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



DKK million	Note	2017	2016
Other receivables, non-current	4.3	35	57
Inventories	4.1	2,586	2,488
Trade receivables	4.2	2,554	2,680
Other receivables	4.3	214	267
Deferred income	4.4	(542)	(788)
Trade payables		(1,341)	(1,194)
Other liabilities	4.5	(1,483)	(1,422)
Net working capital		2,023	2,088
Average net working capital		2,056	1,898

Average net working capital in DKK million

2,056

Net working capital as % of sales

13.9%

Deferred income related to The BioAg Alliance released as revenue in 2017 in DKK million

202



4.1 Inventories

DKK million	2017	2016
Raw materials and consumables	308	327
Work in progress	727	671
Finished goods	1,551	1,490
Inventories at December 31	2,586	2,488
Cost of materials, included under Cost of goods sold	3,451	3,254
Write-downs expensed during the year	111	82
Reversal of write-downs during the year*	45	42

* Part 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 862 million at the end of

2017 (2016: DKK 815 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 plants, 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	2017	2016
Trade receivables	2,735	2,792
Allowances for doubtful trade receivables	(226)	(179)
	2,509	2,613
Amounts owed by related companies	45	67
Trade receivables at December 31	2,554	2,680
Changes in allowances for doubtful trade receivables:		
At January 1	179	179
Allowances during the year	128	66
Write-offs during the year	(13)	(18)
Reversed allowances	(68)	(48)
Allowances at December 31	226	179
Age of trade receivables that are past due but not impaired:		
Up to 30 days	141	131
Between 30 and 90 days	33	36
More than 90 days	21	13
Trade receivables past due but not impaired at December 31	195	180

Novozymes has collateral held as security for trade receivables in selected countries of DKK 64 million (2016: DKK 50 million).



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Allowances for doubtful trade receivables are made by Management when a loss has occurred due to expected inability of customers to make required payments. These allowances are estimated by Management based on an individual assessment of each receivable that includes the period overdue, payment history, changes to payment terms and

the likelihood of receiving payments. This analysis is combined with an overall assessment of the total allowance compared with the outstanding trade receivable balance. The allowance for trade receivables is estimated based on the most recent information about the creditworthiness of the customers. If the financial circumstances of or surrounding the customers change in future periods, an additional allowance could be required.



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.

4.3 Other receivables

DKK million		2017	2016
Deposits		27	21
Prepaid expenses		97	114
Loans		-	5
Other		125	184
Other receivables at December 31		249	324
Recognized in the balance sheet as follows:			
Non-current	B/S	35	57
Current	B/S	214	267
Other receivables at December 31		249	324

4.4 Deferred income

DKK million	Amortization ends (year)	2017	2016
The BioAg Alliance	2023	519	741
Other	Up to 2022	23	47
Deferred income at December 31		542	788
Recognized in the balance sheet as follows:			
Non-current	B/S	337	540
Current	B/S	205	248
Deferred income at December 31		542	788
Expected to be recognized in the income statement:			
Within 1 year		205	248
Between 1 and 5 years		283	430
After 5 years		54	110
Deferred income at December 31		542	788

At December 31, 2017, deferred income amounted to DKK 542 million (2016: DKK 788 million). This relates mainly to payments from Monsanto in connection with the 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 2017 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

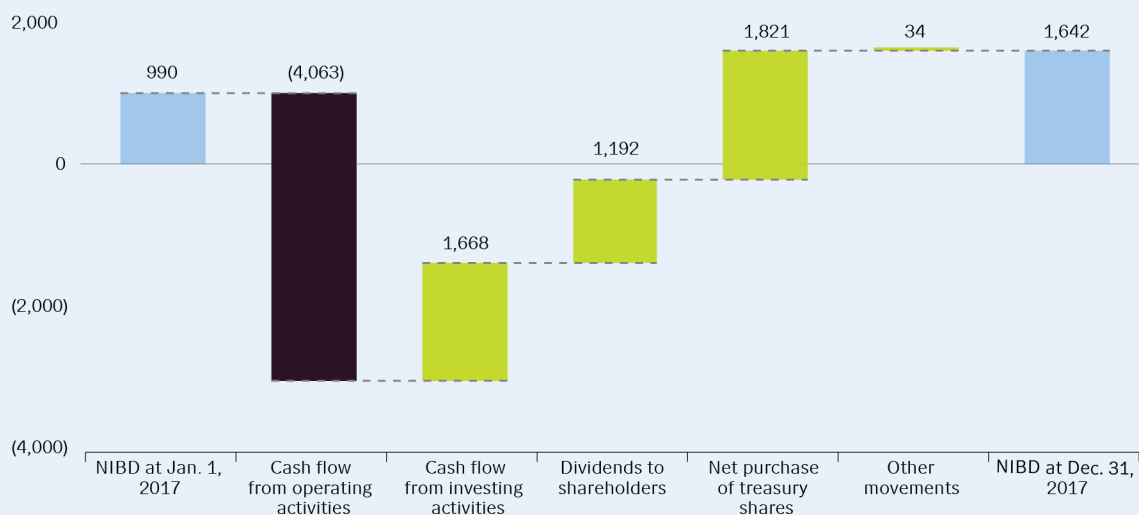
DKK million	2017	2016
Employee costs payable	671	712
Stock-based payment settled in cash	29	24
Other payables	783	686
Other liabilities at December 31	1,483	1,422

Capital structure and financing



Net interest-bearing debt, 2017

DKK million



NIBD/EBITDA at December 31, 2017

0.3

Return on equity up from 26.1% to

27.1%

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 our 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 the 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 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 – 2017

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, 2017. 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, 2017, and that all other variables remain constant. The table below shows the effect of an increase in exchange rates. A decrease in the exchange rate would have an opposite effect.

Foreign exchange sensitivity – 2018 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 2018 of around DKK 110-130 million (2017: DKK 100-120 million). A 5% movement in the EUR would result in a change in expected operating profit/EBIT for 2018 of around DKK 200 million (2017: DKK 150-200 million). Of the expected USD cash flows for 2018, 100% has been hedged by forward contracts at an average rate of DKK 6.18. 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

DKK million	Increase in exchange rates	2017		2016	
		Change in net profit	Change in other comprehensive income	Change in net profit	Change in other comprehensive income
CHF	5.0%	(4)	74	-	37
CNY	5.0%	(1)	107	-	108
USD	5.0%	1	212	1	229
Other	5.0%	8	85	(2)	93
Total		4	478	(1)	467

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 negative effect on net profit of DKK 2 million (2016: positive effect of DKK 4 million). At December 31, 2017, 72% (2016: 80%) of the loan portfolio was at fixed interest rates.

Credit risk

Credit risk arises especially on cash and cash equivalents, derivatives and trade receivables. The credit risk on trade receivables is countered by thorough, regular analyses based on customer type, country and specific conditions. 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) with all the banks used for trading in financial instruments, which means that Novozymes' credit risk is limited to net assets.

At December 31, 2017, the Group considered its maximum credit risk to be DKK 3,383 million (2016: DKK 3,857 million), which is the total of the Group's financial assets. At December 31, 2017, the maximum credit risk related to one counterparty was DKK 313 million (2016: DKK 294 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, 2017, Novozymes' financial resources amounted to DKK 4,307 million (2016: DKK 4,305 million), consisting of net cash and cash equivalents and undrawn committed credit facilities of DKK 3,944 million, which expire in 2019-2022.

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

5.2 Financial income and Financial costs

DKK million	2017	2016
Interest income	7	5
Gains on cash flow hedges	12	8
Gains on fair value hedges, net	-	1
Other foreign exchange gains, net	71	-
Fair value adjustments of cash-settled stock options	-	18
Financial income	90	32
Interest costs	(27)	(31)
Losses on fair value hedges, net	(56)	-
Other financial costs	(24)	(24)
Other foreign exchange losses, net	-	(11)
Write-down of financial asset	(120)	-
Fair value adjustments of cash-settled stock options	(20)	-
Financial costs	(247)	(66)
Financial income/costs, net	(157)	(34)

In 2017, the financial asset related to the partnership with Beta Renewables S.p.A. has been fully written down. This relates to a guarantee provided by M&G in 2015, because

2G projects have not commercialized as expected in Beta Renewables S.p.A. The write-down is a consequence of M&G experiencing financial difficulties. This has resulted in

a write-down of DKK 120 million, which is included in Financial costs.



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 and fair value adjustments of Other financial assets.

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	2017	2016
Credit institutions	2,274	1,803
Derivatives	17	124
Other financial liabilities at December 31	2,291	1,927
Recognized in the balance sheet as follows:		
Non-current	B/S 1,312	1,727
Current	B/S 979	200
Other financial liabilities at December 31	2,291	1,927

Liabilities arising from financing activities

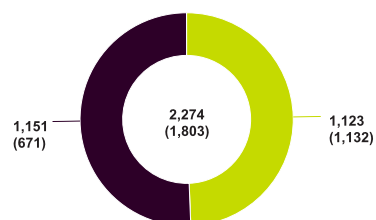
DKK million	2016	Financing cash flows	Foreign exchange movement	Other movements	2017
Long-term borrowing	1,713	-	2	(411)	1,304
Short-term borrowing	83	198	-	420	701
Total liabilities from financing activities at December 31	1,796	198	2	9	2,005

* Other movements include the effect of reclassification of non-current portion of interest-bearing loans and borrowings.

