



# THE NOVOZYMES REPORT 2014

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## ACCOUNTS & DATA

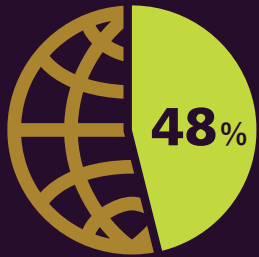
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# THE BIG PICTURE



# The year in brief



## MARKET LEADER IN INDUSTRIAL ENZYMES

With an estimated 48% of the global enzyme market in 2014, Novozymes has strengthened its position as the world's leading producer of industrial enzymes.

ORGANIC SALES  
GROWTH

7%

EBIT MARGIN

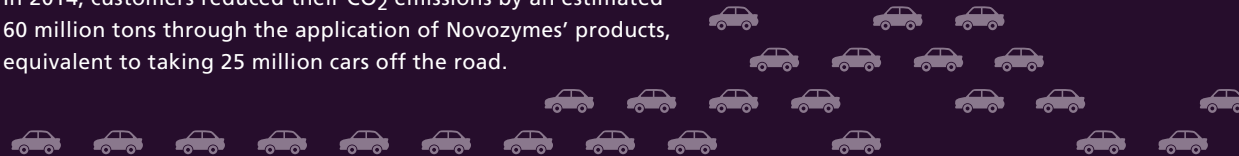
27.2%

ROIC

23.1%

## CO<sub>2</sub> EMISSION REDUCTION

In 2014, customers reduced their CO<sub>2</sub> emissions by an estimated 60 million tons through the application of Novozymes' products, equivalent to taking 25 million cars off the road.



25,000,000



## INDUSTRY

## ORGANIC SALES GROWTH IN 2014



HOUSEHOLD  
CARE

4%



FOOD &  
BEVERAGES

4%



BIOENERGY

19%



AGRICULTURE  
& FEED

7%



TECHNICAL  
& PHARMA

9%

## 2014 ORGANIC SALES GROWTH BY REGION

### North America

**34%**  
of total sales

**11%**  
growth

### Latin America

**11%**  
of total sales

**7%**  
growth

### Europe, Middle East & Africa

**38%**  
of total sales

**8%**  
growth

### Asia Pacific

**17%**  
of total sales

**-2%**  
growth



Explore Novozymes' interactive map at [www.report2014.novozymes.com](http://www.report2014.novozymes.com)

## FREQUENCY OF ACCIDENTS AT AN ALL-TIME LOW

In 2014, we reached an all-time low frequency of occupational accidents with leave of 1.7 per million working hours.



**1.7** accidents per  
**1,000,000** working hours

■ Frequency of accidents per million working hours



## NEW LONG-TERM TARGETS

### IMPACT TARGETS

#### REACH

6 billion people with our biological solutions  
by 2020

#### EDUCATE

1 million people about the potential of biology  
from 2015 to 2020

#### CATALYZE

5 global partnerships for change  
from 2015 to 2020

#### DELIVER

10 transformative innovations  
from 2015 to 2020

#### SAVE

100 million tons of CO<sub>2</sub>  
by 2020

#### ENABLE

Novozymes' employees to develop  
by 2020

### FINANCIAL TARGETS

#### 8-10%

organic sales growth on average

#### ≥ 26%

EBIT margin

#### ≥ 25%

ROIC incl. goodwill

# Five-year summary

DKK million	2014	2013	2012	2011	2010
<b>Income statement</b>					
Revenue	12,459	11,746	11,234	10,510	9,724
Gross profit	7,149	6,716	6,423	5,908	5,412
EBITDA	4,400	3,639	3,448	3,126	2,796
Operating profit / EBIT	3,384	2,901	2,745	2,340	2,117
Financial items, net	(105)	(142)	(161)	75	6
Net profit	2,525	2,201	2,016	1,828	1,614
<b>Balance sheet</b>					
Total assets	18,426	16,506	15,113	13,842	12,593
Shareholders' equity	11,280	11,066	9,568	8,824	7,836
Invested capital	10,535	11,871	10,998	9,843	8,182
Net interest-bearing debt	(716)	805	1,430	1,019	346
<b>Investments and cash flows</b>					
Cash flow from operating activities	4,525	2,599	2,758	2,709	2,324
Purchases of property, plant and equipment	703	762	1,128	1,290	1,326
Net investments excluding acquisitions and The BioAg Alliance impact	715	783	1,177	1,316	1,326
Free cash flow before net acquisitions and securities	4,229	1,816	1,581	1,393	998
Business acquisitions and purchase of financial assets	14	640	732	1,530	23
Free cash flow	4,215	1,176	849	(33)	975

		2014	2013	2012	2011	2010
<b>Key ratios</b>						
Revenue growth, DKK	%	6	5	7	8	15
Revenue growth, LCY	%	7	8	3	10	10
Revenue growth, organic	%	7	7	4	7	11
R&D costs (% of revenue)	%	14.8	13.0	13.6	13.9	14.0
Gross margin	%	57.4	57.2	57.2	56.2	55.7
EBITDA margin	%	35.3	31.0	30.7	29.7	28.8
EBIT margin	%	27.2	24.7	24.4	22.3	21.8
Effective tax rate	%	23.0	20.2	22.0	24.3	24.0
Equity ratio	%	61.2	67.0	63.3	63.7	62.2
NIBD/EBITDA		(0.2)	0.2	0.4	0.3	0.1
Return on equity	%	22.6	21.3	21.9	21.9	23.6
ROIC including goodwill	%	23.1	20.0	19.9	21.3	22.2
WACC after tax	%	3.7	4.7	4.7	4.5	5.6
Earnings per share (EPS), diluted	DKK	8.02	6.93	6.33	5.71	5.05
Dividend per share (2014 proposed)	DKK	3.00	2.50	2.20	1.90	1.60

Key ratios have been prepared in accordance with the Danish Society of Financial Analysts' "Recommendations & Financial Ratios 2010"

<b>Environmental and social data</b>						
Total number of employees	No.	6,454	6,236	6,041	5,824	5,432
Rate of employee turnover	%	8.1	7.5	8.1	8.3	7.5
Frequency of accidents with absence per million working hours		1,7	2.4	3.0	4.3	4.1
Employee satisfaction	Score	77	77	78	77	76
Development opportunities	Score	75	74	75	74	73
New leaders appointed who are women	%	34	26	37	n.a.	n.a.
Estimated CO <sub>2</sub> reductions from customers' application of Novozymes' products	Million tons	60	52	48	45	40

# Evolution continues

2014 was another good year for Novozymes. Solid organic sales growth, margins and cash flow brought the company to its strongest financial position ever. Novozymes has revised its strategy and targets to reach even higher levels for what biological solutions can do for customers and the world in general. The company's evolution continues, as we keep making our stakeholders rethink tomorrow.

## 2014: TOP-LINE GROWTH, BOTTOM-LINE STRENGTH

The strength of Novozymes' business model, of bringing innovation based on one strong technology platform to a diverse set of end markets, proved its worth again in 2014. Bioenergy was the star for the second year in a row from a growth perspective. Innovative biological solutions saved raw materials and energy for customers, sharpening their competitive edge, while providing a good return for Novozymes and the environment. Across the other end markets, ups and downs evened out, and organic sales growth was in line with expectations at 7%.

Innovations in production helped Novozymes become more efficient in its use of capacity, raw materials and energy. Coupled with favorable developments in the product mix, lower raw material prices and a positive one-time impact from The BioAg Alliance with Monsanto, this enabled Novozymes to deliver its highest EBIT margin and strongest balance sheet to date.

## NEW STRATEGY AND TARGETS

Over the course of the year, the Executive Leadership Team and the Board of Directors worked to refine the company's purpose statement, develop its strategy through 2020 and set new targets. Novozymes remains a company with a long-term approach to value creation and competitive advantages, and will focus sharply on both in the coming years.

Novozymes must continue to attract and retain the best people, and stay at the forefront of technology and

sustainability, to be the preferred partner for customers and other stakeholders. The strategy through 2020 is all about strengthening these classical Novozymes virtues. It also reflects a need for the company to continue to develop its outreach and communications. Novozymes is built on a technology platform that we believe can be a significant part of the solution to many of the world's challenges. We have to make sure that consumers, customers, future employees, politicians and nongovernmental organizations are aware of that.

## 2015: INNOVATION – AS USUAL

The coming year is the first of the new strategy period, but in essence a continuation of what characterized 2014. From a growth perspective, the business is currently driven by a diverse set of core markets. In these markets, which include laundry detergents, corn ethanol and baking, success depends on Novozymes' ability to bring innovation to the market and deliver value to its customers. In this respect, 2015 will be no different from any other year.

"Novozymes remains a company with a long-term approach to value creation and competitive advantages."



Henrik Gürtler, Chairman of the Board

Novozymes has also decided to invest in new and significant opportunities to drive and secure long-term growth. Looking at our growth platforms of Biomass Conversion, BioAg and Animal Health & Nutrition, 2015 will be an exciting year. The Board of Directors will keep an especially close eye on The BioAg Alliance, which is set to accelerate its science programs in 2015. In Biomass Conversion, we will monitor the success of the first commercial-scale plants and how the political environments develop.

As Novozymes' Board of Directors, we have to understand and follow the business closely, so we can spar with, supervise and support the Executive Leadership Team. The cooperation works well, and we believe Novozymes has what it takes to deliver on the targets and unleash the full potential of the technology platform for the benefit of customers, employees, the environment, shareholders and the world at large.

January 2015

A handwritten signature in black ink, appearing to read 'H. Gürtler', written in a cursive style.

The Board of Directors  
Novozymes A/S

# Gearing up for the future

In 2014, Novozymes strengthened important partnerships and delivered significant innovation to customers. With a new strategy guiding the company toward 2020, we prepare to make an even stronger impact on the world through more and closer partnerships with customers, governments, researchers and people around us.

Novozymes delivered a strong performance in 2014. We increased sales, earned more and met all of our sustainability targets, in spite of challenging conditions in the global economy. Organically, sales grew by 7%, driven primarily by sales in Bioenergy, EBIT increased by 17% and the application of our solutions helped our customers save an estimated 60 million tons of CO<sub>2</sub>.

Our results in 2014 demonstrate our ability to deliver on our short-term promises while setting ambitious goals for the future. We continued to bring significant innovation to the market, developing unique detergent solutions and enabling ethanol producers to increase yields.

Our growth platforms are proving their mettle in the market, with six biomass conversion plants in the U.S., Brazil and Italy now producing cellulosic ethanol. Moreover, The BioAg Alliance, Novozymes' and Monsanto's collaboration to improve soil health and harvests through naturally occurring microorganisms, recently announced its first full-year field trial results. Of the top microbial strains tested in corn and soybeans, average yield increases were four bushels per acre for corn and two bushels per acre for soy. These results are particularly encouraging given the backdrop of overall record yields in 2014. We have expanded our R&D efforts in The Alliance by establishing new R&D facilities in North Carolina, a heartland of agricultural research, where we recruited more than 70 top-notch scientists in 2014.

Our customers appreciated the value our solutions bring to their products. Henkel handed us its Sustainability Award:

Laundry & Home Care 2013 for our solutions in hand-dishwashing, and Unilever honored us in its Partner to Win Awards 2014 for our innovative liquid laundry solutions. We also received supplier awards from Procter & Gamble and Unilever in India, and Forbes magazine ranked Novozymes the fifth most innovative company in Europe and the 38th most innovative worldwide. We are very proud to work with our customers and believe these accolades are testament to the standards of innovation, product quality and service we deliver to them.

## CATERING TO LOCAL NEEDS

In 2014, we were determined to unleash more of our potential in emerging markets. Targeting specific regional needs and conditions was therefore a priority. Novozymes Medley®, launched in October, is an example of a solution that does just that.

## HEARTFELT THANKS

Our 6,454 employees continue to be a force for good in biotechnology, and we remain committed to developing our people, deepening diversity within the organization and building the next generation of leaders in the company.

*“Our new strategy builds on our successes in the past and gives us an even sharper focus going forward.”*



Peder Holk Nielsen, President & CEO

During the year, we were also determined to decrease occupational accidents, and I am pleased and proud to report that we reached an all-time low of 1.7 accidents per million working hours. One accident is still too many, however, so we will work on further improvements in 2015.

I would like to extend my appreciation to my colleagues for their dedication and passion. They truly live by our core values, enabling us to deliver on our promises both now and in the future. Together we find biological answers for better lives in a growing world.

## PARTNERING FOR IMPACT

In 2015 and beyond, we will continue to invest in growth opportunities and build on the strengths of Novozymes and our partnerships to ensure that we capture the opportunities in our markets in both the short and the long term. The world today continues to face many challenges such as a growing global population with a rising need for food, water and energy. It is around these challenges that we have defined a new purpose and strategy guiding our company from 2015 onward.

Our new purpose is quite simply that we want to deliver biological answers for better lives in a growing world. We will do that together with customers, consumers, governments, academia and other people around us. Success will be decided by our ability to partner with these key stakeholders, and



bring our shared insight and expertise together to have maximum impact and achieve common goals – we invite the world to rethink tomorrow with us.

To succeed, we must move forward in four areas: rally for change, lead innovation, focus on opportunities and grow people. Each area includes concrete initiatives and projects shaping our company for the future and ensuring that we achieve our ambitions. We will measure the impact and success of our purpose and strategic goals using a number of new long-term targets. These targets reflect our belief that increasing the use of our biological solutions will have a real and positive impact on the world. We have also updated our long-term financial targets. Going forward, we will target organic sales growth of 8-10% on average in local currencies, an EBIT margin of 26% and above and a return on invested capital of 25% and above.

Our new strategy builds on our successes in the past and gives us an even sharper focus going forward. I look forward to starting to implement and live the strategy together with the rest of Novozymes' employees and our partners, starting today.



Peder Holk Nielsen  
President & CEO



WE SUPPORT

#### **PARTNERSHIPS**

Novozymes is committed to the UN Global Compact principles as a LEAD Member and takes an active part in the U.N.-led Sustainable Energy for All (SE4All) initiative.

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#### **EXPLORE NOVOZYMES.COM**

- Read more about the sustainability profile of our products and the benefits of biosolutions for our customers and the world in general
- Check out the 700+ biotechnology products we market in 130 countries
- Read more about our proud heritage dating back to 1921

# Novozymes at a glance

Novozymes is the world leader in bioinnovation, producing a wide range of industrial enzymes and microorganisms.

The world's population is growing, consuming more and placing a strain on natural resources. Novozymes' innovative biosolutions are helping address this challenge. Used in the manufacture of a wide variety of products, our biological solutions improve the efficiency of industrial processes by saving energy, water and other raw materials, while reducing waste.

## 48% MARKET SHARE

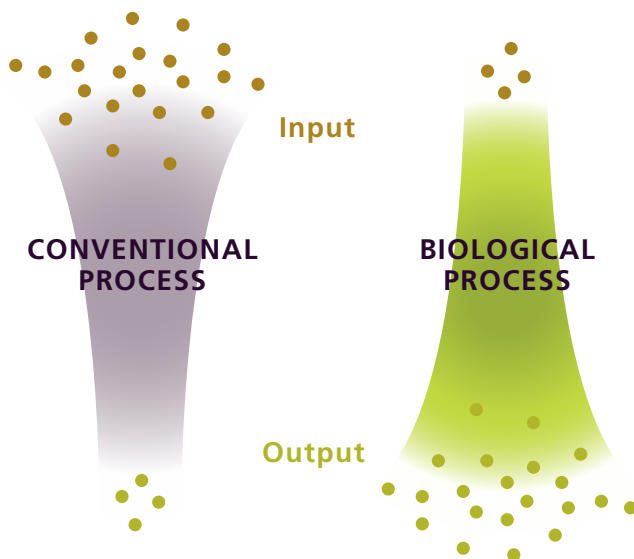
- With an estimated 48% share of the global enzyme market in 2014, we are the world's leading producer of industrial enzymes
- We grow our business and expand our markets by developing innovative new products and technologies

## SUSTAINABILITY IS INTRINSIC TO OUR BUSINESS

- The nature of our technology makes sustainability an intrinsic part of our business, allowing us to offer our customers solutions that optimize their use of raw materials and energy
- Our cross-functional Sustainability Board sets the strategic direction for our sustainability efforts through target-setting, multistakeholder engagement and day-to-day activities across the company

## MORE WITH LESS

Novozymes' biological solutions enable our customers to produce more using less energy, water and other raw materials than in conventional production processes. In a biological production process, our customers can replace harsh chemicals, for instance, and minimize the use of scarce resources. Together, we can maximize our positive impact on the world and get one step closer to achieving the sustainable future we all want.



## KEY FIGURES

Total sales in DKK million

**12,459**

EBIT in DKK million

**3,384**

**6,454**

employees on six continents

More than

**7,000**

granted or pending patents

We sell more than

**700**

products in 40 unique end markets globally

## Product launches in 2014

- Q1 2014** LpHera® – a new enzyme for starch liquefaction that lowers liquefaction pH, reducing the need for pH-adjusting chemicals while improving crystallization and fermentation yields.
- Q1 2014** RONOZYME® MultiGrain (GT) – an enzyme solution for the animal feed market that offers superior formulation flexibility when using highly variable raw materials.
- Q3 2014** Medley® – an enzyme solution with multiple enzyme activities for the Household Care market that makes it easier for detergent manufacturers to handle raw materials and to include more enzymes. Medley comes in different formulations.
- Q3 2014** DeniLite® Cold – a textile solution that offers cold bleaching for denim manufacturers, allowing them to save on energy, water and time, while reducing the risk of fabric damage from chemicals.
- Q4 2014** Leviti™ – a liquid enzyme solution with multiple enzyme activities tailored to professional laundry chemistry formulators in Household Care.
- Q4 2014** Amplify® – a new starch-degrading amylase enzyme for consumer and professional laundry detergent solutions.
- Q4 2014** Lipex® – a new fat-hydrolyzing liquid lipase enzyme for consumer laundry detergent solutions.
- Q4 2014** Eversa® – a liquid enzyme solution that enables enzymatic production of biodiesel in a sustainable manner from lower-grade oils such as used cooking oils and waste oils.

## Five sales areas



### HOUSEHOLD CARE 35% OF SALES

Enzymes are widely used in laundry and dishwashing detergents globally. Our solutions boost the performance of detergents by improving stain removal, garment care and wash performance. Enzymes have a positive environmental impact because they can replace large amounts of petrochemical-derived ingredients. Their unique catalytic action makes enzymes particularly useful ingredients in low-temperature and concentrated detergents.



### FOOD & BEVERAGES 26% OF SALES

Novozymes' enzymes are used extensively in the food and beverage industry to enhance the quality of bread, beer, wine and other products. Our solutions also enable customers to produce them at competitive costs.



### BIOENERGY 18% OF SALES

Enzymes for the bioenergy industry turn starch (primarily corn), waste and biomass into biofuels. Biofuels are an important step toward meeting the growing demand for sustainable transportation energy.



### AGRICULTURE & FEED 14% OF SALES

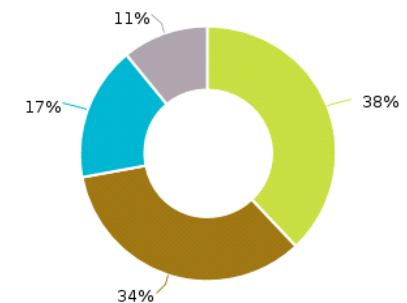
Novozymes supplies a range of microorganisms and enzymes for use in agriculture. Through The BioAg Alliance with Monsanto we are providing microbial solutions for farmers to grow more sustainable, high-yielding crops with fewer resources. Novozymes' animal health and nutrition solutions enhance the digestibility and nutritional value of animal feed and maintain better water conditions for aquaculture.



### TECHNICAL & PHARMA 7% OF SALES

Novozymes delivers enzymatic solutions and technical support for processing textiles, as well as a range of microorganisms for industrial use in wastewater treatment. Our Biopharma business focuses on improving medical devices as well as drug delivery and formulation.

## SALES BY GEOGRAPHY





# Attracting and nurturing tomorrow's talent today

**As the world's leading biotechnology company, Novozymes needs the best talent in its labs, production, sales force and administration to create the best solutions for customers.**

"What attracts talent here is our aspirations, our sustainability profile and the difference we make in the world," says Michael Almer, Vice President for People & Organization. "It's also about the science we do: Talented researchers and scientists want to work for a leading biotech company."