Credit institutions – currency 2017 (2016)

■ EUR
■ Other

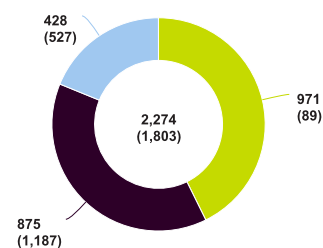
DKK million



Credit institutions – time to maturity 2017 (2016)

■ Less than 1 year
■ Between 1 and 5 years
■ More than 5 years

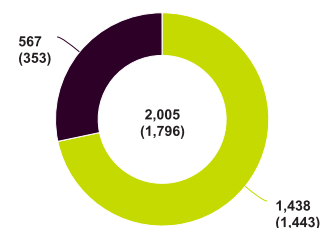
DKK million



Loan portfolio – fixed or floating interest rate 2017 (2016)

■ Fixed interest rate
■ Floating interest rate

DKK million



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	2017		2016	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
Forward exchange contracts				
CAD	(332)	2	(340)	(5)
CHF	(1,453)	(1)	(693)	-
USD	280	1	103	(2)
Other	175	(2)	(170)	(5)
Fair value hedges at December 31	(1,330)	-	(1,100)	(12)

* 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 2018 to May 2018 (2016: January 2017 to April 2017).

The fair value hedges were 100% effective, as the gain on forward exchange contracts was DKK 56 million (2016: gain of DKK 0.4 million),

compared with a loss on the hedged items of DKK 56 million (2016: loss of DKK 0.4 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 at 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	2017		2016	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
Forward exchange contracts				
USD	1,855	11	1,797	(95)
	1,855	11	1,797	(95)
Currency options				
USD	-	-	198	3
	-	-	198	3
Interest rate swaps				
EUR/EUR - pays fixed rate of 3.58% / earns variable rate of (0.273%) (2016: (0.191%))	112	(9)	111	(13)
DKK/DKK - pays fixed rate of 0.595% / earns variable rate of (0.165%) (2016: 0.025%)	521	(2)	521	(3)
	633	(11)	632	(16)
Cash flow hedges at December 31	2,488	-	2,627	(108)

* 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 2018 to December 2018 (2016: January 2017 to December 2017), and the swaps fall due in July 2019 and May 2026 (2016: July 2019 and May 2026).

At the end of 2017, the Group had hedged 100% of expected future cash flows in USD for 2018 at an average rate of DKK 6.18 (2016: 100% of expected future cash flows in USD for 2017 at an average rate of DKK 6.65).

5.5 Common stock and treasury stock

	2017		2016	
	No.	Nominal value DKK million	No.	Nominal value DKK million
Common stock				
A common stock (shares of DKK 2)	53,743,600	107	53,743,600	107
B common stock (shares of DKK 2)	251,256,400	503	256,256,400	513
Common stock at December 31	305,000,000	610	310,000,000	620
Treasury stock - B stock				
Treasury stock at January 1	12,381,738	25	9,618,693	19
Additions during the year	6,770,271	13	6,767,182	14
Disposals during the year	(2,100,913)	(4)	(1,004,137)	(2)
Cancellation of common stock	(5,000,000)	(10)	(3,000,000)	(6)
Treasury stock at December 31	12,051,096	24	12,381,738	25

No.	2017	2016
Shares of common stock in circulation		
Shares of stock at January 1	297,618,262	303,381,307
Purchase of treasury stock	(6,770,271)	(6,767,182)
Sale of treasury stock	2,100,913	1,004,137
Shares of common stock in circulation at December 31	292,948,904	297,618,262

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

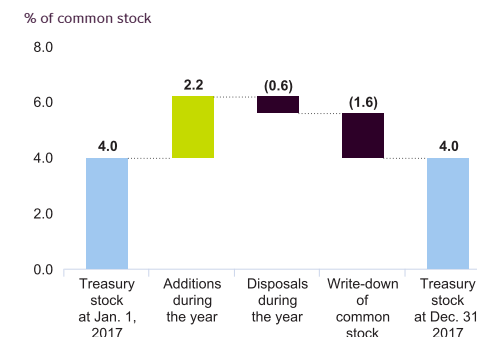
Each year the Board of Directors assesses whether the ownership structure with A and B common stock is optimal. The Board of Directors maintains that this is the best way to

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

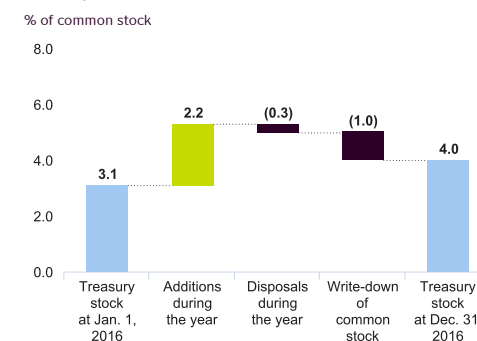
The treasury stock is used to reduce the common stock, and to hedge employees' exercise of granted stock awards and stock options.

In 2017, Novozymes canceled 5 million treasury shares, reducing the common stock to 305 million shares.

Treasury stock 2017



Treasury stock 2016



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	2017	2016
Trade receivables and other receivables, excl. prepaid expenses	4.2, 4.3	2,706	2,890
Cash and cash equivalents	6.6	632	812
Loans and receivables		3,338	3,702
Other financial assets		29	151
Available-for-sale financial assets		29	151
Derivatives		16	4
Hedge accounting (asset)		16	4
Financial assets		3,383	3,857
Credit institutions	5.3	(2,274)	(1,803)
Trade payables		(1,341)	(1,194)
Other payables	4.5	(783)	(686)
Financial liabilities at amortized cost		(4,398)	(3,683)
Derivatives	5.3	(17)	(124)
Hedge accounting (liability)		(17)	(124)
Financial liabilities		(4,415)	(3,807)

Measurement and fair value hierarchy

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

data (level 2 input) according to the fair value hierarchy. The derivatives 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

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

Realized audit fee ratio during
2017

1.14

No. of Danish and foreign
subsidiaries in the Group

44

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
Remuneration	120	7	127	145	7	152
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		
Outstanding at December 31, 2017	1,535,250	4,096,296	2,161,945	7,793,491	253		
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		
Outstanding at December 31, 2016	1,443,244	4,157,065	2,756,676	8,356,985	230		
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

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.

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
Rental commitments at December 31	382	460

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
Other commitments		
Contractual obligations to third parties relating to property, plant and equipment	804	979
Other guarantees		
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.

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
The Novo Nordisk Group		
Sale of goods and materials	63	74
Sale of services	100	76
Purchase of goods and materials	(71)	(91)
Purchase of services	(74)	(72)
The NNIT Group		
Purchase of services	(34)	(41)
The Chr. Hansen Group		
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
The Novo Nordisk Group		
Receivables	40	64
Payables	(99)	(117)
The NNIT Group		
Payables	(4)	(9)
The Chr. Hansen Group		
Receivables	5	3

6.5 Fees to statutory auditor

DKK million	2017	2016
Statutory audit	7	8
Other assurance engagements	-	-
Tax assurance services	7	4
Other services	1	1
Fees to statutory auditor	15	13
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
Non-cash items			
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
Non-cash items		2,065	2,035
Business acquisitions, divestments and purchase of financial assets			
Acquisition of Organobalance GmbH	3.5	-	(146)
Divestment of Albumedix		4	-
Other acquisitions and purchase of financial assets		(7)	(15)
Cash flow from acquisitions, net		(3)	(161)
Cash and cash equivalents, net			
Cash and cash equivalents		632	812
Credit institutions - on demand		(269)	(7)
Cash and cash equivalents, net, at December 31		363	805

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.

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

6.8 Group companies (continued)

	Activity	Percentage of shares owned
Novozymes Biopharma US, Inc., USA	●	100
Novozymes BioAg, Inc., USA	■ □ ●	100
Novozymes Biologicals, Inc., USA	■ □ ● ◆	100
Novozymes Blair, Inc., USA	■ □	100
Novozymes, Inc., USA	◆	100
Novozymes North America, Inc., USA	■ □ ● ◆	100
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.

	Activity	Percentage of shares owned
Joint operations/associates		
Houseowners' Association Smørmosen*, Denmark		
Houseowners' Association Hallas Park*, Denmark		
Microbiogen PTY Ltd.*, Australia		23.10
Beta Renewables S.p.A.*, Italy		9.95
MagnaBioAnalytics LLC, USA		19.35

Environmental data

We measure our 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 reducing our own CO2 emissions and use of resources, and mitigating the risk of potential harm to the environment.