At the same time, Novozymes wants to bring more significant innovations to the market faster. "We can only do that if we understand the opportunities in the market and the technological possibilities, and translate them into valid business offerings faster and more efficiently," says Per Falholt, Executive Vice President for Research & Development. "Innovation isn't just about R&D, it's also about enabling proven and scalable technologies that excite our customers."

That requires high-quality skills, which, from an R&D perspective, means hiring scientists with not only a strong background in fields such as microbiology, molecular biology and fermentation technology, but also an understanding of their industrial application.

## **REACHING THE TALENT**

Novozyymes sources talent all around the world, often seeking particular competencies at specific R&D sites, such as expertise in agriculture on the U.S. East Coast and household care in India.

We are committed to attracting and retaining talent in key markets such as Denmark, the U.S. and emerging markets in regions such as Asia Pacific and Latin America. "There's growing demand in these regions for innovation that meets the needs of local end consumers. We need to be where the new technology and markets are developing," Falholt says.

In addition to traditional recruitment methods, Novozymes finds talent through university outreach and scholarship schemes, internships, business case competitions, and social

media. "But the real test is when prospective candidates meet us: They often tell us we need to demonstrate why we're different as a company," Almer says. In fact, most candidates agree that interacting with Novozymes' employees, visiting its labs and offices, and seeing its business and technology processes up close help make up their minds about working for the company.

As the frontiers of biotechnology expand, competition for the best brains will likely increase. "I believe competition is a good thing," Falholt says. "It encourages more talent to get interested in biotechnology."

## **DEVELOPING PEOPLE**

At Novozymes, employees benefit from a highly networked organization that is high on trust and low on bureaucracy. This fosters a culture of sharing ideas, with best practices in place to qualify them and help them mature. Should a knowledge gap arise, collaborative tools help crowd-source solutions from experts both inside and outside the organization.

Equally important are retaining and developing in-house talent and promoting diversity so that we have more women and more nationalities in leadership positions. Programs supporting that process include People Development Powerhouse, which teaches and anchors better practices in management in specific parts of the company. Regional leadership development programs have also been launched in China and India to ensure new successors to senior management positions from these countries.



## Three factors shaping Novozymes' innovation pipeline

Global trends and technological advances will impact how Novozymes innovates and brings new solutions to the market in the coming years. The company's innovation pipeline is therefore likely to be shaped by three main factors:

### TRANSFORMATIVE INNOVATION

Novozymes strives to develop more transformational innovation to generate solutions that fundamentally change the way industries operate. This approach will involve new marketing and new ways to reach customers. For instance, Novozymes is looking at detergent products holistically, so

that they meet all of a consumer's hygiene needs in addition to targeting stain removal or low-temperature washing.

### CUSTOMIZED INNOVATION

Customers want functionality as well as great biosolutions. From just being an enzyme supplier, Novozymes is increasingly a supplier of solutions tailored to support multiple aspects of a customer's business. In bioenergy, for instance, this means providing solutions that not only raise ethanol yields but also cater to the entire ecosystem of a biorefinery: from yield-discovery products to technical services, from improved sustainability and partnership-building to skills training.

In industries such as biomass conversion, brewing and baking, our solutions will increasingly be tailored to local customer needs and take account of local raw materials or weather

conditions. This "near-market innovation" will see Novozymes' technical service teams working even closer to customers.

### NEW BUSINESS AND INNOVATION MODELS

Novozymes is also exploring alternative business models for developing and delivering innovation to customers. The BioAg Alliance provides a glimpse of this, with Novozymes partnering with Monsanto to screen and test thousands of microbes for relevance in applications in the bioagriculture industry. The Alliance combines Novozymes' talent for discovering, developing and producing microbes with Monsanto's discovery capabilities, field testing and market reach.



### INNOVATION AWARD HIGHLIGHTS

In 2014, Novozymes:

- Received Henkel's Sustainability Award: Laundry & Home Care 2013 for its solutions in hand-dishwashing
- Won the Product Development and Management Association (PDMA) award for Outstanding Corporate Innovator
- Was a winner in Unilever's Partner to Win Awards 2014 for its innovative liquid laundry solutions
- Was ranked the fifth most innovative company in Europe and the 38th worldwide by Forbes
- Won the Society of Dyers and Colorists (SDC) innovation award for its patented Combi process for textile production

# PERFORMANCE

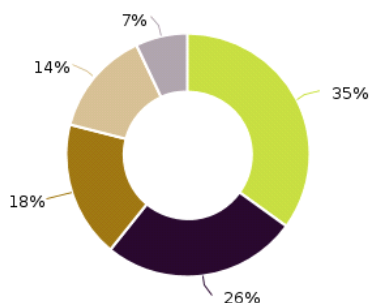


# 2014 performance

Sales growth in 2014 was in line with expectations. Organically, sales grew by 7% (6% DKK, 7% LCY) compared with 2013. EBIT grew by 17% in 2014, and the EBIT margin was 27.2%, up 2.5 percentage points on 2013. All resource efficiency and organizational targets were met in 2014. In particular, the improvements in the occupational accident frequency and in water and energy efficiency mark a successful year on the sustainability side.

The following section presents realized financial, environmental, social and governance performance for the year. Data and key figures can be found under Accounts & Data, while an overview of reporting in accordance with the Global Reporting Initiative (GRI) can be found under Supplementary. Our Communication on Progress with respect to the UN Global Compact can also be found under Supplementary.

## SALES BY INDUSTRY

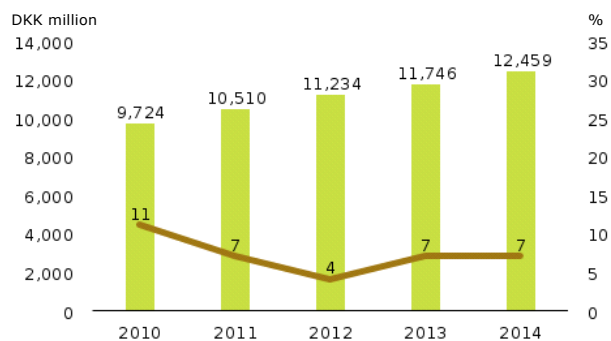


## 2014 financial performance

### SALES BY INDUSTRY

Total sales in 2014 were DKK 12,459 million, up 6% compared with 2013. Exchange rates had a negative impact on sales, and sales in LCY were up by 7%. Organically, sales also grew by 7%. Sales to the Bioenergy industry were the most significant contributor to sales growth.

### SALES AND SALES GROWTH



## Key performance

	2014	2013
Sales, DKKm	12,459	11,746
Sales growth, DKK	6%	5%
Sales growth, LCY	7%	8%
Sales growth, organic	7%	7%
Gross margin	57.4%	57.2%
EBIT, DKKm	3,384	2,901
EBIT growth	17%	6%
EBIT margin	27.2%	24.7%
Net profit, DKKm	2,525	2,201
Net profit growth	15%	9%
Net investments excl. acquisitions and The BioAg Alliance impact, DKKm	715	783
Free cash flow before acquisitions, DKKm	4,229	1,816
ROIC incl. goodwill	23.1%	20.0%
Avg. USD/DKK	562	562
EPS, DKK	8.10	7.01
EPS (diluted), DKK	8.02	6.93

Novozymes estimates that the global industrial enzyme market grew by 5% in DKK to a total of DKK 23 billion in 2014. Novozymes estimates its global market share at 48%.

### Household Care

Sales to the Household Care industry increased by 3% in DKK and by 4% in LCY compared with 2013. Growth was driven by increased enzyme penetration across detergent tiers to enhance wash performance, enable low-temperature washing and replace traditional chemicals in detergent formulations. Sales in Europe and emerging markets were the most significant drivers of global growth in 2014.

### Food & Beverages

Sales to the Food & Beverages industries increased by 3% in DKK and by 4% in LCY compared with 2013. Sales to the baking industry and for the production of healthy foods were the most significant growth contributors. Sales to the starch industry declined due to the challenging Chinese market. Sales for freshkeeping applications in baking continued to be relatively stable throughout 2014.

### Bioenergy

Sales to the Bioenergy industry were up by 19% in both DKK and LCY compared with 2013. U.S. ethanol production in 2014 is estimated to have grown by ~8% compared with 2013.

The strong growth in Bioenergy sales was mainly driven by Novozymes' yield-discovery solutions Avantec®, Spirizyme® Achieve and Olexa®. Penetration of all three solutions increased throughout 2014, albeit at a slower level as the year progressed due to higher comparable sales and penetration levels in 2013. More than one-third of U.S. fuel ethanol is produced using one or more of these solutions.

"Sales to the Bioenergy industry were up by 19% in both DKK and LCY compared with 2013. U.S. ethanol production in 2014 is estimated to have grown by ~8% compared with 2013."

### Agriculture & Feed

Sales to the Agriculture & Feed industries increased by 4% in DKK and by 6% in LCY compared with 2013. Organically, sales grew by 7%. Enzyme sales to the animal feed industry posted strong growth across markets and product categories, notably in the Americas.

Sales to the BioAg industry were flat organically compared with 2013.

Following the change in revenue recognition in BioAg after the completion of The BioAg Alliance, Novozymes recognized DKK 208 million of deferred income as revenue in 2014.

### Technical & Pharma

Sales to the Technical & Pharma industries increased by 10% in DKK and by 9% in LCY compared with 2013. Sales of enzyme solutions and albumin for the manufacture and formulation of pharmaceutical ingredients were the main drivers of sales growth. Sales to the textile, leather and wastewater industries increased moderately.

### SALES BY GEOGRAPHY

Sales in Europe, the Middle East & Africa (Europe/MEA) grew by 7% in DKK and by 8% in LCY compared with 2013. All sales areas contributed to sales growth. Sales to the Household Care and Food & Beverages industries were the strongest growth drivers.

Sales in North America increased by 11% in DKK and in LCY compared with 2013. Sales to the Bioenergy and Agriculture & Feed industries were the main growth drivers, whereas sales to the Food & Beverages industries declined in 2014.

Sales in Asia Pacific were down by 3% in DKK and by 2% in LCY compared with 2013. Sales in Asia Pacific were especially challenged in China. From a market perspective, sales declined as a result of lower Food & Beverages and Household Care sales.

Sales in Latin America were up by 2% in DKK and by 7% in LCY compared with 2013. Sales to the Bioenergy and Household Care industries were the main growth drivers, whereas sales to the Agriculture & Feed industries were lower for the full year following a challenging fourth quarter for BioAg in Argentina in particular.

## Key performance

	2014	2013
<b>SOCIETY</b>		
Advancing Sustainable Energy for All (SE4All)	HIO*	HII**
<b>CUSTOMERS</b>		
Estimated reductions in CO <sub>2</sub> emissions through our customers' application of our products, million tons	60	52
<b>NOVOZYMES</b>		
Water efficiency improvement***	37%	33%
Energy efficiency improvement***	43%	40%
CO <sub>2</sub> efficiency improvement***	56%	54%
Number of employees on Dec. 31	6,454	6,236
"Satisfaction and motivation" score in employee survey	77	77
"Opportunities for professional and personal development" score in employee survey	75	74
Frequency of occupational accidents (per million working hours)	1.7	2.4
New leaders appointed who are women	34%	26%
New leaders appointed of a nationality other than Danish	71%	44%
Employee absence	1.8%	1.8%
Employee turnover	8.1%	7.5%
RobecoSAM class rating****	Bronze	Gold
<b>SUPPLIERS</b>		
Supplier adherence to supplier program	99%	97%

\* The Sustainable Bioenergy High Impact Opportunity.

\*\* The Sustainable Biofuel High Impact Initiative.

\*\*\* Compared with 2005.

\*\*\*\* In 2014, Novozymes changed peer group to the more competitive "Chemicals Industry" due to RobecoSAM's new industry classifications.



## COSTS, OTHER OPERATING INCOME AND EBIT

### Total costs

Total costs excluding net financials and tax were DKK 9,414 million, an increase of 6% compared with 2013. The increase in total costs was due in equal part to higher cost of goods sold and higher operating costs.

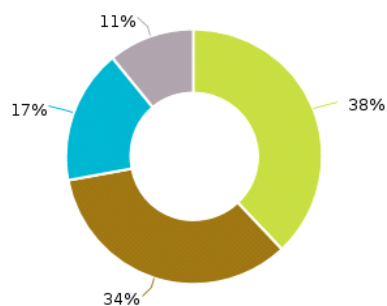
Cost of goods sold increased by 6% compared with 2013 as a result of a higher activity level, write-downs, and higher depreciation and amortization. Raw material costs were slightly lower compared with 2013.

### Gross profit and margin

Gross profit increased by 6%, and the gross margin was 57.4%, an increase of 0.2 percentage point from 57.2% in 2013. The higher gross margin came as a result of continued productivity improvements, and favorable developments in product mix and raw material costs. These factors offset a negative impact from The BioAg Alliance and other one-time items.

## SALES BY GEOGRAPHY

■ Europe/MEA  
■ North America  
■ Asia Pacific  
■ Latin America



### Operating costs

Operating costs increased by 7% to DKK 4,104 million. The ratio of operating costs to sales was 33%, on par with 2013.

- Sales and distribution costs decreased by 5%, representing 11% of sales
- R&D costs increased by 20%, representing 15% of sales
- Administrative costs increased by 4%, representing 7% of sales

Sales and distribution costs decreased as the absence of sales and marketing costs in BioAg on completion of The BioAg Alliance agreement more than offset higher costs from the higher activity level.

The increase in R&D costs was driven primarily by the higher activity level, especially within BioAg in the second half of 2014, and write-downs on tangible R&D assets.

### Other operating income

Other operating income was DKK 339 million, compared with DKK 13 million in 2013. DKK 237 million of other operating income came from the one-time realized gain from the transfer of predominantly intangible assets to Monsanto. The remaining DKK 102 million was unrelated to The BioAg Alliance and represents a mix of government grants, reversals of earn-outs, milestone payments and other items across the growth platforms.

### Depreciation and amortization

Depreciation and amortization increased to DKK 1,016 million in 2014, up from DKK 738 million in 2013. DKK 150 million of the increase was a result of write-downs, that were distributed evenly between cost of goods sold and R&D costs.

The remaining increase in depreciation and amortization was driven by a higher level of depreciation and amortization following recent years' higher investment levels, acquisitions and The BioAg Alliance.

### EBIT

EBIT grew by 17% to DKK 3,384 million, up from DKK 2,901 million in 2013. EBIT increased as a result of the one-time realized gain from The BioAg Alliance agreement, higher sales and other operating income, continued productivity improvements, favorable product mix changes, and a

"EBIT grew by 17% to DKK 3,384 million, up from DKK 2,901 million in 2013."

favorable development in raw material costs. These elements more than offset the higher operating costs, write-downs, higher depreciation and amortization, and a slight headwind from currencies compared with 2013.

### EBIT margin

The EBIT margin was 27.2%, an increase of 2.5 percentage points from 24.7% in 2013. Around 1 percentage point of the EBIT margin increase was a result of the net one-time positive impact from The BioAg Alliance and other one-time items. The remaining ~1.5 percentage points were a result of improved underlying profitability.

Disregarding the one-time positive impact from The BioAg Alliance and other one-time items, the underlying EBIT margin increased to just above 26%. Disregarding the business area of BioAg altogether, the EBIT margin would still have improved as a result of the underlying improvement in gross margin from continued productivity improvements, favorable product mix changes, a favorable development in raw material costs and higher other operating income.

## NET FINANCIALS AND NET PROFIT

### Net financial costs

Net financial costs were DKK 105 million, down from DKK 142 million in 2013. The decrease was mainly the result of a DKK 5 million gain on net currency hedging/revaluation, compared with a loss of DKK 22 million in 2013, and a DKK 12 million decrease in net interest costs.

### Profit before tax

Profit before tax was DKK 3,279 million, an increase of 19% compared with 2013.

### Effective tax rate

The effective tax rate in 2014 was 23.0%, against 20.2% in 2013. The effective tax rate increased due to a lower benefit from the U.S. Advanced Energy Manufacturing tax credit relating to the plant in Nebraska and the absence of the deferred tax effect realized in 2013 following the enactment of new lower corporate tax rates in Denmark.

### Net profit

Net profit grew by 15% to DKK 2,525 million in 2014, up from DKK 2,201 million in 2013. EBIT growth drove net profit higher, whereas the increase in tax of around DKK 200 million had a negative impact on net profit.

## CASH FLOW AND BALANCE SHEET

### Cash flow

Cash flow from operating activities was DKK 4,525 million, up from DKK 2,599 million in 2013. The higher operating cash flow was mainly a result of The BioAg Alliance agreement, a favorable development in net working capital and higher net profit. The deferred income received through The BioAg Alliance is recognized as a liability and impacts operating cash flow as a positive change in net working capital.

Net investments excluding acquisitions and The BioAg Alliance agreement were DKK 715 million, down from DKK 783 million in 2013.

Free cash flow before acquisitions was DKK 4,229 million, compared with DKK 1,816 million in 2013. Free cash flow was positively affected by the increase in operating cash flow and the transfer of assets to Monsanto. All in all, the net impact of The BioAg Alliance agreement was DKK ~1,700 million.

### Balance sheet

At December 31, 2014, shareholders' equity was DKK 11,280 million, up 2% from DKK 11,066 million at year-end 2013. Shareholders' equity increased moderately, as dividend payments and purchases of treasury stock almost offset comprehensive income.

Shareholders' equity represented 61% of the balance sheet total, down from 67% at year-end 2013.

Novozymes has a net positive cash holding of DKK 716 million at year-end 2014, compared with net interest-bearing debt of DKK 805 million at December 31, 2013. The BioAg Alliance agreement was the main driver in Novozymes becoming net cash positive. Cash flow from operating activities and the transfer of assets to Monsanto more than offset dividend payouts of DKK 788 million, stock buybacks of DKK 2,000 million and net investments, excluding The BioAg Alliance, of DKK 715 million.

Net interest-bearing debt-to-EBITDA was a negative 0.2 at December 31, 2014.

Return on invested capital (ROIC), including goodwill, was 23.1%, up 3.1 percentage points from 20.0% in 2013. The BioAg Alliance was the main driver of the increase in ROIC due to its positive impact on net profit and lower average invested capital.

### Treasury stock

At December 31, 2014, the holding of treasury stock was 11.5 million B shares, equivalent to 3.6% of the common stock. In 2014, Novozymes bought back 7.7 million B shares with a transaction value of DKK 2,000 million under the stock buyback program initiated on February 17, 2014 and completed on December 10, 2014.

"The extraordinary increase in ROIC was a result of higher net profit and lower average invested capital."



# The BioAg Alliance: “You hope and dream about these kinds of spectacular yield gains”

**Novozymes formed The BioAg Alliance with Monsanto in December 2013 to research, develop and commercialize sustainable biological solutions that use naturally derived microbial technology to significantly increase the productivity of the world’s crops. The Alliance combines Novozymes’ talent for discovering, developing and producing microbes with Monsanto’s discovery capabilities, field testing and market reach.**

Dr. Robb Fraley, Monsanto’s Executive Vice President and Chief Technology Officer, explains what The Alliance means for the future of bioagriculture:

## Why is The BioAg Alliance betting on the power of microbes?

The understanding of soil, and the impact of different soil compositions, is increasing as we bring in new data science

and knowledge tools. One of the most important and least understood areas is the soil microbiome: the living organisms in the soil and how they can be used to enhance plant growth and protect plants from pests. It’s a new area with great potential to further enhance crop yields.

## How far has The Alliance come in meeting its initial goals?

We are really pleased with the progress that we are seeing in field trials. This is now the second consecutive year that we have seen yield increases in both corn and soybeans. In our 2014 testing, the average yield increases of the top 10 microbial strains tested highlighted a four bushels per acre advantage for corn and two bushels per acre advantage for soybeans. The results are positive and very meaningful from a grower’s productivity perspective and from a sustainability perspective. From a microbial perspective, you hope and dream about these kinds of spectacular yield gains.

## What are the opportunities and challenges in the global bioagriculture market?

On the opportunity side, one of the important tools in enhancing the performance of microbes is going to come from precision agriculture research. Through our technology and research, we will understand why some microbes perform better in one field, or part of a field, than in another – so we can look at combinations of microbes and optimize crop performance at the level of individual fields. The Alliance





is a very effective and strong player but we need to appreciate and be respectful that the global market for agriculture will be a competitive one.

#### How tough is it to bring The Alliance's bioagriculture solutions to farmers in markets as diverse as the Americas and Asia?