Estimated tons of CO2 saved
from customers' application of
Novozymes' products

76 million

CO2 intensity reduction compared
with 2014 baseline

11%

Renewable energy share of total
energy consumption

24%

7.1 Climate change

Climate change is material to Novozymes. Increasing demand for low-carbon products and solutions offers many opportunities for Novozymes to grow its business. On the other hand, impacts associated with climate change also pose multiple risks to Novozymes' supply chain and operations, such as regulatory action and physical or reputational damage. Our approach to climate change management is part of our strategy, and outlined in our Sustainability Policy and position paper on climate change. Several departments work closely to drive the climate change agenda, both inside and outside the organization.

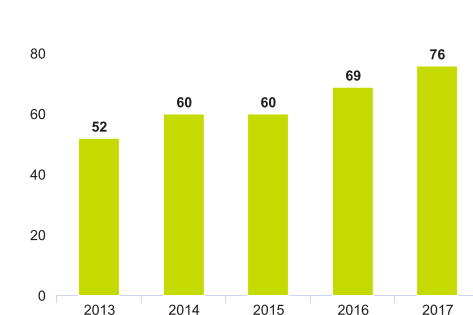
We believe that a transition toward a biobased economy that relies on renewable biological resources can assist the planet in becoming more resource efficient and tackling climate change. Our biosolutions in industries such as bioenergy and agriculture typically offer customers and end users reduced greenhouse gas (GHG) emissions due to lower energy, water, raw material and chemical consumption compared with conventional technologies.

Novozymes has a long-term target that measures the net relative CO₂ impact that our products have on society compared with conventional technologies. This target is expressed as CO₂ emissions avoided over the life cycle of our products and also includes the CO₂ emissions generated across our supply chain and in our production. In 2017,

we met the target for the year by helping customers save an estimated 76 million tons of CO₂ emissions through the application of our products. This is equivalent to taking approximately 32 million cars off the road.

Estimated annual CO₂ savings

Million tons of CO₂



Since 2004, Novozymes has documented the cradle-to-grave environmental impact of its biosolutions by conducting ISO14040-reviewed life cycle assessment (LCA) studies. Read more about our approach to LCA on Novozymes.com.

In 2017, we focused our efforts on supporting commercial stakeholders in their efforts to reduce GHG emissions by engaging directly with customers and trade publications. For instance, we developed and deployed a sustainability calculator for our feed enzyme customers in Latin America together with DSM. To engage a wider audience, we also published an article targeting global poultry and feed professionals, which demonstrated how feed enzyme solutions contribute to the UN Sustainable Development Goals. We also regularly engage with our customers in training sessions on how optimal animal nutrition can mitigate climate change impact and support sustainable development.

Novozymes also supports global climate action through transparent climate disclosure, responsible public advocacy and partnerships. To learn more, see Advocacy and policy engagement in the Sustainability section.



CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Novozymes uses LCAs to estimate the CO₂ 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; however, the individual LCAs depend on assumptions and estimates, which means that the result of the calculation will be an approximation.

7.1 Climate change (continued)

Novozymes' efforts to reduce greenhouse gas (GHG) emissions in its operations are driven by its target to reduce CO₂ intensity. This target is closely linked to the targets to improve

energy efficiency and increase the share of energy sourced from renewable sources in our operations. In 2017, our CO₂ intensity reduction stood at 11%, meeting the target of

9%. We report our performance on the energy targets in Note 7.2 Energy.

Novozymes strives to make its operations less carbon intensive by implementing various energy efficiency projects. In 2017, we executed a portfolio of projects with focus on regions with high carbon footprint, to maximize CO₂ savings. More than half of the energy savings realized in 2017 came from projects undertaken at sites located in regions with a high carbon footprint, such as the US and China. We will share and implement best practices learnt from these projects across all our production sites.

Going forward, Novozymes will continue to focus on reducing its CO₂ intensity by purchasing more energy from renewable sources and reducing consumption of fossil-based energy through efficiency projects.

According to the Scope 2 Guidance in the GHG Protocol, scope 2 CO₂ emissions must be calculated using both the location-based and market-based methods. For Novozymes, the difference between market-based and location-based CO₂ emissions is most significant in Denmark, where we purchase 100% renewable electricity.

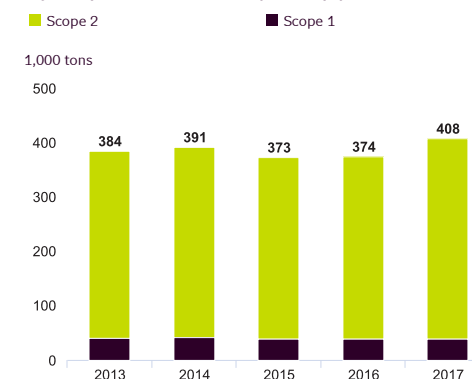
CO₂-equivalent emissions

1,000 tons	2017	2016
Natural gas	38	38
Gas oil, light fuel oil and diesel oil	-	-
HCFCs	1	1
Scope 1	39	39
District heat	10	8
Electricity	283	258
Steam	76	69
Scope 2 (market-based)	369	335
Ship	7	5
Truck	17	17
Air freight	15	17
Scope 3	39	39
Emissions, total <small>ESG</small>	447	413

Market-based vs. location-based scope 2 emissions

1,000 tons	2017	2016
Scope 2 CO ₂ emissions (market-based)	369	335
Scope 2 CO ₂ emissions (location-based)	442	389

5-year operational emissions (CO₂-eqv.)



7.1 Climate change (continued)

§ ACCOUNTING POLICIES

The estimated reduction in CO₂ 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 CO₂ emissions comprise scope 1, scope 2 and emissions from outbound transport of products.

CO₂ from internally generated energy (scope 1) is calculated based on the amount of fuel consumed, using local emission factors.

CO₂ 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 CO₂ emissions (scope 3) are calculated based on principles described in the GHG Protocol. Reported quantities comprise CO₂ 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. CO₂ 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).

CO₂ intensity is measured as CO₂ emissions (scope 1+2) less emissions from energy offset by green energy produced from Novozymes' waste, 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.

7.2 Energy

Energy is material to Novozymes' operations, as our production processes are dependent largely on electricity and steam. Across the value chain, our biosolutions enable customers and end users to save energy in certain applications compared with conventional methods.

Novozyymes' approach to managing energy in its own operations focuses on improving energy efficiency at its production sites and increasing the share of renewables in its energy mix. Our performance in these two areas is driven by targets. For more information, see Outlook 2018. Novozymes' Supply Operations

and Sourcing departments are responsible for managing all energy efficiency and renewable energy-sourcing efforts.

In 2017, Novozymes' energy efficiency improved by 4% compared with the 2014 baseline, falling short of the target of 7%. This was because absolute energy consumption increased at a higher rate than gross profit, resulting in reduced performance compared with 2016. The increase in consumption was due to significantly higher capacity utilization at Novozymes' production sites. Throughout the year, several energy efficiency projects were undertaken globally with increased focus at

sites with a higher carbon footprint (e.g. in the US and China). We estimate that these projects resulted in energy savings of around 25,000 GJ.


Energy from renewable sources accounted for 24% of the total energy consumed in 2017. In Denmark, we purchase all our electricity from renewable sources, specifically from the Horns Rev II wind farm. In March 2017, we also began purchasing all our electricity in Brazil from renewable sources.

In 2017, Novozymes signed a new 20-year agreement to transition its supply of steam to renewable sources for its largest production

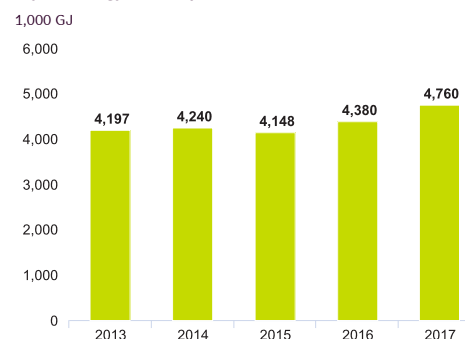
site in Kalundborg, Denmark. In collaboration with Novo Nordisk and the utility companies Kalundborg Forsyning and Ørsted, this agreement will enable Denmark's largest coal-fired power station unit, the Asnæs Power Station, to phase out coal and replace it with wood chips by the end of 2019.

Going forward, Novozymes will continue to focus on finding opportunities to procure renewable energy in each of its operating regions. Furthermore, we will prioritize investment in energy efficiency in geographies where there are limited options to procure renewable energy.

Energy consumption by primary source

1,000 GJ	2017	2016
Natural gas	696	691
Biogas	69	55
Gas oil, light fuel oil and diesel oil	7	5
Internally generated energy, total	772	751
Electricity – conventional	1,780	1,636
Electricity – renewable	1,080	967
District heat – conventional	181	156
District heat – renewable	2	9
Steam	945	861
Externally purchased energy, total	3,988	3,629
Energy consumption, total 	4,760	4,380
Energy production from waste	36	72

5-year 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.

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 CO₂ 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.

Externally generated energy is the input to Novozymes of externally generated electricity, heat and steam.

Energy produced from waste or wastewater is renewable and corresponds 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.

Reported quantities are based on meter readings, with the exception of steam, which may be subject to calculation.

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 consumption, i.e. purchased energy less energy produced from Novozymes' biomass waste.

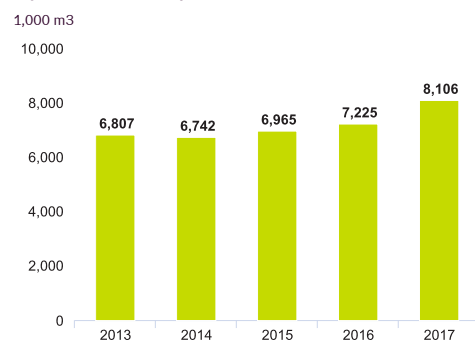
For sites acquired in 2015 or later, the baseline index is calculated based on the data reported in the first full year of operating as a Novozymes site. Divested sites are removed from the index for the full period. Newly constructed sites are included from the first quarter after qualification.

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 hydropower-based electricity and energy from biogas.

7.3 Water

Water is material to Novozymes within its operations, as well as across the value chain, as enzyme production is water intensive and generates substantial amounts of wastewater. Water is also crucial in the production of the agriculture-based raw materials required for enzyme manufacturing.

5-year water consumption



Novozymes' solutions can help customers and consumers reduce water consumption compared with conventional methods in certain applications (e.g. textile processing), while the wastewater treatment solutions can improve treatment processes and the quality of treated water.

We strive to mitigate the risks associated with water usage and wastewater disposal by managing water within our operations. We are committed to improving our water efficiency and ensuring compliance with wastewater discharge regulations at all our significant sites. This approach to water management is anchored in our Sustainability Policy, and is reinforced by our target to improve water efficiency in operations. For more information, please refer to Outlook 2018.

Novozymes' Supply Operations and Quality, Environment & Safety departments manage and monitor all water efficiency and wastewater management efforts.

Novozymes continued to emphasize water savings at its various sites in 2017. For example, at our production site in Kalundborg, Denmark, we estimate that we saved around 73,000 m³ of water through various projects and process optimization. However, despite these efforts, Novozymes' water efficiency in 2017 declined by 2%, compared with the 2014 baseline, falling short of the target of a 4% improvement. This was because absolute water consumption increased at a higher rate than gross profit, resulting in reduced performance compared with 2016. This increase in consumption was due to significantly higher capacity utilization at Novozymes' production sites.

Water by primary source

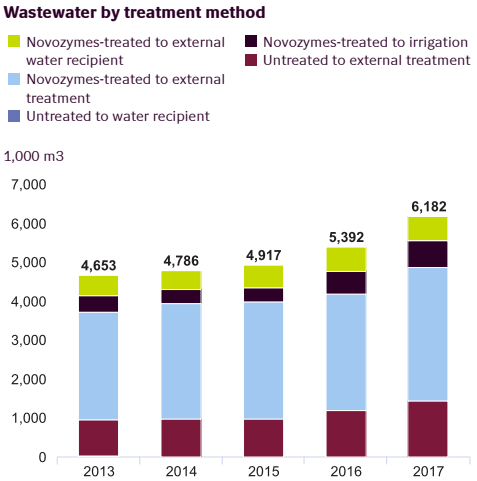
1,000 m³	2017	2016
Drinking water	5,427	4,984
Industrial water	2,339	1,931
Steam	340	310
Water, total	8,106	7,225

7.3 Water (continued)

Wastewater treatment is high on the agenda at our production sites. Currently, most of our wastewater is treated in biological wastewater treatment systems and then discharged either to further municipal treatment facilities or other recipients, or used for irrigation in agriculture.

In 2017, Novozymes invested around DKK 75 million to increase the capacity of the wastewater treatment plant at the Kalundborg site in Denmark. This expansion will also result in an increase in on-site renewable energy production through the generation of biogas.

Looking ahead, we will improve our understanding of site-specific water-related risks. We also aim to identify new opportunities for water savings and wastewater capture and reuse, and share best practices across sites.



Wastewater treatment

1,000 m³	2017	2016
Wastewater used for irrigation	673	596
Wastewater discharged	5,509	4,796
Wastewater volume, total	6,182	5,392

ACCOUNTING POLICIES

Water includes drinking water, industrial water and externally supplied steam. Drinking water is water of drinking-water quality. Industrial water 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.

7.4 Waste

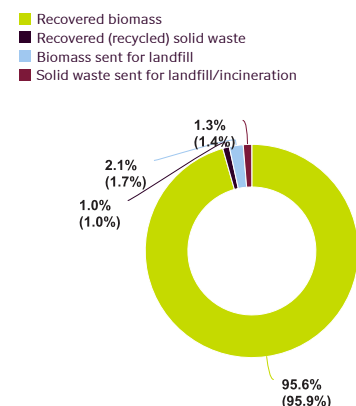
Novozymes is committed to supporting the transition to a circular economy through sustainable consumption and production practices. That is why the responsible management and disposal of waste and by-products is included in the median category in Novozymes' materiality matrix.

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 in terms of category and disposal method. We have adopted a site-specific management approach, because waste handling is a complex issue that is regulated locally and involves many external service providers.

Biomass, which accounts for the majority of total waste and by-products generated by

Novozymes' production sites, is a by-product rich in nitrogen and phosphorus. 98% of total biomass generated in 2017 was recovered and sold to local farmers as NovoGro®, an organic agricultural fertilizer, or composted.

Waste and by-products recovered 2017 (2016)



In 2017, Novozymes signed an agreement with two Danish energy companies, Ørsted and Bigadan, to further utilize the biomass generated at its production site in Kalundborg to produce biogas. Ørsted and Bigadan will construct a new biogas plant, which is expected to be operational in 2018. After being processed at the biogas plant, the biomass will continue to be used as fertilizer on fields. This agreement exemplifies Novozymes' commitment to the circular economy. The plant is expected to process approximately 300,000 tons of biomass to generate 8 million m³ of biogas annually. The inclusion of biogas in the local natural gas network is expected to result in annual CO₂ savings of around 17,000 tons.

§ 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	2017	2016
NovoGro®	399	375
NovoGro® 30	171	152
Compost	19	13
Landfill	13	10
Biomass, total	602	550

7.4 Waste (continued)

Nonhazardous solid waste and hazardous waste account for 2% of the total waste and by-products generated and include materials such as paper, food waste, laboratory waste and chemicals. In 2017, the total solid waste sent for landfill or for incineration without

energy recovery was 8,199 tons. The rate of recycling of solid waste was 43% in 2017, compared with 44% in 2016.

Novozymes strives to increase the amount of solid waste diverted from landfill. In

2017, we initiated a pilot project to identify opportunities to increase waste diversion across three of our largest production sites, in Denmark, the US and China. Going forward, we will use the learnings from this pilot to improve waste management practices globally.

Waste

1,000 tons	2017	2016
Nonhazardous waste		
Incineration	1.7	1.9
Landfill	3.9	4.1
Recycling (external)	4.3	4.3
Recycling (internal)	0.1	0.1
Nonhazardous waste, total	10.0	10.4
Hazardous waste		
Incineration	2.5	1.4
Recycling (external)	0.2	0.2
Recycling (internal)	1.6	1.4
Other	-	0.1
Hazardous waste, total	4.3	3.1
Waste, total	14.3	13.5

7.5 Environmental compliance, etc.

Novozymes aims to comply with all environmental regulations and strives to minimize the number of complaints from its neighbors.

In 2017, 24 breaches of regulatory limits were registered worldwide, compared with 37 in 2016. The majority of these relate to wastewater treatment and effluent discharge limits.

Action plans have been agreed on with the relevant environmental authorities to address all pending issues.

We received 12 complaints from neighbors, up from nine complaints in 2016. These were related to air pollution and waste management.



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 & biodiversity

Our business is based on bioinnovation. This includes the process of taking samples of fungi, bacteria and enzymes among the available biodiversity in nature for biotechnological research to develop specific applications for our customers. That is why “bioethics & biodiversity” is a material issue for Novozymes’ operations and its relationships with external stakeholders.

Novozymes’ position paper on industrial biotechnology 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. We acknowledge the need for engaging with stakeholders to improve the general level of knowledge about the opportunities presented by biology, industrial biotechnology and gene technology, and their role in society.

The position paper on biodiversity articulates how Novozymes endorses, acknowledges and respects the globally recognized principles on the utilization of genetic resources according to the United Nations Convention on Biological Diversity (CBD) and the complementary Nagoya Protocol on Access and Benefits Sharing (ABS). Novozymes has internal procedures to ensure that the company lives up to its commitments.