There is tremendous opportunity for The Alliance to enhance agricultural production in parts of the world where it's really important and needed. We've seen in our seed business that the benefits to smallholders are even greater as they often don't have other technology tools and equipment to which a larger-scale farmer may have access in a farm setting in a developed country. And that places even more of a premium on having better seed and seed performance. The challenge is that each of these markets has its own requirements for product testing and regulatory approvals, and the logistics and delivery systems are very different.

#### One year into The Alliance, how has it been working with Novozymes?

The cooperation and problem-solving have been great, despite us being two companies on either side of the Atlantic with different backgrounds and perspectives. What I really enjoy is the common sense of strategy and purpose. The emphasis that the team puts on science and innovation is really exciting to be a part of.

## Novozymes: The Alliance takes BioAg activities to a new level

**Novozymes entered the bioagriculture market in the mid-2000s by researching and developing microorganisms and making its first acquisition in this segment.**

As Novozymes' talent and experience within bioagriculture grew, the company acquired a further five companies in 2005-2013. Novozymes has also built up a sizable market share and become a market leader in inoculants, and is one of the premium platforms within BioAg. These activities moved into high gear when Novozymes and Monsanto forged The BioAg Alliance in 2014.

"The partners understand each other well because we both believe in the strength of our science and technology," says Thomas Videbæk, Novozymes' Executive Vice President for Business Development. "We've made a fast start and are already beginning to develop new products and formulations."

#### **MORE SOLUTIONS FOR FARMERS GLOBALLY**

In 2014, the two companies conducted research across 170,000 field trial plots in 70 locations across the U.S. Results from the first full year of field trials show that, of the top 10 microbial strains tested in corn and soybeans, average yield increases were four bushels per acre for corn and two bushels

per acre for soy. Furthermore, 50 microbes were selected to advance to the next stage of the pipeline. These results are positive given the strong backdrop of overall record crop yields in 2014.

At the same time, The Alliance continues to learn much about how microbes are affected by varying soil and climatic conditions, something that will help bring microbial products to small- and large-scale farmers worldwide.

# Environmental performance

## CLIMATE CHANGE

Many of Novozymes' biosolutions offer improved environmental performance for customers compared with conventional technologies. Not only does this result in higher-quality products at lower costs, it also enables our customers to reduce their CO<sub>2</sub> emissions. Lower CO<sub>2</sub> emissions help reduce the stress on our global climate and support the mitigation of climate change.

For 10 years, Novozymes has conducted peer-reviewed Life Cycle Assessment (LCA) studies to document the environmental impact of its biosolutions, and we develop specific claims together with our customers. We specifically advise our customers and partners on ways to reduce their CO<sub>2</sub> emissions and leverage the positive impact on climate change that our products enable.

We estimate that our customers avoided 60 million tons of CO<sub>2</sub> emissions in 2014 by applying our products, the equivalent of taking approximately 25 million cars off the road. This is an increase of 8 million tons compared with 2013, and was driven primarily by increased sales and performance of our solutions for biofuels, household care and textiles.

In 2014, we conducted a comprehensive study (including an LCA and a consumer survey) to better understand and document how Novozymes' patented biopolishing solutions can improve the quality of cotton clothing and extend its lifetime. By using our biopolishing solutions, customers strengthen their brand and gain premium-pricing opportunities, fewer garments go to waste, and resource efficiency increases throughout the garment production chain. The study documents that our biopolishing solutions could potentially be applied in 40% of the world's annual cotton production, and result in savings of approximately 24 million tons of CO<sub>2</sub> emissions and 27 billion m<sup>3</sup> of water. The study will be published in 2015.

## OPERATIONAL ECO-EFFICIENCY

With growing constraints on global resources, Novozymes is dedicated to optimizing its operations year on year, so as to reduce the consumption of natural resources and mitigate

the negative environmental impact of its production processes.

### Energy efficiency

In 2014, our energy efficiency improved by 43% compared with 2005, surpassing our target of 42%. This improvement was driven by continuous process optimizations and the implementation of 56 energy-saving projects at our global production sites, which are also leading to a reduction in energy costs.

### CO<sub>2</sub> efficiency

Our improvement in CO<sub>2</sub> efficiency continues to surpass our target of 50% compared with a 2005 baseline. In 2014, we improved our CO<sub>2</sub> efficiency by 56%.

Over the past five years, Novozymes has improved its CO<sub>2</sub> efficiency by 18 percentage points. This achievement has largely been driven by two levers: improving our energy efficiency and increasing our sourcing of renewable energy. In 2014, Novozymes received 23% of its total energy supply from renewable sources – most notably the Horns Rev II wind farm in Denmark.

We continued to work on optimizing our biogas reactor in Kalundborg, Denmark, to bring it up to full capacity. The

"We estimate that our customers avoided 60 million tons of CO<sub>2</sub> emissions in 2014 by applying our products."

biogas reactor utilizes wastewater from both Novo Nordisk's and Novozymes' production plants to generate energy. When operating at full capacity, the reactor will cut costs and reduce CO<sub>2</sub> emissions by approximately 10,000 tons annually for each of the partners.

### Water efficiency

In 2014, our water efficiency improved by 37% compared with 2005, surpassing our target by 3 percentage points. We established local task forces to propose improvements for water management in all our production sites. In North America, our engineers successfully developed a new way to map and reduce water usage.

## WASTE AND BY-PRODUCTS

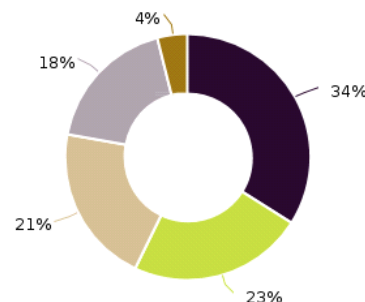
The waste and by-products from Novozymes' production consist of nonhazardous solid waste, hazardous waste and biomass, which is a by-product of our manufacturing. We seek to reduce the amount of waste and by-products that we send for landfill or incineration. By increasing our rate of reuse or recycling, we can reduce the costs associated with waste treatment as well as minimize our environmental footprint.

For solid waste, the rate of recovery was 45% in 2014, compared to 39% in 2013. We have made significant progress by focusing on recycling at our production sites. Additionally, we have implemented several projects to reduce the amount of solid waste sent for landfill or incineration by our customers, including creating optimal packaging solutions, shifting to larger package sizes and reducing the amount of packaging material per volume of product.

For biomass, the rate of recovery was 98% in 2014. This is because we are able to convert and sell our biomass to farmers as NovoGro®, an organic agricultural fertilizer.

## NOVOZYMES' ENERGY BY SOURCE

■ Electricity (conventional) ■ Electricity from renewable sources  
■ Steam ■ Fuels  
■ Heat



## ENVIRONMENTAL COMPLIANCE AND COMPLAINTS

Novozymes aims to comply with all regulations and strives to minimize the number of complaints from its customers and neighbors. In 2014, 25 breaches of regulatory limits were registered worldwide, and there were no significant spills. This is a significant improvement on the 36 breaches recorded in 2013, driven largely by our ability to resolve the issues related to wastewater treatment at our production sites in Denmark. The majority of breaches have been resolved, and we have agreed on action plans with the environmental authorities to address all pending issues.

We received 11 complaints from neighbors, the same number as in 2013. The majority of complaints were made by private residents and related to odor and noise disturbance.

Novozymes has a pending case in the U.S., after elevated nitrate levels were found in the groundwater around the site in Franklinton, North Carolina, a number of years ago. Subsequent measurements were submitted to the authorities for review. In 2014, our comprehensive site assessment was accepted by the North Carolina Department of Environment and Natural Resources. As a result, Novozymes will develop and submit an action plan for final resolution.

## Social performance

### EMPLOYEE SATISFACTION AND DEVELOPMENT

Employee satisfaction and motivation are pivotal to our success. We follow up on our progress on targets related to the well-being, rights and development of our employees.

Novozymes' annual People's Opinion survey is central to monitoring employee satisfaction and motivation. The 2014 response rate of 94% is testament to Novozymes' strong feedback culture. In 2014, we met both our targets in relation to workplace development. Employee satisfaction scored 77 out of 100 in the survey, once again surpassing our target of 75. Moreover, with a score of 75 for opportunities for professional and personal development, we reached our target of 75 and improved on our 2013 score by one point. We believe that a focus on people development throughout the organization, supported and driven by management, was

"In 2014, our energy efficiency improved by 43% compared with 2005, surpassing our target of 42%."

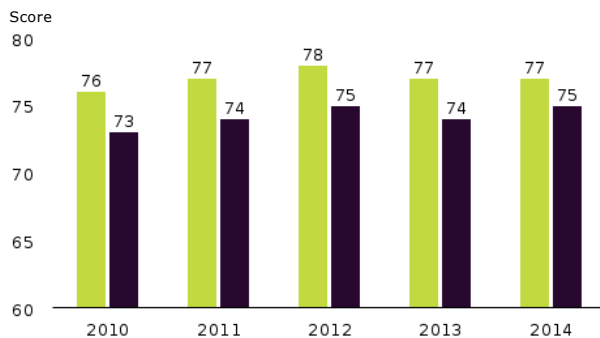
a key element in the improvement in employee satisfaction and motivation.

Furthermore, for Novozymes to grow and stay competitive, it is important that employees continue to develop their competencies so that they are ready to address the business challenges ahead. In 2014, we implemented the People Development Excellence initiative to provide employees with opportunities for business-driven and relevant technical and personal development. Central to this initiative is the People Development Powerhouse, which addresses leadership behavior, learning culture, systems and processes through reinforcement of key skills and consistent follow-up.

In 2014, employee turnover was 8.1%, meeting the target of keeping the rate between 4% and 9%. This target is a key measure of Novozymes' aim of retaining skilled employees and attracting new talent.

### EMPLOYEE SATISFACTION AND DEVELOPMENT OVERVIEW

■ Employee satisfaction score  
■ Development opportunities score



## DIVERSITY AND EQUAL OPPORTUNITIES

Novozymes is committed to developing a diverse workforce, believing that diversity fosters innovation and that a diverse working culture is a vital ingredient for a successful global company. Novozymes has set out the ideal competency profile of the Board of Directors, striving to achieve heterogeneity of experience, background, gender and origin. More information is available under Corporate governance.

Our proactive position to avoid discrimination and promote equal opportunities is reflected in our targets for new leaders in relation to nationality and gender. We have made important progress with respect to these diversity targets. With 34% of new leaders being female in 2014, we surpassed our target of ensuring that at least 30% of new leaders appointed were women. With 71% of new leaders in 2014 being of a nationality other than Danish, we also surpassed our target of at least 55% of new leaders appointed being of a nationality other than Danish.

Our success in meeting the diversity targets can be attributed to our consistent focus on developing regional leadership talent and robust succession planning, with specific talent acceleration programs currently running in India and China. Since 2013, the Executive Leadership Team has been visiting each of the regions every year, working closely with regional management on issues related to talent attraction and development of leadership potential. Reinforcement of the regional talent pipelines increases diversity, without compromising our principle of merit-based employment and promotion.

## OCCUPATIONAL HEALTH & SAFETY

A safe and healthy workplace continues to be a priority for Novozymes. In order to achieve an injury- and incident-free working environment, Novozymes is determined to improve safety for its employees on a continuous basis.

A new safety initiative, Lessons Learned Sharing (LLS), was rolled out in 2014. LLS is a platform for sharing health & safety-related experiences and ideas with colleagues across sites and functions, and aims to improve employee safety by avoiding recurrence of incidents and near-misses at other sites or functions. LLS was created as a result of Novozymes'

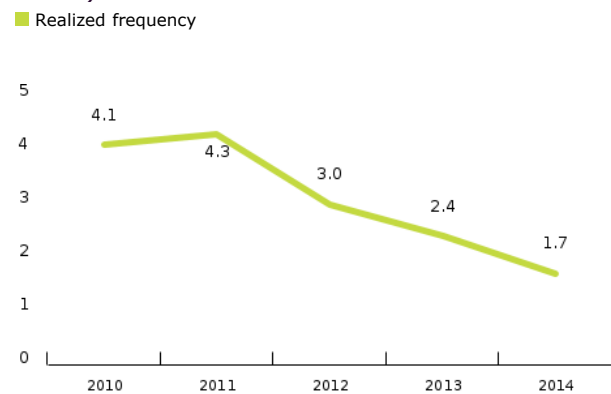
global safety assessment in 2013 and was built as an add-on to the existing "Dare to Care" and "Stop and Think" safety campaigns, which remind employees to take care of themselves and each other in potentially risky situations.

Due to the strong focus on employee safety, the frequency of occupational accidents decreased by 29% from 2013, with a record low of 1.7 per million working hours in 2014. The target of keeping the frequency of occupational accidents below 3.0 per million working hours was thereby met.

Novozymes' health initiatives are designed to fit local needs and to improve employees' overall well-being. Healthy employees are a prerequisite for a productive and sustainable organization, as low absence improves work flows, saves costs, and limits unnecessary stress and extra work for colleagues. With an absence rate of 1.8% in 2014, the target of less than 3% was met. We believe that the many local health initiatives that were rolled out in 2014 contributed to the decrease in the absence rate.

See examples of Novozymes' local health initiatives in the UNGC Communication on Progress on labor rights available under Supplementary.

FREQUENCY OF ACCIDENTS (per million working hours)



## COMPLIANCE WITH HUMAN RIGHTS AND LABOR STANDARDS

In 2014, Novozymes remained committed to integrating the UN Guiding Principles on Business and Human Rights into its business practices, and to improving awareness and monitoring in all its regions. Novozymes' minimum standards cover freedom of association, collective bargaining, nondiscrimination, working hours, disciplinary measures, child labor and forced labor. The annual human rights due diligence process was further developed to increase awareness and to ensure compliance with Novozymes' minimum standards on labor and human rights in all regions. For more information on human rights and labor standards, see the UNGC Communication on Progress and GRI indicators under Supplementary.

## SUSTAINABLE ENERGY

For a sustainable future, the world needs sustainable access to clean energy, which will promote economic growth, increase social equity and maintain a healthy environment. Sustainable Energy for All (SE4All) is a World Bank- and U.N.-led initiative that seeks to achieve this vision and transform the global energy sector. SE4All aims to ensure universal access to modern energy services, double the rate of improvement in energy efficiency and double the share of renewables in the global energy mix by 2030.

At Novozymes, we recognize the opportunity to have a significant impact on society and drive transformational change in the energy sector by partnering with other businesses, international institutions and civil society. Since 2013, Novozymes has championed sustainable bioenergy within the SE4All initiative and recruited partners and like-minded stakeholders.

In 2014, Novozymes and its partners established the Sustainable Bioenergy High Impact Opportunity (HIO), a voluntary multistakeholder partnership that seeks to facilitate the development and deployment of sustainable bioenergy solutions in key sectors and industries where the environmental and socioeconomic benefits are greatest.

We successfully recruited nine other founding partners for the HIO: Accenture Development Partnerships, Bloomberg New Energy Finance, Carbon War Room, International Energy

Agency, International Union for the Conservation of Nature (IUCN), KLM Royal Dutch Airlines, Roundtable on Sustainable Biomaterials, UN Food and Agriculture Organization (FAO) and UN Foundation. These founding partners serve as the HIO Steering Committee, which is co-chaired by the FAO and IUCN and held its first meeting on the margins of the first annual SE4All Forum in New York in June 2014.

In addition to serving on the HIO Steering Committee, Novozymes will sponsor the activities of the HIO Secretariat until the end of 2015. At the first annual SE4All Forum, Novozymes organized and moderated a high-level expert panel discussion on removing the barriers to deploying sustainable bioenergy. Subsequently, the HIO Secretariat was invited to organize and lead similar panel discussions at various international and regional energy summits and events.

Looking ahead, the Sustainable Bioenergy HIO will be formally and publicly launched at the second annual SE4All Summit to be held in New York in May 2015, as the first new public-private partnership to be created under the auspices of the SE4All initiative. During the summit, the HIO will coordinate and lead opportunities for practitioners to discuss the specific barriers to scaling up bioenergy production and use, the need for better policies, issues related to bioenergy finance, and the need to ensure sustainability of feedstock production.

One of our key allies in our efforts to promote sustainable bioenergy, both within SE4All and beyond, is the Inter-American Development Bank (IDB). In early 2014, Novozymes signed a three-year agreement with IDB to support the development of advanced, sustainable bioenergy solutions in Latin America and the Caribbean in areas including clean

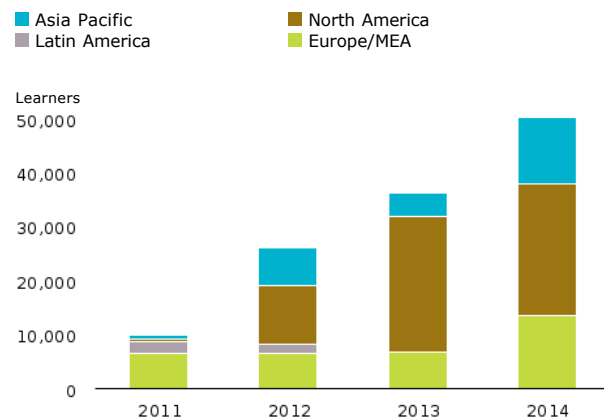
"Due to the strong focus on employee safety, the frequency of occupational accidents decreased by 29% from 2013, with a record low of 1.7 per million working hours in 2014."

cooking, waste to energy and advanced biofuels for transportation. Already in October 2014, we co-hosted our first workshop with IDB and the Mexican government to discuss the development of biofuels for Mexico's aviation sector.

### CORPORATE CITIZENSHIP EFFORTS

In 2014, we continued to engage with local communities in the regions where we operate, focusing on our key competencies in science and environmental responsibility. Through our corporate citizenship program Citizymes, we reached more than 51,000 learners, compared with approximately 36,000 in 2013. This gives a total of approximately 123,000 learners reached since the establishment of the program in 2011. In 2014, we achieved the greatest outreach through our innovation competitions in China, the annual biotechnology public-speaking contest in India, our partnership with the Canadian organization Agriculture in the Classroom and our collaboration with a student organization at Copenhagen University.

### CITIZYMES: LEARNERS REACHED BY GEOGRAPHY



## Governance performance

### SUSTAINABILITY LEADERSHIP

As a global company, Novozymes recognizes the importance of transparency, accountability and responsibility in its business practices. We continue to engage with our stakeholders, and provide sustainability information through a variety of platforms and engagement channels.

#### Third-party recognitions

Novozymes is included in a host of indices that benchmark its performance against its peers. Being recognized by external stakeholders for sustainability leadership is a great honor for Novozymes. Evaluations and recognitions by external stakeholders are a great source of learning, giving credibility to our work, and we hope to inspire other companies to embrace sustainability as well.

#### Dow Jones Sustainability Indices

Novozymes was awarded a Bronze Class rating by RobecoSAM in The Sustainability Yearbook 2015 in a new and more competitive sector – the Chemicals Industry. Novozymes ranked in the top 3 percentile of sustainability leaders in its peer group with top scores for several environmental criteria and was best in class for the social dimension. Going forward, Novozymes will continue to work on improving its sustainability practices through the learning gained from best practices in the Chemicals Industry peer group and from the interaction with RobecoSAM.

#### CDP

In 2014, Novozymes was included in the CDP Climate Performance Leadership Index for the first time as one of 187 listed companies awarded an A grade by CDP (formerly the Carbon Disclosure Project). The A grade was awarded to Novozymes for its climate performance for demonstrating a superior approach to climate change mitigation. Furthermore, Novozymes achieved the best possible disclosure score of 100 and earned a top position in the Nordic Climate Disclosure Leadership Index. Novozymes has been part of this index since 2010.

For more sustainability recognitions, please visit [www.novozymes.com](http://www.novozymes.com).

### Global and regional engagements

In 2014, Novozymes successfully engaged in a series of advocacy activities, partnerships and collective actions with various stakeholders.

As a UN Global Compact LEAD member, Novozymes is strongly engaged in a number of U.N.-led initiatives, as well as in local UNGC networks in Brazil, China, Denmark, India and the U.S. In 2014, we strengthened our engagement in the UN Caring for Climate initiative. At the UN Climate Summit 2014, Novozymes was recognized as a Carbon Pricing Champion for making a strong commitment to putting a price on carbon. At the Caring for Climate Business Forum at COP20 in Lima, we engaged with experts on adopting a science-based approach to setting carbon emission reduction targets that limit global warming to below 2°C.