We acknowledge the importance of biodiversity and healthy ecosystems in ensuring sustainable development and achievement of the UN Sustainable Development Goals (SDGs). Business & Biodiversity is a new focus area that emphasizes private sector engagement and responsibility toward biodiversity-related issues. Going forward, Novozymes will assess and monitor outcomes in this new area and undertake a broader strategic discussion regarding its management and reporting of biodiversity issues.

7.7 Product stewardship

Product stewardship is material to Novozymes, as our biological solutions are used as industrial processing aids or ingredients in consumer goods. Our enzyme products and microorganisms are formulated with other ingredients (e.g. as encapsulated granulates) so that they are safe when used and are stable in terms of shelf life.

Novozymes' approach to product 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.

Novozymes ensures this by the implementation of its Quality and Product Safety Policy, which is an essential component of Novozymes' Quality Management System. This is supplemented by our approach to and position on related topics such as REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals), product information and labeling, traceability and animal testing.

Documented processes for product stewardship are enforced globally and externally audited by Bureau Veritas.

Many cross-functional teams contribute to the implementation of this approach, but the primary responsibility rests with the Vice President for Intellectual Property, Regulatory and Product Safety.

In 2017, Novozymes continued its preparations and is on track to meet the 2018 registration deadline to ensure that technical enzymes sold in lower volumes are in compliance with REACH.

Novozymes also continued to promote adherence to enzyme safety standards throughout the industry value chains, to reduce the risk of enzyme allergies among employees and downstream users. Novozymes chairs the Enzyme Safety Working Group, which has a coordinating role within the Association of Manufacturers and Formulators of Enzyme Products (AMFEP) to promote advanced safety procedures related to the use of enzyme products through trade associations.

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, customer engagement and community engagement. These indicators enable us to track our progress and respond to risks and opportunities related to both talent attraction and retention, and business development.



Women in senior management

26%

Accidents per million working hours

1.6

Completion of business integrity training for employees

99%

8.1 Labor practices & human rights

Employee skills are essential for Novozymes' growth and are important to the successful execution of its strategies. It is therefore important for Novozymes to focus on employee development and diversity in all its operations. Novozymes is responsible for ensuring that human rights are respected throughout its value chain.

We follow a common management and reporting structure for labor practices and human rights. Read our position paper on human rights on [Novozymes.com](https://www.novozymes.com) to find out more about the mechanisms that are implemented to ensure a respectful and motivating working environment.

Labor practices

Our People and Organization (P&O) function is responsible for ensuring equal rights for all employees and promoting diversity. Novozymes is committed to the principles of equal employment opportunities, ensuring fair and equitable treatment for everyone. Novozymes does not discriminate in its practices or employment opportunities based on an individual's race, religion, sex or age.

Novozymes' commitment to ensuring equal opportunities and avoiding discrimination in the workplace extends to all global operations.

In the coming years, we want to increase the number of women in senior management; we have a target to ensure that women hold at least 30% of director positions or higher by 2020. At the end of 2017, 26% of senior management were women, meaning that we met our target for the year of at least 25%. Read our position paper on diversity and equal opportunities for more details.

At Novozymes, we are committed to providing a work environment where all individuals can work together comfortably and productively, free of all forms of harassment and discrimination. 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.

The rate of employee turnover increased from 10.4% to 11.9%, mainly due to layoffs in January 2017. 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. In 2017, we observed a 2.1% rate of absence, which is above our 2017 target of 2.0%.

Employee statistics

		2017	2016
Rate of employee turnover – retirement	%	0.8	0.8
Rate of employee turnover – dismissal	%	4.9	2.6
Rate of employee turnover – voluntary	%	6.2	7.0
Rate of employee turnover, total	%	11.9	10.4

Rate of absence

Senior management, management, professional and administrative	%	1.3	1.4
Skilled workers, laboratory technicians, other technicians and process operators	%	2.9	2.8
All employees	ESG %	2.1	2.0

Other employee statistics

Average age	Years	41.5	41.2
Average seniority	Years	9.6	9.4
Number of expatriates	No.	23	37
Average spent per employee	DKK	3,159	3,353
Costs as percentage of total employee costs	%	0.5	0.6

8.1 Labor practices & human rights (continued)

Employee development

In 2017, Science Magazine ranked Novozymes the second-best global employer for a third consecutive year. Our employees are motivated by our purpose of finding biological solutions to global challenges.

For many years, we conducted the People's Opinion survey to identify areas that need continuous attention and further improvements. However, in 2017, we found that it was important to evaluate the effectiveness of the surveys conducted in the past to understand the improvement areas and track the organizational mood at Novozymes. Therefore, we changed the methodology and conducted quarterly "Pulse" surveys instead. These covered a subset of questions from the People's Opinion survey and were distributed to different employee groups. The results were then shared with vice presidents and executive vice presidents to facilitate discussions about key areas.

In 2018, we plan to conduct a comprehensive survey with a wide range of questions on various themes related to work, such as satisfaction and motivation, work conditions and development opportunities.

Human rights

We have observed a noticeable rise in investor and customer scrutiny of how companies respect, protect and remedy human rights in their operations and supply chains. Novozymes revamped its human rights-monitoring approach in 2016 and plans to conduct human rights impact assessments once every two years. The next assessment is due in 2018.

In 2017, we updated our position paper on human and labor rights to provide clear guidance on our processes and procedures. Together with external experts, we also conducted workshops to train relevant stakeholders across the organization and improve their understanding of human rights.



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 age/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.

Women in senior management measures the percentage of women in director positions or higher (i.e. senior director, vice president or executive vice president).

8.2 Occupational health & safety

Novozymes drives and promotes a strong safety culture within the organization, and views health and safety of employees as a significant part of its business strategy. The aim of the strategy is to ensure that robust safety processes, hardware, standards, tools and training are fully integrated into our way of working. Furthermore, we ensure a focus on Occupational Health and Safety (OH&S) throughout the organization through initiatives driven locally, as part of a global framework.

In 2017, we experienced a decrease in the frequency of occupational accidents to 1.6 lost-time injuries per million working hours, which met our target of 2.0 or below for 2017. After analyzing our 2016 performance, we found that almost half of the accidents were caused by trips and falls. We therefore launched various awareness campaigns such as “Stop and Text,” “Stepping in and out of trucks” and “Mind your steps” to minimize slips, trips and falls.

We have implemented proactive health surveillance programs across the organization to identify and alleviate adverse health reactions from handling enzymes and/or microbes, before they potentially become serious. We also launched a new internal OH&S Key Performance Indicator (KPI) called “Health and Safety focus” in 2017 to provide ongoing measurement of our health and safety culture globally. Data on the health and well-being of employees were collected on a quarterly basis as part of the “Pulse” survey, and we saw promising results in 2017.

Consequences of occupational accidents

No.		2017	2016
Return to original job		17	23
Return to a different job in the same department		-	1
Out of work or early retirement		-	1
Case pending		1	-
Occupational accidents with absence, total	ESG	18	25
Total days of absence related to accidents registered in the same year		235	309
Injury severity rate		13	12



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 local 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.		2017	2016
Return to original job		2	2
Return to a different job in the same department		-	3
Transfer to a different job outside Novozymes		-	1
Out of work or early retirement		-	2
Occupational diseases, total	ESG	2	8
Total days of absence related to diseases registered in the same year		-	7

Types of occupational diseases

No.		2017	2016
Musculoskeletal disorder		-	1
Skin disease		2	4
Enzyme allergy		-	2
Respiratory disease		-	1
Occupational diseases, total	ESG	2	8

As a consequence, we implemented sweeping and comprehensive changes within Occupational Health and Safety in Denmark to ensure greater managerial focus and more extensive employee involvement. This resulted in even closer collaboration to create a safer working environment. We believe that this change will help employees internalize safety behavior.

Health initiatives are implemented across regions and are designed to fit local needs. The regions develop and conduct activities to promote health among employees.

At Novozymes, we believe in extending our OH&S responsibilities beyond Novozymes'

boundary. Therefore, we conduct safety training for contract workers to ensure that they understand their rights and responsibilities.

To meet our long-term target of an occupational accident frequency of 1.0 accident per million working hours or below, it is imperative to improve year on year. Our analysis shows that a significant share of occupational accidents are related to culture and behavior. To address these issues, we plan to focus on behavioral safety in 2018 along with our ongoing focus to reduce trips and falls. We also plan to roll out user-friendly tools globally to equip employees with relevant competencies in these areas.

8.3 Business ethics

Business ethics is a key issue for Novozymes. We are committed to conducting business in an ethical, responsible and transparent way. In addition to our own ambition, our investors, customers and employees also expect us to demonstrate a high standard of integrity in our business practices.

We are committed to working against all forms of corruption. Novozymes has adopted six business integrity principles, which include zero tolerance for bribery and facilitation payments, and rules on gifts and hospitality. The principles form the ground rules for engaging with third parties and apply to all employees anywhere in the world. See our position paper on business integrity on Novozymes.com for more details.

Novozyymes' management approach to addressing anti-corruption and business integrity aspects is embedded in its corporate values and policies. A dedicated compliance function handles reporting of business integrity-related matters, develops employee training programs and offers guidance

requested by employees on a case-by-case basis. Questions related to business integrity were included in our quarterly "Pulse" survey, to help us identify areas for improvement.