Novozymes also expanded its engagement in sustainable bioenergy beyond the SE4All initiative. In recent years, many questions have been asked about the interaction between food security and biofuels. To contribute to a sound and scientific debate on this complex topic, we collaborated with the International Food Policy Research Institute (IFPRI) to convene an independent, international Scientific Committee and organize a high-level expert workshop in November 2014. Participants generally agreed that biofuels present important opportunities to positively impact food security, climate stabilization and economic development, while also presenting risks to these outcomes if managed poorly.

In Europe, Novozymes played a key role in developing the Biobased Industries Joint Undertaking (BBI JU), launched by the European Commissioner for Research, Innovation and Science. Through this partnership, €3.7 billion will be injected into the European economy over the next 10 years to bridge the gap from R&D to the market in biobased industries.

Novozymes continued its collaboration with The Sustainability Consortium in 2014. Its focus has evolved from technical documentation of product-specific environmental impacts to making these data available for supplier scorecard processes run by large retailers. In the U.S. and Europe, we will support our customers from the consumer goods sector in improving their performance on the supplier scorecards. In China, we are also working specifically to deliver training programs for textile manufacturers.



### Fulfilling sustainability reporting requirements

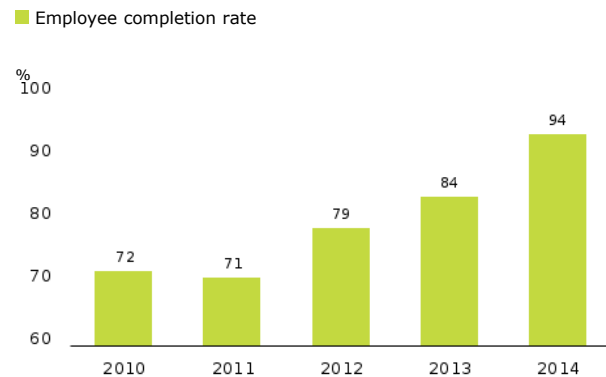
Under section 99a of the Danish Financial Statements Act, it is mandatory for large companies to report on corporate responsibility. As a member of the UN Global Compact, Novozymes prepares a Communication on Progress, which is available under Supplementary. Together with the integrated financial, environmental and social reporting, the Communication on Progress meets both the requirements for reporting on corporate responsibility and the UN Global Compact's advanced reporting criteria.

### BUSINESS INTEGRITY

To affirm our commitment to the principles of business integrity, and to provide our employees with effective guidance applicable to their day-to-day work, we further strengthened awareness and training efforts in 2014.

We delivered a new global e-learning training module on business integrity principles for employees, based on differentiated case studies and tailored to specific business functions. We achieved a completion rate of 94%, compared with 84% in 2013. We also conducted several regional seminars on anticorruption and business ethics at our major sites, in cooperation with the regional finance departments.

### BUSINESS INTEGRITY TRAINING FOR EMPLOYEES



### Grievance mechanisms

Novozyymes' global and regional Ombudspersons, available to our employees, and the Whistleblower Hotline, available to both employees and external stakeholders, remain official grievance channels. The new and updated edition of the booklet *Bribery – No thanks!*, available in five languages, was distributed to employees worldwide. Questions related to business integrity were also included in Novozymes' People's Opinion survey, to help identify issues and areas that demand better guidance and support.

### Antitrust

In 2014, we launched a new, dedicated antitrust e-learning program for employees. The purpose of this training is to maintain and reinforce a strong compliance culture in the company. We will continue to provide guidance across the relevant business functions to mitigate the potential risk of exposure to anticompetitive practices.

The reporting criterion for violations of competition law is 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 antitrust regulations. There were no violations of competition law in 2014.

### Fraud cases

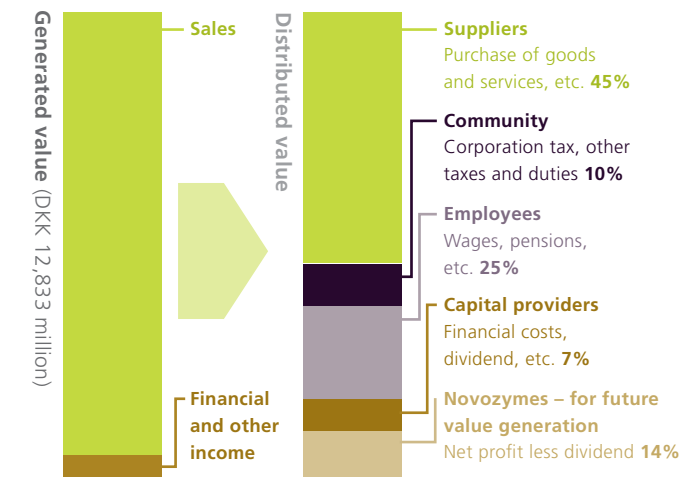
Novozyymes has increased its internal awareness of risks of fraud, including corruption and intellectual property infringement, and conducts vigilant monitoring. As part of the internal control system, all cases of fraud and concerns raised, either through Novozymes' Whistleblower Hotline or directly by internal or external personnel, are reported to the Audit Committee. All allegations of fraud are investigated, appropriately dealt with and then closed. Substantiated fraud will lead to proportionate disciplinary sanctions for the parties involved and is likely to result in a police report being filed, although this will be evaluated on a case-by-case basis. Two cases of substantiated fraud were reported in 2014, with both leading to the dismissal of employees and one being reported to the police.

### SOCIOECONOMIC IMPACT THROUGH TOTAL TAX CONTRIBUTION

In 2014, Novozymes' generated value amounted to DKK 12,833 million. 86% of this amount was returned to society through the purchase of goods and services from suppliers, wages and pensions to our 6,454 employees, various types of taxes and duties to the community, and dividend and financial costs to our capital providers. The remaining 14% was reinvested in Novozymes to develop the company, and ensure competitiveness and future value generation for distribution among key stakeholders.

In 2014, taxes incurred as corporate income taxes, other taxes and duties came to approximately DKK 1,275 million, equal to 10% returned to the community (see graph: Distribution of generated value). In addition, Novozymes collected and withheld tax contributions on dividend and wages totaling approximately DKK 1,150 million. Novozymes' total tax contribution therefore amounted to approximately DKK 2,425 million, compared with approximately DKK 2,150 million in 2013. Novozymes' overall tax strategy and transfer-pricing policy support a positive tax contribution to society and governments in the countries in which Novozymes operates.

### DISTRIBUTION OF GENERATED VALUE



## VALUE CHAIN

### Customers

In 2014, Novozymes was recognized by several key customers for delivering innovative and sustainable solutions. Unilever presented us with a Partner to Win Award 2014 for our innovative liquid laundry solutions. Furthermore, we received Henkel's Sustainability Award: Laundry & Home Care 2013 for our solutions in hand-dishwashing. In addition, Novozymes India won two distinguished awards in 2014: Procter & Gamble's Special Recognition Award for proactive customer support and on-time deliveries, and recognition by Hindustan Unilever as its best supply partner in the chemical division.

Novozymes is exploring new ways of measuring customer satisfaction and ran a pilot in 2014 with the aim of improving customer satisfaction measurement; this will be further developed in 2015.

Novozymes continues to be transparent toward its customers by providing information related to labor practices, human rights, environment, sustainable procurement and business integrity in multiple sustainability performance platforms. These platforms include EcoVadis, EcoDesk, SEDEX and CDP Supply Chain.

### Suppliers

In 2014, Novozymes continued to engage with its suppliers in order to develop partnerships and to promote a sustainable working environment. Through the Supplier Performance Management (SPM) program, Novozymes' suppliers are systematically assessed from both a risk and an opportunity perspective. For 2014, Novozymes had set an ambitious target of 97.5% supplier adherence to the SPM program, which was surpassed, with 99% adherence.

During the year, Novozymes further developed the Supplier Innovation Day that has run for the past three years with the aim of creating innovative solutions beneficial for both Novozymes and its suppliers. The Supplier Innovation Day 2014 was held in North America, the first time it has taken place outside of Denmark. With two predefined specific themes, one in Chemicals and another in Packaging, current and potential suppliers were invited to propose solutions to some identified challenges. Both initiatives are currently being materialized, and implementation is expected to take place in 2015.

In 2014, Novozymes expanded co-sourcing initiatives together with large global companies to include additional companies and new categories. Co-sourcing initiatives aim at generating considerable savings and supporting business growth through larger volume discounts from suppliers. They also bring transparency, better planning and greater flexibility to the supply chain processes in the organizations involved in the collaboration.

"In 2014, Novozymes was recognized by several key customers for delivering innovative and sustainable solutions."

"As a global company, Novozymes recognizes the importance of transparency, accountability and responsibility in its business practices."

# The Novozymes stock

The Novozymes stock performed well in 2014, gaining 13%. DKK 2.8 billion was returned to shareholders via a DKK 2.0 billion stock buyback program and DKK 788 million in annual dividend. Our target is to increase the annual dividend payout ratio to 40% of net profit.

The Novozymes stock is listed on Nasdaq Copenhagen and included in the OMX Copenhagen 20 CAP index.

## SHAREHOLDERS

Novozyymes' common stock consists of two types: A shares and B shares, both with a nominal value of DKK 2 per share. All A stock is held by Novo A/S, and an A share carries 10 times as many votes as a B share. At the end of 2014, Novo A/S held 25.5% of the total common stock and, through its holding of the A stock and a proportion of the B stock (27,779,900 shares), controlled 70.4% of the votes. Novo A/S, domiciled in Hellerup, Denmark, is wholly owned by the Novo

Nordisk Foundation, and Novozymes is therefore included in the consolidated financial statements of the Novo Nordisk Foundation.

At year-end, Novozymes had more than 57,000 shareholders, of whom 99% were private shareholders in Denmark. Twenty institutional investors, including Novo A/S, owned approximately 40% of the B shares. Around 65% of the B shares were held outside Denmark. Novozymes held 4.3% of the B stock, equivalent to 3.6% of the total common stock.

Besides Novo A/S, only Bailie Gifford & Co. held more than 5% of Novozymes' common stock on December 31, 2014.

Novozyymes' stock (DKK)	2014	2013	Change
Share price, year-end	259.8	228.9	13%
Total market value, year-end (billion)*	83.1	73.2	13%
Earnings per share, diluted	8.02	6.93	16%
Dividend per share	3.00**	2.50	20%

\* All A and B shares multiplied by the price of the B share.

\*\* Proposed.

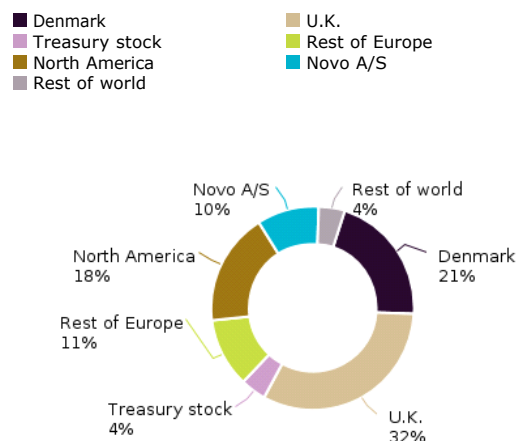
## STOCK PERFORMANCE

Novozyymes' share price increased by 13% during the year. In comparison, the OMXC20CAP gained 18%.

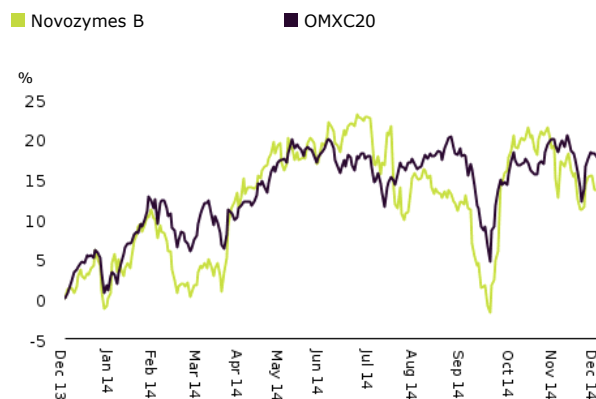
The average daily trading volume of Novozymes' stock in 2014 was 523,121 shares, or DKK 134 million, making it the eighth most actively traded company on Nasdaq OMX Copenhagen, compared with seventh in 2013. At year-end, the total market value of Novozymes' B shares was DKK 69.1 billion, and the value of the nontraded A shares was DKK 14.0 billion, assuming the same value per share as for the B shares.

Over the past five years, Novozymes' stock has generated an average annual return (compounded) to shareholders of 19%. Total shareholder return was 21% including dividends.

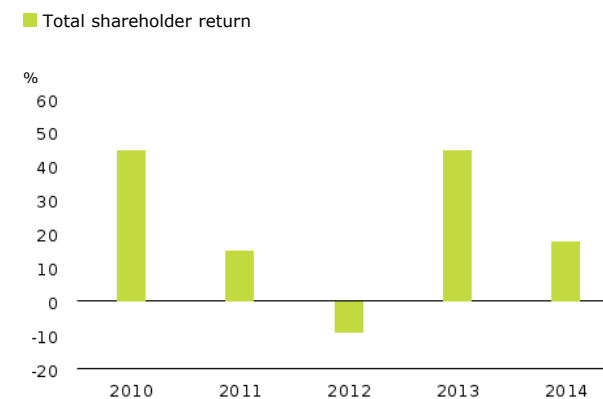
## OWNERSHIP BY GEOGRAPHY



## ONE-YEAR INDEXED SHARE PRICE DEVELOPMENT



## TOTAL SHAREHOLDER RETURN



## DIVIDENDS

The Board of Directors proposes that the Annual Shareholders' Meeting approve a dividend of DKK 3.00 per share for the 2014 financial year. This will result in an expected total dividend payment of approximately DKK 925 million, corresponding to a payout ratio of 36.6%.

The dividend for 2014 will be disbursed on March 2, 2015, and the last trading day with right to dividend for 2014 is Wednesday, February 25, 2015.

As part of the updated strategic direction, Novozymes plans to increase the payout ratio to 40% over the next five years.

## STOCK BUYBACK PROGRAM IN 2014

A DKK 2 billion buyback program was implemented from February 10 to December 10. Under the program, 7,734,631 shares were purchased and added to treasury stock.

## NEW STOCK BUYBACK PROGRAM IN 2015

Novozyymes has decided to initiate a new stock buyback program worth up to DKK 2 billion in total or a maximum of 20 million shares. The program is expected to begin early in 2015 and run for the remainder of the year. The shares acquired within the program will be used to reduce the common stock and to meet obligations arising from employee share incentive programs.

	A stock	B stock	Total
<b>Share capital (DKK)</b>	107,487,200	531,912,800	639,400,000
<b>Number of shares</b>	53,743,600	265,956,400	319,700,000
<b>Held by Novo A/S (%)</b>	100	10.4	25.9
<b>Number of votes</b>	1,074,872,000	531,912,800	1,606,784,800
<b>Voting rights (%)</b>	66.9	33.1	100
<b>Held by Novo A/S (%)</b>	66.9	3.5	70.4

## FINANCIAL CALENDAR

Feb. 25, 2015	Annual Shareholders' Meeting 2015
Apr. 23, 2015	Interim report for the first 3 months of 2015
Aug. 6, 2015	Interim report for the first half of 2015
Oct. 22, 2015	Interim report for the first 9 months of 2015
Jan. 19, 2016	Group financial statement for 2015

## INVESTOR RELATIONS

Novozyymes' Investor Relations aims to ensure that relevant, timely and accurate information is made available to the capital markets, and to create awareness and confidence in Novozymes' purpose, strategy, policies and decisions.

Novozyymes' Investor Relations maintains an ongoing dialogue with sell-side equity analysts, as well as major institutional and retail shareholders. A list of the current analysts covering Novozymes can be found at [www.novozymes.com/investor](http://www.novozymes.com/investor).

Visit our website for Group financial statements, current presentations, factsheets, tools and other downloads, and information for both private and institutional shareholders.

"Novozyymes' share price increased by 13.5% during the year."



BUSINESS &  
STRATEGY

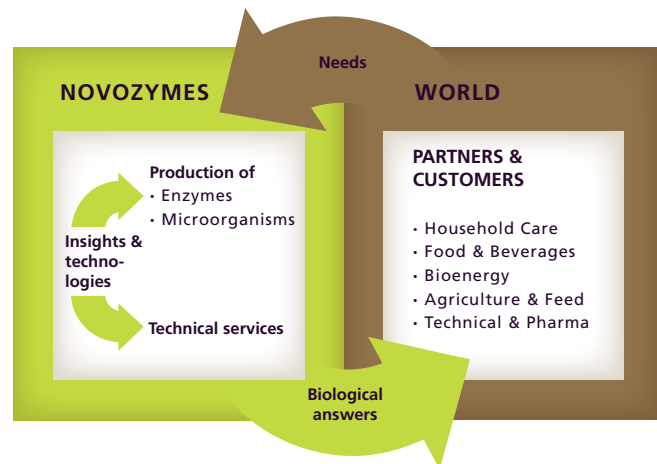
# Value creation model

Novozymes is the world leader in bioinnovation, producing a wide range of industrial enzymes and microorganisms. We are a business-to-business biotech company with a strong track record of delivering value and growth based on innovation.

To deliver on Novozymes' purpose to find biological answers for better lives in a growing world, we center our business on what we do best. By searching for new enzymes and microbial technologies, or improving existing ones, we deliver and apply innovation that has an impact and creates value for customers: improving performance and reducing cost. Together with our customers and other partners, we aim to drive the world toward sustainability by making better use of natural resources.

## SUSTAINABILITY AND GOOD BUSINESS GO HAND IN HAND

Novozymes' products offer manufacturers more sustainable alternatives to traditional industrial processes, and sustainability is a key part of Novozymes' value proposition



and business model. Sustainability is evident in our agreements with suppliers, our production, and partners' and customers' application of our products. That is how we make an impact on the world – through the products delivered by our partners and customers. Our focus on sustainability also gives us a competitive advantage as more customers look for sustainability as a differentiator.

## How Novozymes creates value

### PARTNERS AND CUSTOMERS

Using Novozymes' biosolutions, our customers save costs and reduce the environmental impact of their production by reducing raw material requirements, substituting other inputs and improving product quality. By partnering closely with our customers, we gain a better understanding of their needs and challenges so we can help them improve their businesses today and enable them to achieve their goals. We bring them new insight, innovations and the power to achieve, to keep them moving forward.

"The knowledge gained in the interaction with customers also feeds back to our R&D pipeline and helps future innovations."

### INSIGHTS AND TECHNOLOGIES

Novozymes' biotechnological platform is founded on extensive knowledge and expertise within enzymes and microorganisms. By working closely with our partners and customers, we are able to innovate and develop technologies that can be applied effectively in our customers' production, increasing their operational efficiency and improving the performance of their products. Novozymes develops unique solutions that would be difficult and expensive for our customers' R&D teams to develop themselves. Often, our innovation teams work as an extension of their teams.

### TECHNICAL SERVICES

When our solutions are ready for application in our customers' value chains, Novozymes' technical service teams help them adopt each innovation smoothly to ensure the expected value and effect are delivered. For instance, our technical service teams help customers replace other input with an enzyme solution, or perform troubleshooting in production at ethanol plants if fermentation levels drop. They also adjust enzyme combinations to fit with local recipes in the brewing and baking industries.

Our technical services set us apart from competitors because we are able to optimize the use of our products and make the necessary adjustments for maximum effect for the customer. The knowledge gained in the interaction with customers also feeds back to our R&D pipeline and helps future innovations. So together we evaluate our progress and rethink tomorrow – again.

### PRODUCTION

We produce our enzymes and microorganisms at 16 locations globally, where the necessary technology and skills are available to suit local needs and conditions. Of these 16 sites, five large-scale production facilities produce the majority of our solutions.

At Novozymes, our focus on sustainability in our own operations matches the importance we place on ensuring the performance and sustainability effects our products provide to our customers and the world. We aim at sustainability leadership in everything we do.

# Market trends

As global consumption and demand for more sustainable business practices continue to increase, industrial biotechnology is positioned to be part of the solution to many of the world's challenges. The industry is developing rapidly, and attracting interest and investment from large, established players in adjacent industries. Challenging economic conditions and growing competition among customers are impacting the industry's dynamics, emphasizing the need for innovation and strong positioning of our solutions.

In 2014, the world market for industrial enzymes expanded by 5% to an estimated DKK 23 billion. Novozymes remained the clear leader with a 48% market share. The potential of industrial enzymes continued to attract attention from large multinationals.