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 reporting channels on Novozymes.com.

For Novozymes, engaging with the right partners is a central aspect of being a sustainable business. We have a responsibility to ensure that the business partners and stakeholder associations that represent us are equally committed to engaging responsibly with policymakers and preventing corruption and bribery. In 2017, third-party due diligence and compliance processes to monitor Novozymes' commercial partners were expanded.



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 providing false documentation or by suppressing the truth in order to obtain a personal gain.

8.3 Business ethics (continued)

Business integrity training for employees

Novozymes conducts annual training to ensure that employees are well equipped to uphold the six 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' Chief Legal Compliance Officer based on input from regions, line of business and questions raised during the year to ensure relevance and applicability.

This annual training reinforces business integrity understanding and secures written acknowledgement from our employees that they will comply with the six principles. It also includes practical examples, mimicking real cases in Novozymes or from the media noted during the year. The training in 2017 focused on facilitation payments and helping employees identify corruption risks related to working with agents or third-party representatives.

In 2017, Novozymes achieved a completion rate of 99%, staying on par with 2016.

Competition law and anti-trust

There were no violations of competition law in 2017.

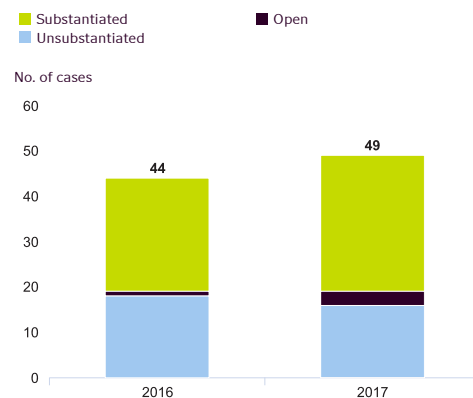
Since 2014, Novozymes' employees with commercial contact have participated in

recurring anti-trust e-learning. This training has a global reach and provides general guidance on anti-trust law. In 2017, the training again focused on anti-cartel guidance, specifically how to interact with competitors in a proper manner.

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

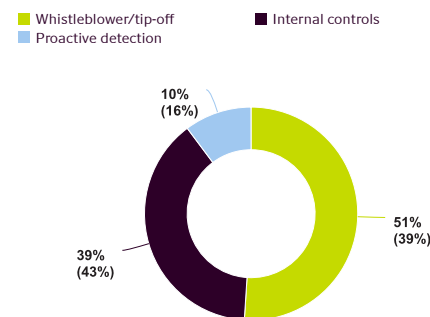


In 2017, the number of fraud cases investigated by Novozymes increased by five. We continue to see an increased threat from external fraud attempts by unknown perpetrators, such as business e-mails containing scams such as invoice fraud and

CxO fraud (i.e. e-mails from senders claiming to be senior executives attempting to convince employees to transfer company funds under the pretext of a legitimate business purpose). The investigated fraud cases in 2017 did not have a material financial impact on Novozymes.

Moving forward, we will continue to raise awareness of fraud and train employees on relevant policies and procedures.

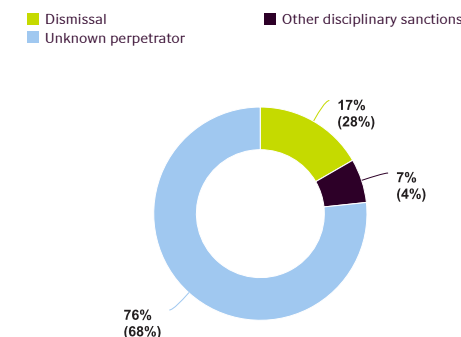
Reporting channels 2017 (2016)



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

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 2017, 21 cases were reported to the police.

Consequences of substantiated fraud cases 2017 (2016)



8.4 Community engagement

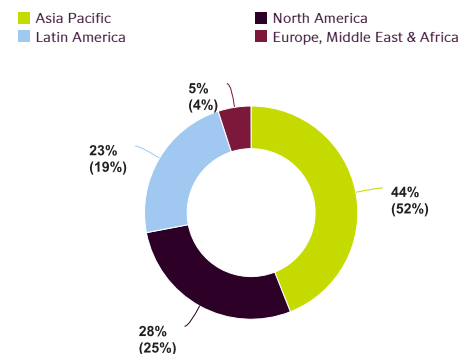
We believe that businesses have a responsibility to engage with the communities in which they operate and invest strategically in programs that create value for society. We focus our community engagement and social investment activities on education, specifically biology, sustainability and the environment. This is because education and an understanding of science are crucial for global sustainable development, and many Novozymes employees are experts in the fields of biology and sustainability.

Novozymes has implemented various educational programs across regions to meet its long-term target of educating 1 million people about the potential of biology.

In 2017, we engaged more than 188,000 learners, with the US and India being major contributors. Both these countries contributed more than 50,000 learners. In the US, each site determines its own outreach activities, while in India, the focus is on educating underprivileged students.

Read more about Educate in the Targets section and in the Sustainability section.

Learners reached by geography 2017 (2016)



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.



ACCOUNTING POLICIES

Learners reached comprises the total number of persons 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.

8.5 Customer engagement

Partnerships and customer engagement are material topics for Novozymes. This is because our customers' opinions serve as powerful indicators of how our products and services are performing in the market.

To monitor customer satisfaction and collect feedback on a regular basis, Novozymes sets an annual target for Customer Satisfaction Measurement. See Outlook for 2018 for an overview of all targets.

Novozyymes' 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.

Novozyymes conducts an annual survey that includes a measurement of the Net Promoter Score (NPS). 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 67%.

In 2017, Novozymes achieved an NPS of +39 and met its target to maintain the score above +35. Although this is a decrease from an NPS of +45 in 2016, it is still considered

high. The result shows that Novozymes' employees are well regarded and that our customers appreciate our commercial and technical services. Account managers play an important role in customer satisfaction. Our customers prefer account managers who are proactive and engaged, understand the clients' business and needs, and share critical information in a timely and effective manner. We will incorporate these findings into our engagement strategies for all customers.

Going forward, we will be adjusting our survey methodology so that all customer scores are weighed equally in the aggregated NPS. This ensures that we remain equally responsive to the needs of our smaller customers.



ACCOUNTING POLICIES

The Net Promoter Score (NPS) 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

A secure supply of raw materials is crucial to our production. Novozymes' supplier management and responsible sourcing approach are the responsibility of the Sourcing department. Read our position paper on responsible purchasing on Novozymes.com for more details.

Agricultural raw materials are a major constituent of our production processes, which is the reason for our continuous, sharp focus on environmental, social and governance (ESG) issues. All our suppliers of directly sourced agricultural raw materials are required to meet our deforestation requirements in terms of not contributing to further deforestation and zero tolerance for land grabbing.

Novozymes assesses all suppliers based on supplier risk profile, spend, type of product and country risk. High-risk suppliers are assessed by the Sourcing teams through the Supplier Performance Management (SPM) system. This consists of an integrated set of assessment criteria covering commercial, quality, environmental and social requirements. Based on these criteria, SPM helps to identify risks and opportunities in our supply chain by highlighting high-risk suppliers and suppliers with strong overall performance.

To sharpen the focus on ESG compliance, we have started monitoring our suppliers' adherence to our Responsible Purchasing standard on a monthly basis.

In 2017, we identified a need to increase our level of transparency across the supply chain. Furthermore, we also experienced increasing regulatory and customer requirements for raw material and supplier transparency throughout the supply chain. Therefore, we are investigating various tools available in the market to assess our supplier base on multiple supply risk levels.

Statement of the Board of Directors and Executive Leadership Team

The Board of Directors and the Executive Leadership Team have today considered and adopted the Annual Report of Novozymes A/S for the financial year January 1 – December 31, 2017. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act. Management's Review has been prepared in accordance with the Danish Financial Statements Act.

Bagsværd, February 7, 2018

In our opinion, the accounting policies used are appropriate, and the Group's internal controls relevant to preparation and presentation of the Annual Report are adequate. The Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at December 31, 2017 of the Group and the Parent Company and of the results of the Group and Parent Company operations and consolidated cash flows for the financial year January 1 – December 31, 2017.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances

of the Group and the Parent Company, of the results for the year, and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

In our opinion, Novozymes A/S adheres to the AA1000 AccountAbility principles, and environmental, social and governance data are stated in accordance with the accounting policies.

We recommend that the Annual Report be adopted at the Annual Shareholders' Meeting.