## SUSTAINABILITY IN FOCUS

Globally, 2014 brought increased focus on sustainable technology that enables manufacturers to produce more from less. With its ability to replace petrochemicals and improve the performance and environmental impact of many everyday products, industrial biotechnology meets the need

for sustainable technology, which is a growing trend across many industries and markets.

Other growth drivers include a rising global population and an expanding middle class in emerging markets. Other things being equal, high input costs promote interest in moving to sustainable solutions.

Improving yields and complementing chemical fertilizers and pesticides remain priorities in the agricultural industry, which bodes well for Novozymes' partnership with Monsanto. The bioenergy market is also continuing to expand, with higher production of corn ethanol in the U.S. in 2014 and six biomass conversion plants now in operation on four continents.

## Current trends, growth drivers and growth barriers in Novozymes' industries

### INDUSTRY

#### HOUSEHOLD CARE



### CURRENT TRENDS

- Better-performing laundry detergents – also at low temperatures
- Optimization of detergent formulations to decrease cost and cost volatility
- More sustainable operations and products
- Changing consumer preferences toward liquids and compacted products

### GROWTH DRIVERS FOR NOVOZYMES

- Innovation to raise detergent performance at low temperatures, increase sustainability and optimize formulations
- Demand for better-performing products in emerging markets
- GDP and population growth in emerging markets

### GROWTH BARRIERS FOR NOVOZYMES

- Sustained low input costs that compete with enzymes for share of COGS
- Traditional consumer wash habits
- Regulations favoring surfactants over enzymes in emerging market product standards
- Technology development needed to enable enzyme performance in liquid detergent formats

## INDUSTRY

## CURRENT TRENDS

## GROWTH DRIVERS FOR NOVOZYMES

## GROWTH BARRIERS FOR NOVOZYMES

### FOOD & BEVERAGES



- Growth in processed foods in emerging markets
- Food safety and informed consumption
- Consumer demand for health and wellness via food
- More convenience in food preparation
- Food producer focus on cost optimization and brand building
- Consolidation of food & beverage producers
- Sustainability in production processes, packaging, etc.

- High raw material prices leading to production process optimizations
- Focus on safe, healthy and nutritional foods
- Clean labels
- Growth in grain and oil-seed processing
- GDP and population growth in emerging markets

- Consumer preferences for traditional foods and skepticism about technology in food & beverage production
- Conservative industries
- Fragmented and local markets and dietary habits

### BIOENERGY



- Sustainable energy for transportation as an alternative to liquid fossil fuels
- Energy security
- Grain-based ethanol producers looking to maximize yield and decrease costs
- Advanced biofuels on the cusp of commercialization

- Political mandates to drive adoption of biofuels
- CO<sub>2</sub> reduction from transportation sector being delivered today
- Focus on domestic economy, energy and job creation
- Increasing cost competitiveness of biofuels compared with petrochemical alternatives

- An energy industry with vested interest in traditional fossil fuels
- Lack of political commitment to set mandates
- Competition with other industries and technologies for feedstock conversion
- Competition with other transportation technologies for “best way” to reduce CO<sub>2</sub> emissions
- Lack of infrastructure for biofuel adoption
- Industry conservatism

### AGRICULTURE & FEED



- Rising demand for food as population grows
- Pressure on available land to farm
- Sustainability in farming
- Focus on yield maximization
- Global surge in protein consumption due to change in dietary habits
- Increasing consumer awareness of food supply origins and integrity

- High input costs for farmers
- GDP and population growth in emerging markets
- Increased demand for food and protein
- Regulatory requirements for more sustainable farming practices
- Consumers demanding better and more sustainable foods

- Low pricing for traditional fertilizers, pesticides and crops
- Biotechnology solutions at relatively early stage of development
- Technology robustness
- Immature scientific understanding of crop/microbe/soil interaction

### TECHNICAL & PHARMA



- Better and more sustainable drug-delivery and formulation
- Technical industries drive for low cost

- Sustainability in technical industries
- Non-animal-derived, recombinant input sources in pharma
- Better drug-delivery dosing regimes

- Fragmented and chemically driven technical industries
- Conservatism in pharma production
- Long and resource-intensive development cycles in pharma



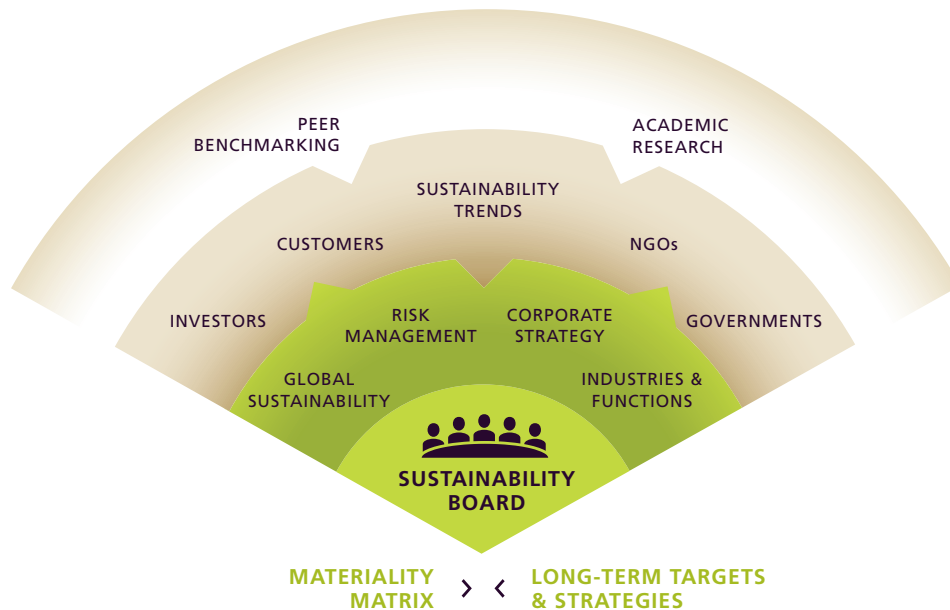
# Sustainability materiality assessment in Novozymes

In addition to the industry-specific market trends, Novozymes collects and assesses sustainability issues in the external environment that are relevant to its business and its most important stakeholders. Novozymes uses the sustainability materiality assessment to engage and communicate systematically with its stakeholders.

The outside-in perspective in the sustainability materiality assessment is the main source for input to the materiality assessment and the sustainability materiality matrix, in which we map each of the key sustainability risks, opportunities and trends. In order to identify these, we have collected input via multiple engagement channels from our most important stakeholders.

The inside-out perspective in the sustainability materiality assessment is the main source of context and is where we assess the external trends and sustainability issues in relation to the current or potential impact they have on Novozymes. Impact is assessed on three criteria: business continuity, impact on brand/reputation and ability to make sizable impact. In order to make this evaluation, we engage with multiple internal stakeholders to ensure a proper assessment and anchoring of issues.

Novozyymes' Sustainability Board relies on the sustainability materiality assessment to guide the integration of sustainability issues in the business, and makes recommendations for corporate target-setting and strategy development to the Executive Leadership Team. The Executive Leadership Team evaluates and endorses these recommendations for final approval by the Board of Directors.



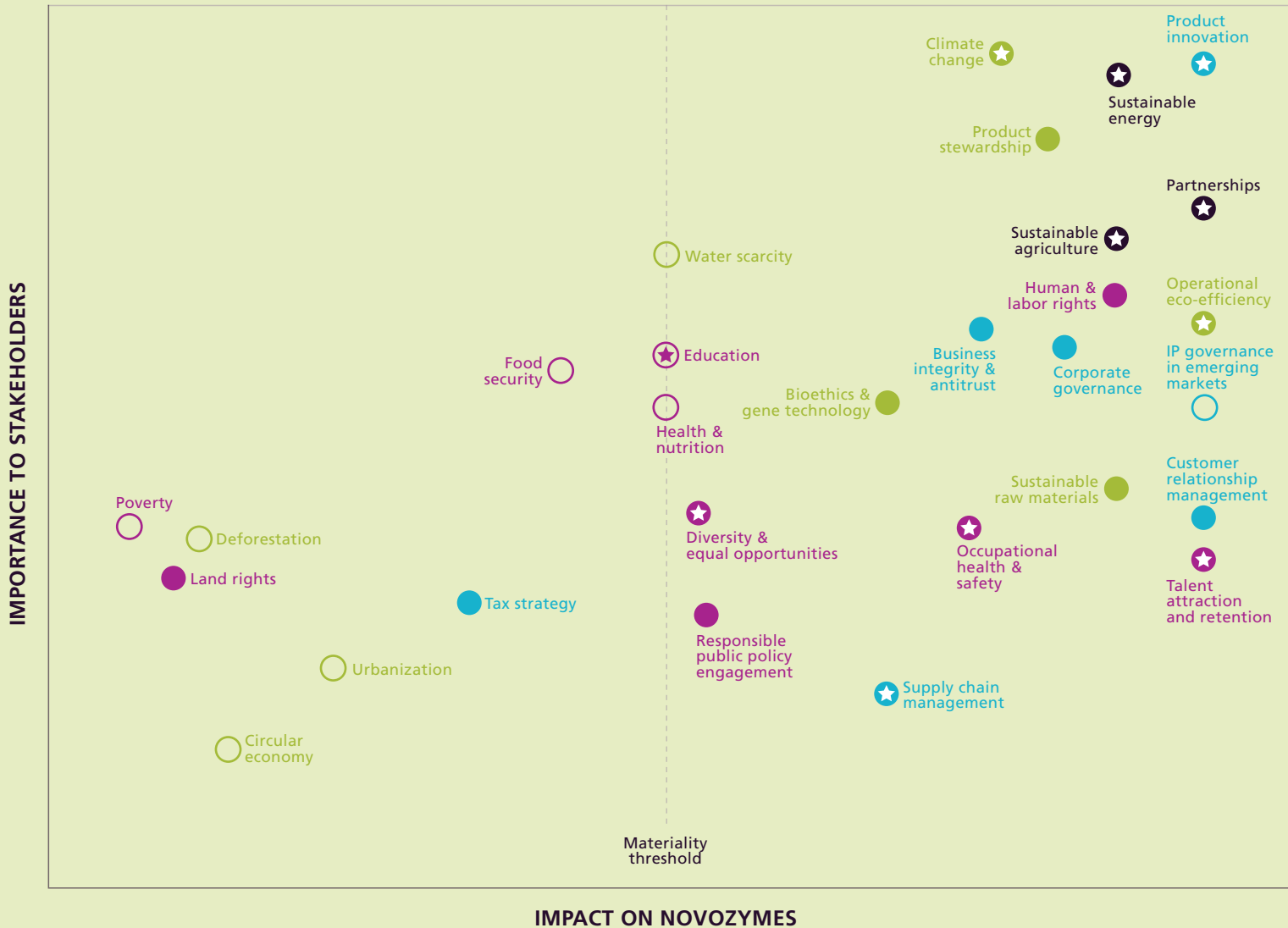
## Sustainability materiality matrix: Understanding the matrix

Novozyymes' sustainability materiality assessment is represented graphically in a matrix that describes five characteristics of each sustainability issue assessed:

1. Impact on Novozymes – Represented on the X-axis, this dimension captures the sustainability trends that pose risks and opportunities for Novozymes. Issues placed to the right of the Materiality threshold line are considered significant enough for the company to take action.
2. Importance to stakeholders – Represented on the Y-axis, this dimension captures the frequency with which stakeholder groups raise sustainability issues and the importance they place on them.
3. Category of issue – Issues have been color-coded to represent whether they are economic, social, environmental or crosscutting.
4. Ability to control – It is important for our stakeholders to understand Novozymes' ability to control specific sustainability issues. Issues over which Novozymes exercises a high level of control are represented by a filled-in icon, whereas issues that Novozymes has a low ability to control are represented by a hollow icon.
5. Areas of corporate focus – Issues marked with a star are corporate focus areas. Novozymes has relevant targets/flagship initiatives to address these.

Read more in the UN Global Compact Communication on Progress available under Supplementary.

# Novozymes' sustainability materiality matrix



## ISSUE CATEGORY

- All
- Economic
- Social
- Environment

## ABILITY TO CONTROL

- High control
- Low control

## CORPORATE FOCUS AREAS

- ★ Targets/flagship initiatives

# Strategy

A growing global population with a rising need for food, water, energy and other commodities is pushing industries to get smarter and produce more with less. It is around these trends that Novozymes has defined its purpose and strategy.

At Novozymes, we believe that there are a vast number of opportunities for building a better tomorrow. To seize these opportunities, we have defined a purpose and strategy for our company that will steer our priorities and direction from 2015 onward.

## RETHINKING TOMORROW TOGETHER

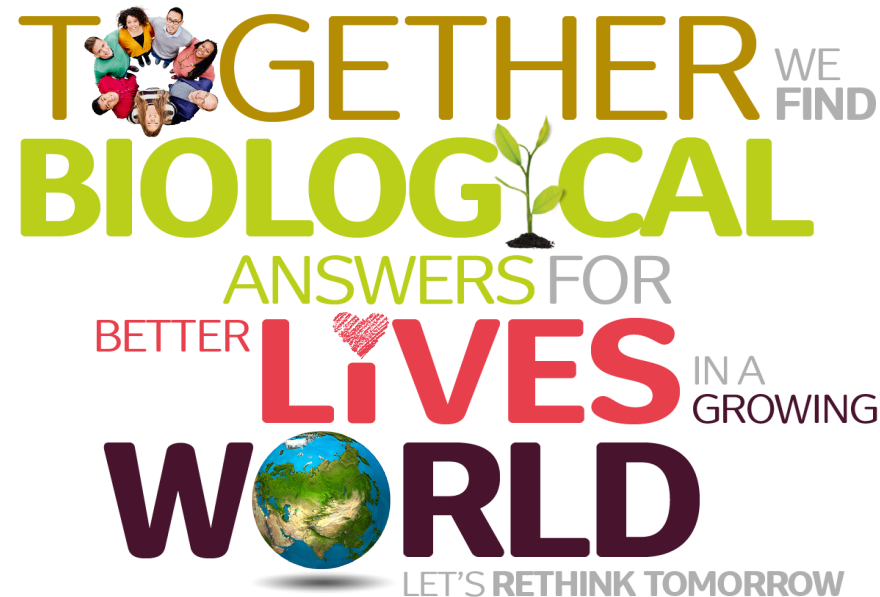
Our purpose is "Together we find biological answers for better lives in a growing world – Let's rethink tomorrow." This purpose is deeply rooted in our heritage and all we have accomplished so far. It also looks ahead to what we can

achieve together with customers, consumers, governments, academia and many other people around us in finding the sustainable answers that our world needs. Success will be determined by our ability to pool our insight and expertise in order to reach common milestones. We invite the world to rethink tomorrow together with us.

## PARTNERING FOR IMPACT

Our strategy is about partnerships with impact. For Novozymes, partnerships mean deep-rooted collaborations

with mutual benefits and obligations. By working closely with people around us, we can gain the necessary insights into how we can help them succeed. Only by truly understanding the social, political and economic realities of our partners can we create real and sustained impact. We can do that by optimizing our partners' processes while reducing their environmental footprint, improving their profitability, and creating breakthrough products and more jobs. We are already doing this today, but we can do much more to raise our impact by benefiting our partners, building a better world and growing our company at the same time.



## Four focus areas

To succeed, we must make radical moves forward in four areas: rally for change, lead innovation, focus on opportunities, and grow people.

### **RALLY FOR CHANGE**

We will form partnerships and networks with customers, consumers, governments, suppliers, academia and many other people around us to make a sustainable difference. Rally for change is about Novozymes actively engaging in global discussions and being a driving force in bringing together like-minded partners with shared goals and ambitions to create more sustainable growth for the world.

### **LEAD INNOVATION**

We will inspire and excite our customers by delivering more significant innovation tailored to their local markets. This will accelerate the translation of customer needs into significant biological solutions that address local conditions. The technology race is speeding up, so our innovation must go beyond the lab, extending into every interaction we have with customers and consumers.

### **FOCUS ON OPPORTUNITIES**

We will prioritize the customers, markets and activities that hold the biggest opportunities for creating impact. Given Novozymes' broad portfolio of markets and activities, it is critical that we hone our ability to focus on key priorities and maximize value.

### **GROW PEOPLE**

We want to be better at enabling our employees to develop their professional and leadership skills. This will include more effective development programs, customized to the needs of specific parts of the organization. At the same time, we believe that we can contribute knowledge to people around us: everything from working with technicians at customers' plants to help them optimize production, to delivering teaching materials to classrooms.

# PARTNERING FOR IMPACT

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## **RALLY FOR CHANGE**

Form partnerships and networks with customers, consumers, organizations and governments to make a sustainable difference.



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## **LEAD INNOVATION**

Excite our customers by delivering more significant innovation, tailored to their local markets.



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## **FOCUS ON OPPORTUNITIES**

Prioritize the customers, markets and activities that hold the biggest opportunities for creating impact.



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## **GROW PEOPLE**

Support Zymers and people around us in unfolding their full potential.



# Targets & outlook

We will measure the success of our purpose and strategic focus areas using a number of new long-term targets. Novozymes' long-term financial performance will continue to be measured through the rate of annual organic sales growth in local currency, the EBIT margin and return on invested capital (ROIC) including goodwill. In addition, Novozymes will have two types of sustainability targets going forward: impact targets and operational targets. All targets will be integrated into incentive schemes throughout the organization to align the company's performance and direction. These ambitious targets reflect the belief that the use of our biological solutions will have a real and positive impact on the world.

## Impact targets

### REACH

By 2020, we want to reach 6 billion people. That will mean expanding our reach in emerging markets and understanding better how and where we reach customers. Our solutions touch people's lives across the world, and nowhere does sustainability become more real than when people have access to products that combine high performance and a sustainable footprint.

### EDUCATE

We want to provide knowledge of the potential of biology to 1 million people from 2015 to 2020. We want to step up our contribution – from training in factories to local-community outreach to involvement with universities and business schools. Education is a precondition for global sustainable development, and we have a lot to offer. This target will challenge us to share knowledge and insights outside of Novozymes. The more people we can educate, the more can take part in creating sustainable biological solutions in the future.

### CATALYZE

We want to catalyze five global partnerships for change: high-impact partnerships with public and private

organizations to create answers for a sustainable world. Good examples include The BioAg Alliance, which is working on making a sustainable change in modern agriculture, and the U.N.-led Sustainable Energy For All initiative. We want to play our part in rallying the willing to make the changes the world needs.

### DELIVER

We want to deliver 10 transformative innovations that really change the lives of many people and fulfill ambitious sustainability goals. Every piece of innovation we deliver has an impact, but delivering two transformative innovations a year sets the bar high.

### SAVE

By 2020, we want to save the world 100 million tons of CO<sub>2</sub> a year through customers applying our products.

### ENABLE

We want to enable Novozymes employees to develop. It is our ability to ensure that employees develop their skills that will determine how successful we are. We will do this on an ongoing basis, but have set an ambitious target for 2020 in our annual employee survey.

These targets not only enable us to track success, but will also be integrated into incentive schemes throughout the organization to align the performance and direction of our company.

## Long-term targets

### IMPACT TARGETS

#### REACH

6 billion people with our biological solutions by 2020

#### EDUCATE

1 million people about the potential of biology from 2015 to 2020

#### CATALYZE

5 global partnerships for change from 2015 to 2020

#### DELIVER

10 transformative innovations from 2015 to 2020

#### SAVE

100 million tons of CO<sub>2</sub> by 2020

#### ENABLE

Novozymes' employees to develop by 2020

### LONG-TERM FINANCIAL TARGETS

	2020
Organic sales growth, average	8-10%
EBIT margin	≥ 26%
ROIC incl. goodwill	≥ 25%

### SUMMARY OF ASSUMPTIONS

- Global economy does not become increasingly volatile and recession-struck
- No major changes in the competitive landscape
- USD/DKK around 6.00, EUR/DKK around 7.45
- Success in key markets: Household Care, Bioenergy (1G+2G) and BioAg

# Long-term financial targets

## ORGANIC SALES GROWTH

Novozymes' updated long-term organic sales growth target is 8-10% in local currency on average throughout the period from 2015 to 2020. This replaces the previous target of more than 10%.

The updated target reflects current visibility on the global economy and end markets, our innovation pipeline and an acknowledgement that two of the three assumptions behind the previous target did not hold:

- The U.S. gasoline market has not moved toward E15, but remained at 10% ethanol
- The revenue contribution expected from Novozymes delivering enzymes to at least 15 commercial biomass conversion plants by 2017 is now believed to have been delayed compared with what was expected back in 2013, due to a slower ramp-up of the industry

## EBIT MARGIN

Novozymes' updated long-term target for the EBIT margin is 26% and above. This replaces the previous target of more than 24% and is expected to be achievable throughout the period. Novozymes continues to believe that it is in the best long-term interests of the company and its stakeholders to further strengthen its innovation and commercial capabilities and invest in future growth over targeting a higher EBIT margin.

## ROIC INCL. GOODWILL

Novozymes' updated long-term target for ROIC including goodwill is 25% and above. This replaces the previous target of more than 22%. This is expected to be reached throughout the period on an average basis as a result of the anticipated higher profit generation over the period in combination with lower growth in invested capital than over the past five years, when a number of large investments and minor acquisitions were made in preparation for growth in the period up to and beyond 2020.

## PERSPECTIVES ON THE COMING PERIOD, 2015-2020

The new long-term financial targets are based on current visibility on the global economy and end markets, and on our

innovation pipeline. The following section looks in detail at the worldview on which our targets and strategy are based.

### Assumptions

GDP growth is under pressure in a number of important developed markets, and there is uncertainty surrounding growth in emerging markets. In combination with the recent volatility of oil prices and currency exchange rates, this makes the outlook for the global economy unclear. The new long-term financial targets allow for this uncertainty to the extent possible with current visibility, but do not factor in an increasingly volatile or recession-struck economy.

Novozymes' ability to grow does not hinge on high oil prices. Novozymes offers technologies that for many of our customers are, in essence, sustainable efficiency tools that allow them to market performance improvements or improve their cost profile and sustainability position. As such, we help customers address higher demands from consumers, regulators and investors as well as higher and volatile input costs. Other things being equal, sustained low oil prices could temper the need for our customers to address higher input costs and volatility. This could be offset by their continued focus on sustainability. Low oil prices might bring short-term benefits of higher GDP growth and consumer spending, but long term they might dampen the growing interest in biological solutions. For exactly which industries, and when and at which thresholds, is not obvious, but it is a risk. Sustained low oil prices might deter politicians from supporting biofuels. When we look to the coming period, our scenarios are not based on a given oil price, but on a belief that pricing will bounce back somewhat following the steep plunge since summer 2014.

Currencies have also been through a volatile six months. The long-term targets assume no major changes in Novozymes' currency exposure and that the DKK remains pegged to the EUR at current levels. From a currency exposure perspective, ~35% of sales in 2014 were in EUR, ~35% in USD, ~10% in DKK, ~10% in CNY and ~10% in other currencies. We have not factored in large shifts on the demand side due to currency volatility, which is a factor in our markets and the global competitiveness of industries and players, but is not very transparent.

The targets are based on an assumption that competition in our core markets will remain strong and that the industrial biotechnology industry will continue to attract interest from potential new entrants. Novozymes expects to keep its leadership position in the coming period and does not expect major changes in the competitive landscape.

The new financial targets are built on certain assumptions across the various markets and pipeline opportunities. These assumptions could prove too optimistic, but also too pessimistic. If the assumptions are too optimistic, this will challenge realization of the targets. The general business risk associated with forward-looking statements could also prevent realization of the new targets.

Novozymes will continue to strengthen its diversified end-market model and sell biological solutions to more than 40 industries globally. Most of the growth in the coming period is expected to come from existing and established industries, notably Household Care, Bioenergy and BioAg.

### Household Care

We continue to see an increasing demand for biological solutions to improve wash performance, including at low temperatures, to optimize detergent formulation costs and volatility, and to deliver sustainability to the consumer. These trends are long term. The eagerness of customers to address these agendas fluctuates over time, but the trends remain. Novozymes continues to see ample opportunities to innovate in the Household Care market and meet the above needs. We expect sales growth to increase from current levels in the coming years. The recent drop in oil prices is not believed to have decreased the opportunities within Household Care from either an innovation or a commercial perspective, but it might modestly temper the long-term trends as customers contemplate how recent price fluctuations are impacting their business and how to react in the medium to long term.

### Bioenergy

Novozymes has shown over the past couple of years how innovation can decouple sales growth from underlying market growth. We expect this to continue in the coming period. Novozymes expects global production volumes of first-generation biofuel to increase slowly during the period. The recent drop in oil prices is not expected to have significant

impact on global biofuel volumes, as these remain politically regulated to a large extent. If recent oil price movements affect political sentiment toward biofuels to a degree that supports regime changes in major markets, this could change the outlook for our global Bioenergy business.

The future role of biofuels in the U.S. energy mix has been under political discussion in recent years, and there is uncertainty surrounding the Renewable Fuel Standard, which mandates the use of biofuels in the U.S. We expect this uncertainty to continue. Novozymes expects U.S. domestic demand for ethanol to comprise no less than ~10% of gasoline consumption over the coming period. Novozymes still believes that the U.S. will move toward E15, but slowly and depending, to some degree, on how the political debate develops. As a consequence, E15 is not expected to have a significant impact on the U.S. biofuel market in the coming years.

#### Growth platforms

Novozymes' portfolio of growth opportunities includes both a wide variety of small and medium-sized projects and a number of larger projects, four of which have been designated growth platforms. The two platforms Biopharma and Animal Health & Nutrition are expected to be good growth contributors, whereas Biomass Conversion and BioAg are considered to have the greatest long-term potential.

#### Biomass Conversion

Novozymes expects the emerging biomass conversion industry to continue to grow and demonstrate its viability over the coming period. The previous assumption that Novozymes would supply enzymes to at least 15 commercial-scale facilities by 2017 may still hold. However, we have not based our targets on the fulfillment of the previous assumption. Novozymes has over the past two years experienced that it has taken longer than expected for the first movers to roll out these facilities and build up their capacity utilization. Novozymes has also seen a number of new production models and feedstock opportunities being explored by partners worldwide. This has meant that the plants in the pipeline today come in numerous shapes and

sizes. Exactly how many plants will be built in this first wave of commercialization is uncertain, but we expect to supply technology to around 15 plants operating at full capacity at the end of the decade.

Biomass Conversion is expected to be a good growth contributor to Novozymes through 2020, as we serve the first movers and learn from our partnerships. The potential transformative aspects of Biomass Conversion depend on what shape the second wave of commercialization will take going into the next decade post 2020. If political support for biofuels makes for an improved investment environment, this timeline could prove too conservative and Novozymes' growth could be positively impacted toward the end of this decade. Political support for advanced biofuels from biomass is an important factor when assessing how quickly this emerging industry will be established. If the recent drop in oil prices erodes political support for advanced biofuels, the global establishment of the industry will, other things being equal, take longer.

#### BioAg

Over the past 12 months, Novozymes and Monsanto have been able to confirm the significant long-term potential of The BioAg Alliance. Over the coming period, The BioAg Alliance expects growth to be driven by existing commercial solutions and optimized versions of these solutions. The Alliance will furthermore benefit from Monsanto's commercial capabilities and reach, which should ensure strong organic sales growth over the period. Revenue from novel microbial solutions currently under development is not expected to have significant impact until the end of the decade.

### OTHER FINANCIAL PERSPECTIVES

#### CAPEX

Novozymes expects a CAPEX-to-sales ratio of around 8% on average in the period 2015-2020. This estimate allows for:

- Continued efforts to ensure that Novozymes' production facilities are of a high standard and constantly improve their use of energy, water and raw materials
- The expected level of capacity expansion needed over the coming period, notably a new enzyme-manufacturing facility in Brazil and an expansion of enzyme-manufacturing capacity in Europe

"Over the past 12 months, Novozymes and Monsanto have been able to confirm the significant long-term potential of The BioAg Alliance."

- The construction of new R&D facilities in Denmark, as well as for BioAg in the U.S.

Should Biomass Conversion, BioAg or another growth platform require further significant investments during the period to secure future growth, Novozymes will allow the ratio to exceed the 8% average.

#### R&D

Novozymes expects R&D costs to average around 14% of revenue. Levels in any given year will depend on the opportunity set and exchange rates, and investments above 14% may be warranted in some years. Novozymes will continue its historical practice of expensing all R&D costs as they are incurred. Novozymes is currently undertaking a significant investment in innovation within the growth platforms BioAg and Biomass Conversion. These investments are assumed not to have significant impact on sales growth for Novozymes until the end of the decade. However, each of the investments has the potential to positively affect Novozymes' total sales growth if it materializes within a shorter time frame than currently expected.

#### Tax

Novozymes expects the effective tax rate to be around 22-23% through 2020.

#### Mergers & acquisitions

Novozymes continues to be interested in acquiring companies and technologies that fit strategically with its overall objectives and can balance the portfolio in terms of risk, future value creation, market access and resource utilization. Novozymes will also continue to search for new partnership opportunities, and to acquire and divest activities to ensure a balanced portfolio.

### Capital structure

Novozymes will continue to favor a conservative balance sheet, but with no desire to be net cash positive. As a consequence, Novozymes will aim at a target for net interest-bearing debt of 0-1x EBITDA.

### Dividends

Novozymes has decided to increase its annual payout ratio to around 40% of net profit. This replaces the previous target of around 35% and is expected to be reached gradually over the next couple of years. For 2014, a payout ratio of 36.6% is proposed.

Novozymes has increased its annual dividend for 14 years in a row since the IPO in 2000 and expects to continue to do so going forward. If the proposed dividend for 2014 is approved at the Annual Shareholders' Meeting in February 2015, Novozymes will have returned close to DKK 6 billion in dividends since 2000.

### Stock buybacks

Since the IPO in 2000, Novozymes has returned DKK 7.7 billion to its shareholders via stock buybacks. Novozymes expects to continue to use buybacks as a means to return excess capital to shareholders. For 2015, Novozymes has decided to run a new program worth up to DKK 2 billion.

## Long-term operational targets

The long-term operational targets for sustainability reflect Novozymes' ambitions to constantly increase the sustainability of its operations across the value chain to lead by example and ensure the long-term sustainable development of Novozymes as an international, inclusive and successful company. See operational targets in the factbox on this page.

## Outlook for 2015

The outlook for 2015 is positive, despite a general feeling that uncertainty increased toward the end of 2014 with growth concerns in developed and emerging markets, volatile commodity prices – especially the recent drop in oil prices – and significant exchange rate fluctuations. It is challenging to gauge the full impact of these ongoing developments on our end markets, but with current visibility we expect a continuation of the business trends seen in 2014. We therefore expect good underlying sales growth and similarly high profitability in 2015, even with increasing investments in R&D and business development.

On the sales side, Novozymes expects organic sales growth of 7-9%. Based on exchange rates at January 19, 2015, currencies will provide a tailwind, and sales growth in DKK is expected to be 13-15%.

Novozymes expects a positive contribution to sales growth from all five sales areas. In relative terms, Bioenergy and Agriculture & Feed are expected to be the most significant growth contributors.

### Household Care

Household Care sales are expected to be driven by higher enzyme inclusion in detergents across tiers to enhance wash performance, including at low temperatures, and to optimize detergent formulation costs. Emerging markets are expected to be a significant contributor to sales growth. We expect sales growth to be tempered by the uncertainty in the global economy and the currently dynamic consumer markets. Growth in Household Care sales is expected to be low in the first quarter of 2015 due to high comparables in the first quarter of 2014.

### Food & Beverages

Food & Beverages sales growth is expected to be driven by a continuation of the positive trends and developments seen in baking, and a stabilization of the Chinese starch conversion market. Healthy concepts are also expected to contribute to sales growth. Growth in Food & Beverages sales is expected to be low in the first quarter of 2015 due to high comparables in the first quarter of 2014.

## Operational targets

	2015	2020
<b>Environment</b>		
Improvement in energy efficiency	10%	30%
Improvement in water efficiency	10%	25%
Reduction in CO <sub>2</sub> intensity	4%	25%
Renewable energy	24%	30%
Adherence to supplier program	96.5%	99%
Class rating from RobecoSAM	Medal	Gold
CO <sub>2</sub> savings, million tons	50	100
Carbon Disclosure Project	A List	
<b>People</b>		
Occupational accidents per million working hours	≤ 1.7	≤ 1.0
Employee absence	≤ 2.0%	≤ 2.0%
"Satisfaction and motivation" in employee survey	≥ 75	≥ 75
"Opportunities for development" in employee survey	≥ 75	≥ 75
Senior management to be women		≥ 30%
Employees promoted are women	≥ 35%	

*2014 is the baseline for all efficiency improvements.*



## Bioenergy

Bioenergy sales are expected to benefit from the annualization effect of the penetration growth achieved in 2014 by Novozymes' Avantec®, Spirizyme® Achieve and Olexa®, as well as a further increase in the penetration of these solutions in 2015. Growth will also come from new innovations expected to be launched in the first half of the year. The 2015 sales outlook is based on the expectation that U.S. fuel ethanol production in 2015 will be at the same level as in 2014.

## Agriculture & Feed

Agriculture & Feed sales are expected to benefit from continued growth in Feed, albeit at a lower level than in 2014. BioAg organic sales growth is expected to return to normalized levels in line with prior years' growth rates. In 2015, Novozymes expects to recognize DKK ~225 million of the deferred income as sales. Deferred income does not impact the calculation of organic sales growth rates. Deferred income impacts the realized sales growth in DKK, but has no cash flow impact.

## Technical & Pharma

Sales to the Technical & Pharma industries are expected to grow, primarily due to an expected increase in Pharma sales. Sales growth in the first quarter of 2015 is expected to be low due to high comparables in the first quarter of 2014.

## Earnings expectations

EBIT growth is expected to be 12-14%. Higher sales and a positive contribution from currencies are expected to drive the strong EBIT growth and more than offset the negative impact from the absence of the one-time net gain from The BioAg Alliance and other one-time items realized in 2014, expected lower other operating income, and an expected cost expansion in R&D, and sales and business development. The EBIT margin is expected to be 26-27%.

The effective tax rate is expected to be 22-23%.

Net profit is expected to grow by 10-12%, driven by growth in EBIT, which is expected to be offset slightly by higher net financial costs caused by the recent surge in the USD, which will lead to a loss on forward currency contracts.

Around 85% of expected USD/DKK net exposure for 2015 has been hedged. Around half of the 85% has been hedged with forward contracts at 5.73, whereas the other half has been hedged via options at 5.65. In 2014, around 75% of the USD/DKK net exposure was hedged with forward contracts at 5.79.

## Investments and cash flow expectations

Net investments are expected to be DKK ~1,000 million. Besides maintenance CAPEX, most investments target operational efficiency improvements and expansions in R&D.

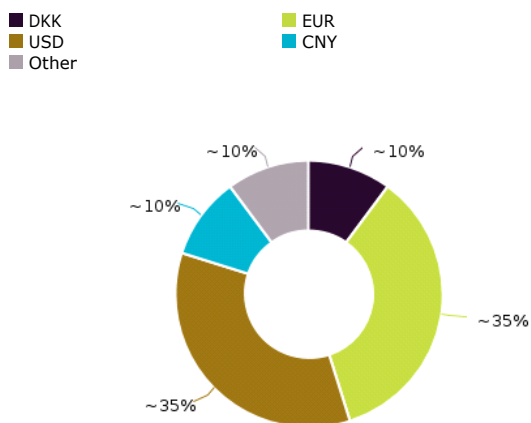
Free cash flow is expected to be DKK 2,500-2,700 million.

Return on invested capital including goodwill is expected to be 25-26%.

## Sales by currency in 2014 and exposure in 2015

From a currency perspective, EBIT is most exposed to fluctuations in USD and EUR. Other things being equal, a 5% movement in USD/DKK is expected to have an annual impact on EBIT of DKK 80-100 million. Other things being equal, a 0.5% movement in EUR/DKK is expected to have an annual impact on EBIT of DKK 15-20 million.

## REVENUE BY CURRENCY



## 2015 financial targets

	2015
Sales growth, DKK	13-15%
Organic sales growth	7-9%
EBIT growth	12-14%
EBIT margin	26-27%
Net profit growth	10-12%
Net investments excl. acquisitions, DKKm	~1,000
Free cash flow before acquisitions, DKKm	2,500-2,700
ROIC incl. goodwill	25-26%
Avg. USD/DKK	641

The outlook is based on exchange rates for the company's key currencies remaining at the closing rates on January 19, 2015, for the full year.

(DKK)	EUR	USD	BRL	CNY
Average exchange rate 2013	746	562	262	91
Average exchange rate 2014	745	562	239	91
Closing rate January 19, 2015	743	641	244	103
Estimated average exchange rate 2015*	743	641	244	103
Change in estimated exchange rate 2015 compared with average exchange rate 2014	0%	14%	2%	13%

\* Estimated average exchange rate is the closing exchange rate on January 19.



# More for less is good news for U.S. ethanol producers

**More than 60% of the biofuel produced in North America in 2014 was made using Novozymes' enzyme technology, making us a key player in the U.S. ethanol market. Our bioenergy business grew by 19% in 2014 while the U.S. ethanol market grew by an estimated 8%.**

"Novozymes' breakthrough innovations and world-class technical service are helping our customers get more ethanol and corn oil from corn, and achieve greater efficiency in their plants," says Andy Fordyce, Executive Vice President for Business Operations. "Customers recognize the benefits and are willing to pay for the improvements we bring, which is helping us grow the market for bioenergy enzymes."

There is strong demand for Novozymes' yield-discovery products Avantec®, Spirizyme® Achieve and Olexa®, which deliver up to 5% improved ethanol yields, 15% improved corn oil yields and 6% energy savings. A typical U.S. ethanol plant uses around 900,000 tons of feed-grade corn per year to produce 100 million gallons of fuel ethanol (~378.5 million liters), 300,000 tons of animal feed and 8,500 tons of corn oil.

With Avantec and Spirizyme Achieve, such a plant can either use 4% less corn while maintaining the same ethanol output or produce up to 5% more ethanol without increasing input costs. Either way, profits improve substantially. Moreover, Novozymes' technical services are helping ethanol customers to optimize operations and run their plants more consistently at higher production levels.

## **EFFICIENCY EXPECTED TO DRIVE GROWTH**

The U.S. is the world's largest producer of biofuels, with ethanol accounting for approximately 10% of the country's gasoline consumption for transport. Ethanol production in the U.S. market has been stabilizing over the past couple of years, as it has proved challenging to blend more than 10% ethanol into the fuel supply, but with our innovations there is still a lot of room to grow. "We see opportunities for new innovations that can add significant value to our customers' operations," says Jack Rogers, Global Marketing Manager for Biofuels. More efficient conversion of corn to ethanol and other products such as corn oil and animal feed can lead to significant additional revenue for customers.

"The ethanol market has positive effects on other areas of the U.S. agricultural sector," Rogers adds. "Driven by the development of the ethanol industry, farmers are growing more corn and delivering more food, feed and fiber to the market at lower cost. In turn, that's boosting innovation and efficiency in U.S. agriculture." In fact, the U.S. ethanol industry produced nearly 40 million tons of animal feed in 2013-2014.

## **A WELL-ESTABLISHED INDUSTRY**

The U.S. Environmental Protection Agency (EPA) administers the Renewable Fuel Standard (RFS) program comprising volume requirements for several categories of renewable fuels in the U.S. In late 2013, the EPA proposed reductions in the 2014 requirements for ethanol volume blended into the U.S. fuel supply. A decision on the final 2014 volumes has, however, been delayed and postponed several times, and is still not final. The proposal for 2015 volumes has also still not been made.

"The RFS sends an important message of stability to the U.S. biofuel market. It has allowed ethanol to compete on cost with gasoline. The industry is now well established in the U.S. and is an important part of the country's liquid transport fuel supply system," says Fordyce.

"In the long run, the RFS should continue to allow ethanol a fair way into what used to be a closed fuel supply chain dependent solely on gasoline. We will continue to invest to improve the efficiency and cost-effectiveness of producing ethanol for fuel. Together with our partners in the industry, we will work to ensure that regulators and policymakers are aware of the advantages of ethanol."

# Risk management

Novozymes is exposed to a range of operational, commercial and financial risks. Identifying and mitigating those risks as early as possible is integral to our business as it reduces uncertainty and keeps us on track to achieve our ambitions and deliver value as promised to our stakeholders.

## MITIGATION OF RISKS

Novozymes runs an Enterprise Risk Management (ERM) process under which the biggest risks to the Group are identified, assessed, reported and mitigated at different levels in the organization. The key risks are reviewed and assessed by the Executive Leadership Team and the Board of Directors.