Executive Leadership Team

Peder Holk Nielsen
President & CEO

Thomas Videbæk

Prisca Havranek-Kosicek

Board of Directors

Jørgen Buhl Rasmussen
Chairman

Kim Stratton

Lena Bech Holskov

Agnete Raaschou-Nielsen
Vice Chairman

Lars Green

Anders Hentze Knudsen

Kasim Kutay

Mathias Uhlén

Lars Bo Køppler

Independent Auditor's Report

To the Shareholders of Novozymes A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at December 31, 2017 and of the results of the Group's operations and cash flows for the financial year January 1 to December 31, 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at December 31, 2017 and of the results of the Parent Company's operations for the financial year January 1 to December 31, 2017 in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated environmental data and the Consolidated social and governance data for the financial year January 1 to December 31, 2017 are prepared in accordance with the accounting policies for the Consolidated environmental data and the Consolidated social and governance data.

Our opinions are consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements of Novozymes A/S for the financial year January 1 to December 31, 2017 comprise the consolidated income statement and statement of comprehensive income, the consolidated balance sheet, the consolidated statement of shareholders' equity, the consolidated statement of cash flow and the notes, including summary of significant accounting policies.

The Parent Company Financial Statements of Novozymes A/S for the financial year January 1 to December 31, 2017 comprise the income statement, the balance sheet, the statement of changes in equity and the notes, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

The Consolidated environmental data and Consolidated social and governance data of Novozymes A/S for the financial year January 1 to December 31, 2017 comprise the environmental performance and consolidated data, the social and governance performance and consolidated data and the related notes, including summary of significant accounting policies.

These are collectively referred to as the "Environmental, Social and Governance Data."

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were appointed as auditors of Novozymes A/S for the first time after the initial public offering on March 21, 2001. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 17 years, including the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for 2017.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Revenue recognition related to partnerships and collaboration agreements

Novozymes has entered into several partnerships and collaboration agreements.

Some of these partnerships and collaborations include complex mechanisms for sharing profit and expenses. Due to the complexity of the agreements, there are several uncertainties in relation to the interpretation of the agreements.

We focused on this area because the agreements and the related accounting treatment of revenue recognition is complex and because establishing appropriate accruals requires significant judgement and estimation by Management.

We tested relevant controls including applicable information systems and Management's review controls implemented, to ensure that revenue and costs from the partnerships and collaboration agreements are recognized appropriately on an ongoing basis.

We obtained Management's calculation for deferred income and profit-sharing accruals under the applicable agreements, and reconciled inputs and key assumptions – for both internal and external sources – and assessed the accuracy of the accruals in previous periods.

We assessed whether the disclosures in relation to revenue were appropriate and met the requirements of accounting standards.

Refer to Note 2.2 to the Consolidated Financial Statement.

Statement on Management's Review

Management is responsible for Management's Review, pages 3 - 64.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements, and the Consolidated environmental data, and the Consolidated social and governance data, has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements and the Environmental, Social and Governance Data

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Furthermore, Management is responsible for preparing the Consolidated environmental data and the Consolidated social and governance data in accordance with the accounting policies stated in the Environmental, Social and Governance Data, and for such internal control as Management determines is necessary to enable the preparation of Environmental, Social and Governance Data that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements and the Environmental, Social and Governance Data

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Environmental, Social and Governance Data as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements and the Environmental, Social and Governance Data. As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, February 7, 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR no.: 33771231

Mogens Nørgaard Mogensen

State Authorized Public Accountant
mne21404

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rasmus Friis Jørgensen

State Authorized Public Accountant
mne28705

Independent assurance statement on Novozymes' 2017 sustainability reporting and adherence to the AA1000 AccountAbility Principles

To the Stakeholders of Novozymes

We have been engaged by Novozymes A/S' Management to provide moderate assurance (review) as to whether Novozymes adheres to the AA1000 AccountAbility Principles.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the description of Novozymes' adherence to the AA1000 AccountAbility principles of Inclusivity, Materiality and Responsiveness is not fairly stated.

This conclusion is to be read in the context of what we say in the remainder of our report.

Regarding the audit of the Consolidated environmental data and Consolidated social and governance data, we refer to the Independent Auditor's Report.

Management's responsibility

Adherence to the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness is the responsibility of Management.

Our responsibility

We are responsible for planning and performing the engagement to obtain moderate assurance (review) of Novozymes' adherence with the AA1000 AccountAbility principles of Inclusivity, Materiality and Responsiveness; forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and reporting our conclusion to the stakeholders of Novozymes A/S.

Our team of experts has competencies with regard to assessing sustainability management systems. In 2017, we have not performed any tasks or services for Novozymes or other clients, which would have conflicted with our independence, nor have we been responsible for the preparation of any part of the Annual Report. Thus, we are independent as defined in the AA1000 Assurance Standard (AA1000AS (2008)) and we consider our team qualified to carry out this independent assurance engagement.

Scope, standards and criteria used

We have planned and performed our work based on AA1000AS (2008), using the criteria in the standard to perform a Type 1 engagement.

We have worked to obtain a moderate assurance (review) as to Novozymes' adherence to the AA1000 AccountAbility Principles.

Methodology, approach, limitation and scope of work

Our methodology has included procedures to obtain evidence of Management's commitment to the AA1000 AccountAbility Principles and of the implementation of systems and procedures in support of the principles.

Based on an assessment of materiality and risk, our work has included:

1. Review of processes related to how Novozymes identifies its stakeholders and engages them in relevant business decisions to develop and implement responses to sustainability;
2. Review of the process that Novozymes used to identify and determine relevant

and significant (material) issues to the organization and its stakeholders and whether these issues are included in the sustainability reporting; and

3. Enquiries and interviews with the chairman of the Board of Directors, members of the Executive Leadership Team and employees responsible for key areas of Novozymes' operations regarding Novozymes' commitment and adherence to the AA1000 AccountAbility Principles, and the existence of systems and procedures to support adaptation of the principles in the organisation. Our work focused on Novozymes' sustainability ambition and strategy and its organisational capacity to deliver on this. Moreover, our work focused on Novozymes' readiness to align business priorities with, and leverage, the UN Global Goals, for its business development.

Observations and recommendations

According to AA1000AS (2008), we are required to include observations and recommendations for improvements in relation to Novozymes' adherence to the AA1000 AccountAbility Principles.

Regarding Inclusivity

Novozymes has maintained its commitment to and focus on sustainability as a core business issue at both Board and Executive level throughout the year. External engagement by senior management on sustainability has continued, in particular on the UN Global Goals, and sustainability continues to be a focus for development of new business projects and partnerships.

Novozymes' revised sustainability plan, developed in 2017, includes actions to further embed consideration of sustainability issues into internal operational activities. We have noted that further work is ongoing to increase internal engagement on sustainability, particularly within core business functions.

Regarding materiality

Novozymes continues to actively evaluate and manage current and likely future sustainability issues and their impact on the business, and delivery of the targets are factored into senior management's objectives and remuneration.

We have noted that advanced application of technology and data and analytics is playing an increasing role in Novozymes' operations and will also be important in influencing delivery of sustainability objectives.

Regarding Responsiveness

Novozymes management has maintained commitment and active involvement in understanding and responding to external stakeholder priorities. We have noted that the review of Novozymes' sustainability plan involved active input from the Board and the Executive Leadership Team. This has resulted in a revised plan to evolve sustainability activities, particularly focused on embedding sustainability further into internal operational activities in the short term.

We have communicated a number of minor recommendations for improvement to the management of Novozymes.

Hellerup, February 7, 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR no.: 33771231

Mogens Nørgaard Mogensen

State Authorized Public Accountant
mne21404

Rasmus Friis Jørgensen

State Authorized Public Accountant
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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
- 4.3 Proposed appropriation of net profit

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
- 5.7 Derivatives

Income statement, Novozymes A/S

DKK million	Note	2017	2016
Revenue	2.1	8,273	7,648
Cost of goods sold	2.2	(4,062)	(3,637)
Gross profit		4,211	4,011
Sales and distribution costs	2.2	(960)	(998)
Research and development costs	2.2	(1,433)	(1,451)
Administrative costs	2.2	(556)	(574)
Other operating income	2.3	1,516	1,600
Operating profit / EBIT		2,778	2,588
Income from investments in subsidiaries	3.3	963	969
Share of result in associates	3.3	(11)	(31)
Financial income	4.1	79	96
Financial costs	4.1	(191)	(62)
Profit before tax		3,618	3,560
Tax		(597)	(589)
Net profit		3,021	2,971
Proposed appropriation of net profit			
Dividend to shareholders		1,266	1,142
Revaluation reserve according to the equity method		952	938
Retained earnings		803	891
		3,021	2,971
Proposed dividend per share		DKK 4.50	DKK 4.00

Balance sheet, Novozymes A/S

Assets

DKK million	Note	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	3.1	1,709	1,056
Property, plant and equipment	3.2	3,798	3,320
Investments in subsidiaries	3.3	7,321	7,924
Investments in associates	3.3	49	60
Other long-term receivables	3.4	2	4
Other financial assets		10	130
Receivables from Group enterprises	3.3	1,411	1,458
Financial fixed assets		8,793	9,576
Fixed assets		14,300	13,952
Raw materials and consumables		134	149
Work in progress		486	382
Finished goods		830	787
Inventories		1,450	1,318
Trade receivables		900	941
Receivables from Group enterprises		1,222	510
Tax receivables		25	92
Other receivables	3.4	90	117
Receivables		2,237	1,660
Cash at bank and in hand		130	429
Current assets		3,817	3,407
Assets		18,117	17,359

Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2017	Dec. 31, 2016
Common stock	5.6	610	620
Treasury stock		(4,698)	(4,355)
Revaluation reserve according to the equity method		92	1,073
Reserve for development costs		151	136
Retained earnings		13,250	12,534
Proposed dividend		1,216	1,142
Shareholders' equity		10,621	11,150
Deferred tax	3.5	235	367
Other provisions		8	29
Provisions		243	396
Credit institutions	4.2	1,312	1,727
Non-current liabilities		1,312	1,727
Credit institutions		968	119
Trade payables		670	546
Payables to Group enterprises		3,474	2,684
Other payables		829	737
Current liabilities		5,941	4,086
Liabilities		7,496	6,209
Liabilities and shareholders' equity		18,117	17,359

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, 2017	620	(4,355)	1,787	136	12,534	1,142	11,864
Adjustment to opening balance			(714)				(714)
Restated shareholders' equity at January 1, 2017	620	(4,355)	1,073	136	12,534	1,142	11,150
Net profit for the year			952		2,069		3,021
Capitalized development costs				15	(15)		-
Dividend received			(1,159)		1,159		-
Dividend paid						(1,239)	(1,239)
Dividend paid relating to treasury stock						47	47
Proposed dividend, gross					(1,318)	1,318	-
Proposed dividend relating to treasury stock					52	(52)	-
Purchase of treasury stock		(2,000)					(2,000)
Sale of treasury stock		179					179
Write-down of common stock	(10)	1,478			(1,468)		-
Currency translation adjustments of investments in subsidiaries, etc.			(769)		(163)		(932)
Value adjustment of derivatives			-		86		86
Other adjustments			(5)		314		309
Shareholders' equity at December 31, 2017	610	(4,698)	92	151	13,250	1,216	10,621

1 Accounting policies

The financial statements of Novozymes A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class D). The accounting policies are unchanged from last year.

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.

In 2017, an error in the elimination has been identified in the 2016 financial statements, which resulted in the Income from investments in subsidiaries being overstated by DKK 714 million. The error, which has been corrected, did not impact the consolidated statements of income, balance sheet or cash flow.

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 a period of 10-15 years. Goodwill amortized over more than 10 years is based on an individual assessment of the useful lifetime. 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 a period of 10-15 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	2017	2016
Geographical distribution:		
Denmark	205	196
Rest of Europe, Middle East & Africa	4,939	4,660
North America	1,265	1,080
Asia Pacific	1,427	1,370
Latin America	437	342
Revenue	8,273	7,648

2.2 Employee costs

DKK million	2017	2016
Wages and salaries	1,593	1,639
Pensions - defined contribution plans	175	173
Other social security costs	21	25
Other employee costs	170	187
Employee costs	1,959	2,024
Average number of employees in Novozymes A/S	2,613	2,660

2.3 Other operating income

DKK million	2017	2016
Royalty income relating to subsidiaries	1,490	1,560
Other	26	40
Other operating income	1,516	1,600

NOTE SECTION 3

3.1 Intangible assets

DKK million	2017				2016	
	Goodwill	Acquired patents, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total	Total
Cost at January 1	388	1,339	410	49	2,186	1,842
Additions during the year	509	262	10	82	863	364
Disposals during the year	-	(43)	(7)	-	(50)	(20)
Transfers to/(from) other items	-	-	70	(70)	-	-
Cost at December 31	897	1,558	483	61	2,999	2,186
Amortization and impairment losses at January 1	(93)	(752)	(285)	-	(1,130)	(1,007)
Amortization for the year	(31)	(80)	(72)	-	(183)	(143)
Impairment losses	-	(27)	-	-	(27)	-
Disposals during the year	-	43	7	-	50	20
Amortization and impairment losses at December 31	(124)	(816)	(350)	-	(1,290)	(1,130)
Carrying amount at December 31	B/S 773	742	133	61	1,709	1,056

Impairment

In 2017, an impairment loss of DKK 27 million on abandoned patents was recognized and included in Cost of goods sold and Research

and development costs with DKK 15 million and DKK 12 million respectively (2016: no impairment losses on intangible assets).

NOTE SECTION 3

3.2 Property, plant and equipment

	2017				2016	
DKK million	Land and buildings	Production equipment and machinery	Other equipment	Property, plant and equipment under construction	Total	Total
Cost at January 1	2,474	4,428	862	508	8,272	7,604
Additions during the year	14	87	39	634	774	672
Disposals during the year	-	(18)	(27)	-	(45)	(4)
Transfers to/(from) other items	2	84	14	(100)	-	-
Cost at December 31	2,490	4,581	888	1,042	9,001	8,272
Depreciation and impairment losses at January 1	(1,217)	(3,098)	(637)	-	(4,952)	(4,720)
Depreciation for the year	(91)	(152)	(51)	-	(294)	(234)
Disposals during the year	-	17	26	-	43	2
Depreciation and impairment losses at December 31	(1,308)	(3,233)	(662)	-	(5,203)	(4,952)
Carrying amount at December 31	1,182	1,348	226	1,042	3,798	3,320

Capitalized interest

Interest of DKK 6 million (2016: DKK 4 million) has been capitalized under Additions during the year above and under Investing activities in the statement of cash flows. Capitalization rate: 1.62% (2016: 1.78%).

Land and buildings with a carrying amount of DKK 377 million (2016: DKK 397 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, 2017	6,783	128	1,458	8,369
Additions during the year	367	-	127	494
Disposals during the year	-	-	(174)	(174)
Cost at December 31, 2017	7,150	128	1,411	8,689
Revaluation reserve at January 1, 2017	1,855	(68)		1,787
Adjustment to opening balance	(714)			(714)
Restated revaluation reserve at January 1, 2017	1,141	(68)		1,073
Share of net profit/(loss)	1,719	(11)		1,708
Elimination of profit on internal asset transfers	(756)	-		(756)
Dividends received	(1,159)	-		(1,159)
Currency translation adjustment	(769)	-		(769)
Other adjustments	(5)	-		(5)
Revaluation reserve at December 31, 2017	171	(79)		92
Carrying amount at December 31, 2017	7,321	49	1,411	8,781

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	2017	2016
Prepaid expenses	40	63
Derivatives	16	5
Other receivables	36	53
Other receivables at December 31	92	121
Recognized in the balance sheet as follows:		
Non-current	B/S 2	4
Current	B/S 90	117
Other receivables at December 31	92	121

3.5 Deferred tax

DKK million	2017	2016
Deferred tax at January 1	367	207
Adjustment for previous years	(24)	21
Tax related to the income statement	(9)	57
Tax on shareholders' equity items	(99)	82
Deferred tax at December 31	235	367

4.1 Financial income and costs

DKK million	2017	2016
Interest income relating to subsidiaries	67	69
Interest costs relating to subsidiaries	(12)	(11)

In 2017, the financial asset related to the partnership with Beta Renewables S.p.A. has been fully written down. This relates to a guarantee provided by M&G, because 2G projects have not commercialized as

expected in Beta Renewables S.p.A. The write-down is a consequence of M&G experiencing financial difficulties. The write-down of DKK 120 million is included in Financial costs.

4.2 Credit institutions

DKK million	2017	2016
Long-term debt to credit institutions falling due after 5 years	428	527

4.3 Proposed appropriation of net profit

DKK million	2017	2016
Proposed appropriation of net profit		
Dividend to shareholders	1,266	1,142
Revaluation reserve according to the equity method	952	938
Retained earnings	803	891
Net profit	3,021	2,971

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	2017	2016
Recognized in the income statement in respect of rentals	56	61
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	59	47
Between 1 and 2 years	19	34
Between 2 and 3 years	13	16
Between 3 and 4 years	5	8
Between 4 and 5 years	4	3
More than 5 years	7	9
Contingent liabilities at December 31	107	117
Other contingent liabilities		
Contractual obligations to third parties relating to property, plant and equipment	544	833
Other guarantees and commitments to related companies	2,140	2,203
Other guarantees and commitments to third parties	97	58

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	2017	2016
The Novo Nordisk Group		
Sales	162	149
Purchases	(131)	(152)
The NNIT Group		
Purchases	(34)	(41)
The Chr. Hansen Group		
Sales	33	22

Outstanding balances

DKK million	2017	2016
The Novo Nordisk Group		
Receivables	13	23
Payables	(66)	(73)
The NNIT Group		
Payables	(4)	(9)
The Chr. Group		
Receivables	4	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	2017	2016
Statutory audit	4	4
Other assurance engagements	-	-
Tax advisory services	2	2
Other services	1	-
Fees to statutory auditor	7	6

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.

5.7 Derivatives

Reference is made to Note 5.4 to the consolidated financial statements concerning

derivatives as figures and information in Novozymes A/S are identical.