On a quarterly basis, all business units and vice presidents systematically report new risks, and any changes to previously defined risks, to Risk Management & Controls. Reported risks are collated and mapped on the basis of probability and possible impact. Risks are assessed and classified on the basis of financial and reputational impact, and the reporting covers financial and nonfinancial risks. This is then shared with the respective functions or units, which act to mitigate risks.

The process is anchored with the Vice President of Corporate Finance and ensures that top management has a high level of risk awareness with involvement and ownership throughout the organization.

## ENTERPRISE RISK MANAGEMENT PROCESS



## Risk factors

This section describes key risks identified in Novozymes' value chain along with the measures being taken to reduce them. A color-coded symbol next to each risk indicates the assessment of the level of risk after mitigating activities:

- High risk and high impact
- ▲ Low risk and high impact, or high risk and low impact
- Low risk and low impact

Financial risks are presented in Note 5.1 to the consolidated financial statements. Tax-related risks are presented in Note 2.5.

## Supply and supplier risks

### SUPPLIERS AND OTHER PARTNERS ■

#### Description

Selecting and evaluating suppliers and other partners is key to upholding Novozymes' reputation and ensuring that it stays in operation and at the forefront of sustainability. If a supplier or partner does not live up to the company's high standards, this could damage Novozymes' reputation or disrupt its value chain, and ultimately result in loss of contracts with customers.

#### Mitigation

Novozymes uses a supplier performance management system, in which sustainability is a parameter and evaluated alongside commercial and quality parameters. The evaluation process is supplemented with media research, dialogue and critical insight. The system helps rank and compare suppliers according to risk and opportunity, and provides an overview of the global supplier pool. The system is also designed to help Novozymes' purchasing function identify the suppliers that typically pose the biggest risks. Suppliers with critical issues are subject to further questions, action plans or an audit. When entering partnerships, an initial assessment of the same parameters described for suppliers is performed.

## Innovation risks

### INNOVATION ▲

#### Description

Novozymes strives to strengthen its position as market leader by continually launching new and improved high-quality solutions that meet customers' needs. Inability to deliver innovation could hamper Novozymes' ability to grow.

#### Mitigation

To mitigate this risk, Novozymes focuses on delivering a strong innovation pipeline to a diversified set of more than 40 different end markets globally. Our future sales are not dependent on single large product launches, as we sell to many different end markets and customers, and constantly have several new products in the pipeline. Focus is especially

"On a quarterly basis, all business units and vice presidents systematically report new risks, and any changes to previously defined risks, to Risk Management & Controls."

high to ensure close partnerships with large customers and innovation leaders of their respective industries.

Novozymes also strives to shorten the time needed to bring new products from laboratories to market as well as offering the best available product portfolio at the lowest possible production cost at any given time.

This places high demands on the Group's research and development function, requiring it to sustain a full and flowing pipeline and to constantly decrease production costs for existing molecules. Novozymes allocates around 14% of sales to R&D to ensure sufficient resources for future innovation.

### **PROTECTION OF INTELLECTUAL PROPERTY ▲**

#### **Description**

Our technology is the basis of our business and ensures freedom to operate. Any infringement of Novozymes' unique technologies or production strains, etc. could lead to loss of opportunities with new and existing customers.

#### **Mitigation**

Novozymes pursues an active patent strategy by protecting new discoveries, production strains, formulation systems, and relevant know-how and processes as early as possible. With more than 7,000 patents granted or pending, Novozymes has an extensive patent portfolio that it actively safeguards to prevent and stop infringement by competitors. At the same time, competitors' activities are constantly monitored to ensure that Novozymes' innovation does not infringe any existing patents, enabling resources and costs for product development to be saved through early intervention. In addition to protecting our intellectual property through patents, we also mitigate risk through perimeter protection

via access control and by educating our employees about secure storage of sensitive information, etc. at all our sites.

## **Market risks**

Some of the key market risks to which Novozymes is exposed are price and innovation pressure from existing or potential new producers, and new game-changing technologies.

### **2G ETHANOL AND BIOCHEMICAL MARKET ▲**

#### **Description**

The commercialization of the Biomass Conversion industry, one of Novozymes' growth platforms, is at an early stage. Establishing a new capital-intensive energy industry involves several risk factors related to policy, technology, commodity prices and other commercial terms. In addition, sustained low oil prices could pose a risk to the political support for advanced biofuels and decrease the pace of commercialization of the 2G biomass industry.

#### **Mitigation**

The mitigation plans and the industry strategy include multiple initiatives. Novozymes continuously invests in R&D to develop enzyme technology for improving yield and profitability to ensure that the industry becomes a commercial alternative to fossil fuels. At the same time, we also invest in a broad and global business development team that allows us to build a global pipeline of projects and partnerships. We focus on supporting partners in their efforts to successfully ramp up the commercial showcase for Biomass Conversion, in addition to delivering the biotechnology itself. Novozymes has also increased project development efforts by identifying, targeting and partnering with potential investors in the industry as well as influencing public opinion and legislation.

### **CUSTOMER CONCENTRATION ▲**

#### **Description**

Sales to our five largest customers make up approximately 31% of total sales. Thus, a relatively small number of customers account for a high proportion of Novozymes' revenue, which means that the company is affected by developments in these customers' markets and financial situation.

#### **Mitigation**

Novozymes works closely together with major customers to build long-term relationships by means of joint development projects and joint production planning, to strengthen relationships and build long-lasting value for both parties. To reduce the risk of fluctuations in sales by key customers, we focus on honing our diversified end-market strategy and delivering a strong innovation pipeline to support all of our customers' market development globally.

### **COMPETITOR LANDSCAPE ▲**

#### **Description**

Novozymes' leading position in the enzyme market is exposed to competition from existing and potential new competitors. The competition is driven by multinational enzyme producers and niche producers that are expanding their presence and attempting to capture market share.

#### **Mitigation**

Novozymes has a strong and broad market presence keeping the company in tune with customer needs. Novozymes protects its competitive position through its innovation strategy, such that innovation of new enzyme applications maintains Novozymes as an attractive innovation partner. Ongoing development and optimization, based on a single technology platform, also provide scale benefits in innovation and ensure that Novozymes remains competitive on price as well. In addition, we invest in substantial technical and customer service across our markets to ensure that we offer a complete value package that differentiates us from the competition.

### **SIGNIFICANT CHANGE IN CUSTOMERS' INPUT COSTS ▲**

#### **Description**

Novozymes' technologies often compete with other input costs and raw materials, and not just other biotechnology solutions. A significant and sudden decrease in the cost of competing inputs might decrease the competitiveness of our biotechnology solutions.

#### **Mitigation**

Novozymes always strives to make the full value proposition of its solutions visible to its customers, to ensure that customers take all aspects into account when considering

substituting or reducing the spend on its technology. Due to the nature of its technology platform, Novozymes can offer its customers stable pricing for many years, which reduces uncertainty for customers and provides value. Novozymes has proved that its solutions become better and more powerful over time, but at a higher value or lower cost in use to customers. Accordingly, the competitiveness of our technology improves with time and increases the likelihood of Novozymes' technology closing any gap in competitiveness resulting from a fall in competing input prices.

## Other risks

### REPUTATION ▲

#### Description

Novozymes' reputation is an important factor throughout the business, from interaction and partnerships with customers and other partners to relations with authorities and recruitment of new employees.

#### Mitigation

Novozymes aims to maintain a good reputation by means of openness and transparency in both internal and external communications. Work is carried out on an ongoing basis to mitigate the risk associated with situations that could damage Novozymes' reputation. Relevant legislation must be complied with at all times, and Novozymes is committed to ensuring high standards in everything it does and to conducting its business operations in a responsible way. For example, we continually train our employees in our business integrity principles. We also follow product regulations and safe-use rules, including ensuring safety during development and training our customers in safe application of our products. In addition, Novozymes is strongly committed to ensuring the safety of employees. Read more about our improvements in frequency of accidents per million working hours in the Social performance section.

Positively impacting the surrounding environment is important to Novozymes. Therefore, we endeavor to do business in such a way that our environmental impact is part of the solution to current environmental challenges. Our

targets of achieving significant reductions in CO<sub>2</sub> emissions and water and energy consumption demonstrate our commitment to this ambition.

### IT SECURITY ▲

#### Description

The continuous development of IT technology and use of IT tools impose an increasing risk of data hacking and theft by external parties.

#### Mitigation

In recent years, Novozymes has upgraded its IT security setup and invested significant resources in physical security.

Novozymes continually runs training and awareness programs to educate employees about potential threats and the best way to safeguard confidential information. The mitigation initiatives also include improved protection such as enhanced access control and detection of physical and online intruders.



# Capturing growth in emerging markets

Home to around 5.6 billion people, the world's emerging markets are thought to have contributed half of global GDP in 2013, and present great opportunities for Novozymes. Consumers in these economies have less buying power than those in developed countries, but the middle class is growing and demanding more high-quality products. Annual consumption in emerging markets is expected to rise to \$30 trillion in the next 10 years, accounting for nearly 50% of the world's total.

"We're working on developing products for customers in these regions and introducing them to the benefits of our solutions. The sheer size of emerging markets offers significant potential for Novozymes," says Anders Lund, Vice President for Marketing.

## LOCAL INNOVATION FOR LOCAL MARKETS

Novozymes segments emerging markets into China, India, Eastern Europe, Middle East, Africa, Latin America and Southeast Asia. These countries and regions vary considerably in terms of level of industrialization, natural endowments,

quality of infrastructure and disposable income. "Our strategy is to develop a deep understanding of each market and local conditions, and translate this into solutions that create the most value for individual customers," Lund says.

Novozymes sees potential in emerging markets across all its industries. Today, however, the lion's share of the company's business in emerging markets stems from Household Care and Food & Beverages (starch, brewing and baking), and these will continue to be Novozymes' most important industries in these markets in the coming years.

Currently, most products Novozymes sells in emerging markets were originally developed for Western markets. "We need to foster local innovation that is tailored to the near market, at the right price, to capture the mass-market opportunities in each of these regions," Lund says.

## MEETING LOCAL CUSTOMER NEEDS

Doing that means learning about local consumer preferences and habits, navigating political systems and manufacturing value chains, and building long-lasting customer relationships.

In India, for instance, the market for industrial biotechnology is growing at 11% per year. More than 90% of consumers wash laundry by hand, using soap bars and powders to tackle tough stains from grease, air pollution and soil, often in areas where water is scarce. To deliver the best solutions to local consumers, Novozymes has invested in a "hand-wash lab" in Bangalore that replicates local washing conditions. The idea is to help our customers develop better-performing detergents that enable consumers to do their laundry with less water and effort.

Especially for emerging markets, Novozymes has developed unique technology where one granule can contain several unique enzymes relevant to a variety of local customers. This cogranulation technology for powder detergents is enabling local production of multienzymatic products. Novozymes also holds baking workshops to introduce enzymatic technologies to small-scale bakers in various markets, and delivers easy-to-use 5-kg packs of feed enzymes to smallholder farmers in India and educates them about biotechnology in the local languages.

## DIFFERENTIATED PORTFOLIO

"Once our customers start to understand the world of enzymes, they begin to request more tailored solutions, such as products that work with local raw materials available in certain regions, or specific conditions such as doing laundry by hand, in cold water," says Tue Micheelsen, Vice President for Business Operations, Asia Pacific.

Once customers learn and experience the benefits of using enzymes in their products, they are more likely to adopt



enzymatic solutions and use them as a way of differentiating themselves from the competition. “We’ve been developing sophisticated enzymes for many years, and now we’re using that knowledge to build even more relevant offerings for our emerging-market customers by adapting our technology and services to a variety of segments and price points based on customer needs,” Micheelsen adds.

#### **COMPETE AND INVEST**

Given the prospect of further strong GDP growth in emerging markets, Novozymes expects to see consolidation of its emerging-market customers, as well as rising competition from agile local companies, especially in China. “Success breeds success, and that invites more competition, but today we have much more to offer than our competitors,” says Micheelsen. “We will and must keep investing in these markets to stay ahead and get even closer to our customers.”

Moreover, Novozymes will invest in larger local sales forces and technical services in emerging markets. “We accept there could be market volatility and there could be years where some segments do not perform strongly,” Lund says. “But if you look 20 years ahead, there’s no doubt emerging markets will be at a whole different level, and that’s why we need to make that long-term investment.”



# GOVERNANCE



# Board of Directors

Our nine-member Board of Directors and six-member Executive Leadership Team boast broad global management experience, comprehensive biotech expertise and in-depth knowledge of Novozymes' business. The members' various competencies combine to ensure the best possible management of the company.



## Henrik Gürtler\*

Born 1953. Chairman of the Board since 2000. Elected for one year at a time.

### BOARD POSITIONS

#### Chairman:

Det Alm. Danske Ejendomsselskab A/S (DADES A/S)

#### Special competencies:

In-depth knowledge of Novozymes' business, and expertise in managing and working in an international biotechnology company.

*\* This board member is not regarded as independent in the sense of the definition in the Danish Recommendations on Corporate Governance that apply to Danish listed companies.*



## Agnete Raaschou-Nielsen

Born 1957. Vice Chairman of the Board since 2014. Member of the Board since 2011. Member of the Audit Committee. Elected for one year at a time.

### BOARD POSITIONS

#### Chairman:

Arkil Holding A/S

Brdr. Hartmann A/S

#### Vice Chairman:

Danske Invest, Dalhoff Larsen & Horneman A/S, Solar A/S

#### Member:

Aktieselskabet Schouw & Co., Danske Invest Management A/S, Icopal Holding A/S

#### Member of the Audit Committee:

Dalhoff Larsen & Horneman A/S, Solar A/S

#### Special competencies:

Expertise in business development and acquisitions, macroeconomics and intellectual property rights.



## Lars Green\*

Born 1967. Senior Vice President, Finance & Operations, Novo Nordisk Inc. (U.S.). Member of the Board since 2014. Chairman of the Audit Committee. Elected for one year at a time.

### BOARD POSITIONS

#### Member:

Dalhoff Larsen & Horneman A/S

#### Member of the Audit Committee:

Dalhoff Larsen & Horneman A/S (Chairman)

#### Special competencies:

In-depth knowledge of the Novo Group's business, international experience from managing global biotech and biopharma companies, and financial and accounting expertise.

Board of Directors (continued)



**Lena Bech Holskov**

Born 1967. Safety Adviser. Employee representative. Member of the Board since 2013. Elected for four years at a time.



**Anders Hentze Knudsen**

Born 1959. Senior Operator. Employee representative. Member of the Board since 2013. Elected for four years at a time.



**Lars Bo Kjøppler**

Born 1962. Technician. Employee representative. Member of the Board since 2010. Elected for four years at a time.

**BOARD POSITIONS**

**Member:**

Novo Nordisk Foundation

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## Board of Directors (continued)



### Lena Olving

Born 1956. President & CEO, Mycronic AB (publ), Sweden. Member of the Board since 2011. Member of the Audit Committee. Elected for one year at a time.

#### **BOARD POSITIONS**

**Member:**

SJ AB

**Member of the Audit Committee:**

SJ AB

**Special competencies:**

Expertise within sales and marketing, supply chain, process optimization, production, finance and accounting.



### Jørgen Buhl Rasmussen

Born 1955. President and CEO, Carlsberg A/S. Honorary Professor at Copenhagen Business School. Member of the Board since 2011. Elected for one year at a time.

#### **BOARD POSITIONS**

**Chairman:**

JSC Baltika Breweries

**Member:**

Carlsberg Breweries A/S

DI's Permanent Committee on Business Policies

**Special competencies:**

International business and management experience, specifically within sales, marketing, branding and acquisitions.



### Mathias Uhlén

Born 1954. Professor at the Royal Institute of Technology (KTH), Sweden, and the Technical University of Denmark (DTU). Member of the Board since 2007. Elected for one year at a time.

#### **BOARD POSITIONS**

**Chairman:**

Atlas Antibodies AB

Antibodypedia AB

**Vice Chairman:**

Affibody AB

**Member:**

Alligator AB

Bure Equity AB

Swetree Technologies AB

**Special competencies:**

Broad experience in research and biotechnology.

# Executive Leadership Team



**Peder Holk Nielsen**

Born 1956. President & CEO.

**BOARD POSITIONS**

**Member:**

Hempel A/S

LEO Pharma A/S



**Per Falholt**

Born 1958. Executive Vice President, Research & Development.

**BOARD POSITIONS**

**Chairman:**

Technical University of Denmark (DTU)

**Member:**

DHI Group

ARTs Biologics A/S



**Andrew Fordyce**

Born 1963. Executive Vice President, Business Operations.

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Executive Leadership Team (continued)



**Benny D. Loft**

Born 1965. Executive Vice President & CFO.

**BOARD POSITIONS**

**Member:**

DONG Energy A/S  
Danmarks Akvarium, Den Blå Planet  
New Xellia Group A/S

**Chairman of the Audit Committee:**

DONG Energy A/S  
New Xellia Group A/S



**Thomas Nagy**

Born 1963. Executive Vice President, Supply Operations.

**BOARD POSITIONS**

**Member:**

American Chamber of Commerce in Denmark  
EuropaBIO  
Bio-based Industries Joint Undertaking (BBI JU)



**Thomas Videbæk**

Born 1960. Executive Vice President, Business Development.

**BOARD POSITIONS**

**Member:**

Evolva SA  
Beta Renewables S.p.A

**Chairman of the Audit Committee**

Beta Renewables S.p.A

# Corporate governance

Proactive and transparent corporate governance is a cornerstone for the efficient management of Novozymes. The Board of Directors and Executive Leadership Team believe that good corporate governance promotes sustainable business conduct and long-term value creation. By following new corporate governance trends, guidelines and regulations very closely, Novozymes regularly updates its own management systems to ensure openness and transparency at all times, and to provide stakeholders with relevant insight into the business and the way it is managed.

## BOARD OF DIRECTORS: COMPOSITION AND RESPONSIBILITIES

In accordance with Danish legislation, Novozymes has a two-tier management system comprising the Board of Directors and the Executive Leadership Team, with no individual being a member of both. The division of responsibility between the Board of Directors and the Executive Leadership Team is clearly outlined and described in the Rules of Procedure for the Board of Directors and Rules of Procedure for the Executive Leadership Team, available at [www.novozymes.com](http://www.novozymes.com).

Novozyymes' Articles of Association require the Board of Directors to have four to eight members elected at the Annual Shareholders' Meeting. Currently, the Board has six members. They are elected for one year at a time and cannot be elected or re-elected after reaching the age of 70. Nominations are based on an evaluation of factors such as competencies, diversity, independence and prior performance. The Board of Directors also includes three members elected by employees, who serve four-year terms.

The Board of Directors is accountable to the company's shareholders for the way the company conducts its business. The composition of the Board of Directors must therefore be such that the combined competencies of the Board enable it to inspire, guide and oversee the company's development,

and diligently address and resolve the issues and challenges faced by the company at any time.

In order to secure the right competencies and promote diversity, the following targets have been set for the composition of the Board of Directors:

1. At least half of the shareholder-elected board members shall be independent as defined in the Danish Code on Corporate Governance
2. At least 40% of the shareholder-elected board members shall have substantial international experience from the management of large corporations or institutions headquartered outside Denmark
3. One-third or more of the shareholder-elected board members shall be female, and one-third or more of the shareholder-elected board members shall be male

All targets were met in 2014, and the third bullet fulfills the requirements of section 99b of the Danish Financial Statements Acts.

"The Board of Directors is accountable to the company's shareholders for the way the company conducts its business."

The required competencies are defined in a competency profile that specifies various personal characteristics, skills and experience. The individual competencies of the members of the Board of Directors are shown in the section Board of Directors and Executive Leadership Team.

The Board's main responsibilities are to:

- Ensure the right management and organizational structure
- Supervise financial, social and environmental performance and the Executive Leadership Team's day-to-day running of the company
- Decide the overall management and strategic development of the company

For an overview of the tasks performed to fulfill these responsibilities, see the diagram A year with the Board of Directors.

A Chairmanship has been established in accordance with the Articles of Association and the Rules of Procedure for the Board of Directors. It has two members – the Chairman, Henrik Gørtler, and the Vice Chairman, Agnete Raaschou-Nielsen – and is responsible for assisting the Board of Directors in matters concerning the Executive Leadership Team's remuneration and nomination, and for overseeing the Executive Leadership Team's day-to-day running of the company and reporting back to the Board of Directors. The Chairmanship is also responsible for planning and preparing meetings of the Board of Directors, preparing material for the nomination of candidates for election to the Board of Directors, and recommending remuneration for the Board of Directors and the Executive Leadership Team.

In addition, the Board of Directors has established an Audit Committee. The Audit Committee assists the Board of Directors in monitoring aspects relating to accounting, auditing, internal control and financial reporting. Further information about the Committee can be found at [www.novozymes.com](http://www.novozymes.com).

As part of internal control, all cases of fraud and concerns raised, either through the Novozymes Whistleblower Hotline or directly by internal or external personnel, are reported to

the Audit Committee. Two cases of substantiated fraud were reported in 2014, with both cases leading to the dismissal of employees and one being reported to the police.

### CHARTERS AND RECOMMENDATIONS

In laying down the management principles for Novozymes, the Board of Directors has followed the Recommendations on Corporate Governance that form part of the disclosure requirements applicable to companies listed on Nasdaq OMX Copenhagen. These recommendations are available at [www.corporategovernance.dk](http://www.corporategovernance.dk). The recommendations were updated in 2014. The update had only a minor impact on Novozymes, and the changes were adopted during the year. A detailed review of Novozymes' position on all of the recommendations and a description of the internal control and risk management system relating to financial reporting can be found in the statutory report on corporate governance pursuant to section 107b of the Danish Financial Statements Act, under Corporate Governance at [www.novozymes.com/en/investor/corporate-governance/Statutory%20report%20on%20Corporate%20Governance/Documents/Statutory%20report%20on%20corporate%20governance%202014.pdf](http://www.novozymes.com/en/investor/corporate-governance/Statutory%20report%20on%20Corporate%20Governance/Documents/Statutory%20report%20on%20corporate%20governance%202014.pdf).

The recommendations require companies to explain any noncompliance. Novozymes follows 75 of 79 recommendations, the exceptions being:

- Nomination and remuneration committees have not been set up. Instead, these responsibilities are laid down in the Charter for the Chairmanship (Recommendations 3.4.6 and 3.4.7)
- The remuneration policy for the Executive Leadership Team contains no specific clause that pertains to the repayment of variable remuneration components paid on the basis of misstated information, as Novozymes considers the rules in Danish law to be sufficient in such cases (Recommendation 4.1.2)
- Due to the limitations imposed by the Novo Nordisk Foundation's Articles of Association and Novozymes' ownership structure, the Board of Directors reserves the right in certain circumstances to reject takeover bids without consulting shareholders (Recommendation 1.3.1)

Novozymes also works within the parameters of *Touch the World* – a document outlining the company's values and

## 2014 focus areas

### PURPOSE, STRATEGY AND TARGETS

Over the course of the year, the Executive Leadership Team and the Board of Directors worked to refine the company's purpose statement, develop its strategy through 2020 and set new targets.

### THE BIOAG ALLIANCE

Being in its first year, The BioAg Alliance with Monsanto was naturally one of the Board's focus areas in 2014. The Board discussed and assessed how the partners can make the greatest possible success of The Alliance. This will remain a focus area for the Board in 2015, with The Alliance set to accelerate from an R&D perspective.

### BIOMASS CONVERSION

The Board of Directors was keen to understand how Novozymes can facilitate commercial success for Biomass Conversion. In 2015, it will monitor the success of the first commercial-scale plants and how the political environment develops.

### EMERGING MARKETS

Ensuring that Novozymes creates and makes the most of opportunities in emerging markets remains a priority for the Board.

### RISK MANAGEMENT

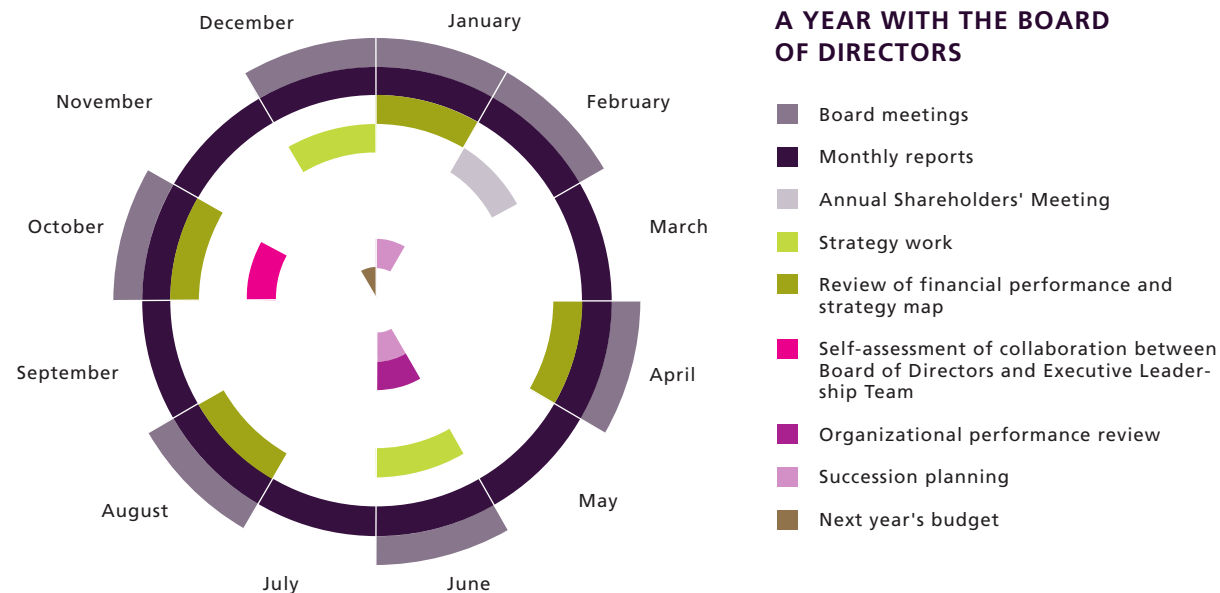
The Board discussed risks in the company, the competitive environment and end markets.

### INVESTMENTS IN R&D

Finally, the Board looked at securing the best possible return on the more than DKK 1.5 billion the company spends each year on research & development.

In addition to the above, the Board monitored the development of new platforms and specific improvements in sustainability targets such as diversity at management level.

A new Vice Chairman of the Board and Chairman of the Audit Committee were also appointed following the Annual Shareholders' Meeting in 2014.



"Novozymes also works within the parameters of Touch the World – a document outlining the company's values and commitments – and has committed to principles derived from the UN Global Compact and UN Convention on Biological Diversity."

commitments – and has committed to principles derived from the UN Global Compact and UN Convention on Biological Diversity.

#### **OTHER BOARD-RELATED INFORMATION**

The Board of Directors held seven meetings in 2014, with an overall attendance rate of 100%.

Any changes to the Articles of Association require that shareholders representing at least two-thirds of the total number of votes in the company are represented at the Shareholders' Meeting, and that at least two-thirds of the votes cast, as well as two-thirds of the voting capital represented at the meeting, are in favor of the proposal to change the Articles of Association. The Annual Shareholders' Meeting has authorized the Board of Directors to allow the company to acquire treasury stock on an ongoing basis to the extent that the nominal value of the company's total holding of treasury stock at no time exceeds 10% of its share capital, cf. section 198 of the Danish Companies Act. The purchase price must not deviate by more than 10% from the price quoted on Nasdaq OMX Copenhagen on the date of acquisition. The authorization applies until March 1, 2017.

Each year, one of the responsibilities of the Board of Directors is to assess whether the ownership structure with A and B common stock is optimal. The Board of Directors remains of the opinion that this is the best way to safeguard Novozymes' long-term development to the benefit of the company's shareholders and other stakeholders.

Novozymes is party to a number of partnership contracts that can be terminated by the other party in the event of

significant changes in the ownership or control of Novozymes. A few contracts contain provisions that restrict Novozymes' licenses to use specific forms of technology in such situations.

Novozymes is party to contracts where managerial staff can claim compensation in the case of resignation, dismissal or redundancy due to a takeover bid.

In addition to its regular assignments related to the overall management and strategic development of the company, the Board of Directors worked on six focus areas in 2014 that will have a significant impact on the future development and performance of the company. See text box on 2014 focus areas.

## Changes to the Board of Directors

At the forthcoming Annual Shareholders' Meeting, the Board of Directors will propose the re-election of Henrik Gørtler as Chairman and Agnete Raaschou-Nielsen as Vice Chairman. The Board of Directors will propose the re-election of Lena Olving, Jørgen Buhl Rasmussen, Lars Green and Mathias Uhlén, and the election of an additional member, Dr. Heinz-Jürgen Bertram.

Dr. Heinz-Jürgen Bertram, born 1958, currently serves as CEO and Chairman of the Executive Board at Symrise AG. The Board of Directors recommends the election of Dr. Heinz-Jürgen Bertram because of his relevant experience in international business and leadership as well as his competencies within the conversion of R&D and biotechnology to commercial products and solutions.





ACCOUNTS  
& DATA

# Consolidated statements of income

## INCOME STATEMENT

DKK million	Note	2014	2013
Revenue	2.1, 2.2	12,459	11,746
Cost of goods sold	2.3, 3.1, 3.2	(5,310)	(5,030)
<b>Gross profit</b>		<b>7,149</b>	<b>6,716</b>
Sales and distribution costs	2.3, 3.1, 3.2	(1,406)	(1,476)
Research and development costs	2.3, 3.1, 3.2	(1,841)	(1,528)
Administrative costs	2.3, 3.1, 3.2, 6.5	(857)	(824)
Other operating income, net	2.4	339	13
<b>Operating profit / EBIT</b>		<b>3,384</b>	<b>2,901</b>
Financial income	5.2	35	82
Financial costs	5.2	(140)	(224)
<b>Profit before tax</b>		<b>3,279</b>	<b>2,759</b>
Tax	2.5	(754)	(558)
<b>Net profit</b>		<b>2,525</b>	<b>2,201</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		2,526	2,200
Non-controlling interests		(1)	1
		2,525	2,201
Proposed dividend per share		DKK 3.00	DKK 2.50
Earnings per share	5.6	DKK 8.10	DKK 7.01
Earnings per share, diluted	5.6	DKK 8.02	DKK 6.93

## STATEMENT OF COMPREHENSIVE INCOME

DKK million	Note	2014	2013
<b>Net profit</b>		<b>2,525</b>	<b>2,201</b>
Items that may be reclassified subsequently to the income statement:			
<b>Currency translation adjustments</b>			
Subsidiaries and non-controlling interests		365	(370)
Tax on currency translation adjustments		(7)	16
<b>Currency translation adjustments</b>		<b>358</b>	<b>(354)</b>
<b>Cash flow hedges</b>			
Fair value adjustments		(104)	113
Tax on fair value adjustments		22	(28)
Fair value adjustments reclassified to financial income/costs		(31)	8
Tax on reclassified fair value adjustments		8	(2)
<b>Cash flow hedges</b>		<b>(105)</b>	<b>91</b>
<b>Other comprehensive income</b>		<b>253</b>	<b>(263)</b>
<b>Comprehensive income for the year</b>		<b>2,778</b>	<b>1,938</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		2,778	1,937
Non-controlling interests		-	1
		2,778	1,938

# Consolidated balance sheet

## ASSETS

DKK million	Note	Dec. 31, 2014	Dec. 31, 2013
Intangible assets	2.1, 3.1	2,954	2,864
Land and buildings	2.1, 3.2	2,537	2,480
Plant and machinery	2.1, 3.2	3,884	3,578
Other equipment	2.1, 3.2	553	527
Assets under construction and prepayments	2.1, 3.2	524	550
Deferred tax assets	2.5	485	456
Other financial assets	5.3	29	14
Investment in associate	3.5	24	45
Other receivables	4.3	125	162
<b>Non-current assets</b>		<b>11,115</b>	<b>10,676</b>
Inventories	4.1	2,184	1,902
Trade receivables	4.2	2,244	2,242
Tax receivables	2.5	103	151
Other receivables	4.3	228	301
Other financial assets	5.3, 5.4	17	87
Cash and cash equivalents	6.6	2,535	1,003
		<b>7,311</b>	<b>5,686</b>
Assets held for sale	4.5	-	144
<b>Current assets</b>		<b>7,311</b>	<b>5,830</b>
<b>Assets</b>		<b>18,426</b>	<b>16,506</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

DKK million	Note	Dec. 31, 2014	Dec. 31, 2013
Common stock	5.5	639	639
Currency translation adjustments		431	74
Cash flow hedges		(10)	95
Retained earnings		10,209	10,246
<b>Equity attributable to shareholders in Novozymes A/S</b>		<b>11,269</b>	<b>11,054</b>
Non-controlling interests		11	12
<b>Shareholders' equity</b>		<b>11,280</b>	<b>11,066</b>
Deferred tax liabilities	2.5	784	956
Provisions	3.3	212	151
Deferred income	3.4	950	-
Other liabilities		17	-
Other financial liabilities	5.3	1,242	1,734
<b>Non-current liabilities</b>		<b>3,205</b>	<b>2,841</b>
Provisions	3.3	67	128
Other financial liabilities	5.3, 5.4	730	105
Trade payables		1,122	976
Deferred income	3.4	258	35
Tax payables	2.5	389	356
Other liabilities	4.4	1,375	999
<b>Current liabilities</b>		<b>3,941</b>	<b>2,599</b>
<b>Liabilities</b>		<b>7,146</b>	<b>5,440</b>
<b>Liabilities and shareholders' equity</b>		<b>18,426</b>	<b>16,506</b>

# Consolidated statement of shareholders' equity

DKK million	Attributable to shareholders in the company				Total	Non-controlling interests	Total equity
	Common stock	Currency translation adjustments	Cash flow hedges	Retained earnings			
<b>Shareholders' equity at January 1, 2014</b>	<b>639</b>	<b>74</b>	<b>95</b>	<b>10,246</b>	<b>11,054</b>	<b>12</b>	<b>11,066</b>
Net profit for the year				2,526	2,526	(1)	2,525
Other comprehensive income for the year		357	(105)	-	252	1	253
Total comprehensive income for the year	-	357	(105)	2,526	2,778	-	2,778
Purchase of treasury stock				(2,000)	(2,000)		(2,000)
Sale of treasury stock				85	85		85
Dividend				(787)	(787)	(1)	(788)
Stock-based payment				91	91		91
Tax related to equity items				48	48		48
<b>Changes in shareholders' equity</b>	<b>-</b>	<b>357</b>	<b>(105)</b>	<b>(37)</b>	<b>215</b>	<b>(1)</b>	<b>214</b>
<b>Shareholders' equity at December 31, 2014</b>	<b>639</b>	<b>431</b>	<b>(10)</b>	<b>10,209</b>	<b>11,269</b>	<b>11</b>	<b>11,280</b>
<b>Shareholders' equity at January 1, 2013</b>	<b>650</b>	<b>428</b>	<b>4</b>	<b>8,473</b>	<b>9,555</b>	<b>13</b>	<b>9,568</b>
Net profit for the year				2,200	2,200	1	2,201
Other comprehensive income for the year		(354)	91		(263)		(263)
Total comprehensive income for the year	-	(354)	91	2,200	1,937	1	1,938
Sale of treasury stock				167	167		167
Write-down of common stock	(11)			11	-		-
Dividend				(690)	(690)	(2)	(692)
Stock-based payment				55	55		55
Tax related to equity items				30	30		30
<b>Changes in shareholders' equity</b>	<b>(11)</b>	<b>(354)</b>	<b>91</b>	<b>1,773</b>	<b>1,499</b>	<b>(1)</b>	<b>1,498</b>
<b>Shareholders' equity at December 31, 2013</b>	<b>639</b>	<b>74</b>	<b>95</b>	<b>10,246</b>	<b>11,054</b>	<b>12</b>	<b>11,066</b>

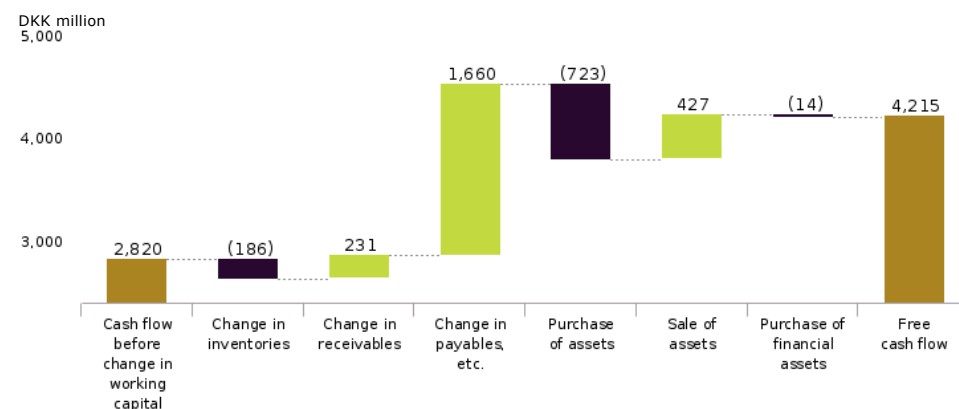
The proposed dividend of DKK 925 million for 2014 is included in Retained earnings.  
Reference is made to Note 5.5 concerning treasury stock.

# Consolidated statement of cash flows

DKK million	Note	2014	2013	DKK million	Note	2014	2013
<b>Net profit</b>		<b>2,525</b>	<b>2,201</b>	<b>Financing</b>			
Reversal of non-cash items	6.6	1,123	1,565	Borrowings		-	263
Income tax paid		(777)	(599)	Repayments of borrowings		-	(270)
Interest received		10	3	Purchase of treasury stock		(2,000)	-
Interest paid		(61)	(63)	Sale of treasury stock		85	167
<b>Cash flow before change in working capital</b>		<b>2,820</b>	<b>3,107</b>	Dividend paid		(788)	(692)
<b>Change in working capital</b>				<b>Cash flow from financing activities</b>		<b>(2,703)</b>	<b>(532)</b>
(Increase)/decrease in receivables		231	(277)	<b>Net cash flow</b>		<b>1,512</b>	<b>644</b>
(Increase)/decrease in inventories		(186)	(82)	Unrealized gain/(loss) on currencies and financial assets included in cash and cash equivalents		(1)	(32)
Increase/(decrease) in payables and deferred income		1,659	(134)	<b>Net change in cash and cash equivalents</b>		<b>1,511</b>	<b>612</b>
Currency translation adjustments		1	(15)	Cash and cash equivalents, net, at January 1		942	330
<b>Cash flow from operating activities</b>		<b>4,525</b>	<b>2,599</b>	<b>Cash and cash equivalents, net, at December 31</b>	<b>6.6</b>	<b>2,453</b>	<b>942</b>
<b>Investments</b>							
Purchase of intangible assets	3.1	(20)	(24)				
Sale of intangible assets*		409	-				
Purchase of property, plant and equipment	3.2	(703)	(762)				
Sale of property, plant and equipment*		18	3				
Business acquisitions and purchase of financial assets	6.6	(14)	(640)				
<b>Cash flow from investing activities</b>		<b>(310)</b>	<b>(1,423)</b>				
<b>Free cash flow</b>		<b>4,215</b>	<b>1,176</b>				

\* The formation of The BioAg Alliance included sale of intangible assets and property, plant and equipment of DKK 419 million.

## FREE CASH FLOW



# Environmental and social data

ENVIRONMENTAL PERFORMANCE	Note		2014	2013
<b>Impact of application of Novozymes' products</b>				
Estimated CO <sub>2</sub> reductions from customers' application of Novozymes' products in their products or processes	7.1	Million tons	60	52
<b>Efficiency improvement compared with 2005</b>				
Energy	7.2	%	43	40
CO <sub>2</sub>	7.3	%	56	54
Water	7.4	%	37	33
<b>Consumption of resources</b>				
Energy	7.2	1,000 GJ	4,188	4,174
Water	7.4	1,000 m <sup>3</sup>	6,742	6,807
Raw materials	7.6	1,000 tons	527	492
Packaging	7.6	1,000 tons	20	18
<b>Wastewater</b>				
Volume	7.5	1,000 m <sup>3</sup>	4,786	4,653
<b>Waste and by-products</b>				
Biomass volume	7.7	1,000 m <sup>3</sup>	543	546
Waste	7.7	Tons	11,909	11,670
Percentage of total waste recycled	7.7	%	45.3	38.6
<b>Environmental impact of emissions</b>				
Global warming	7.3	1,000 tons CO <sub>2</sub> -eqv.	419	406
Ozone layer depletion	7.3	Kg CFC <sub>11</sub> -eqv.	51	26
<b>Environmental compliance, etc.</b>				
Breaches of regulatory limits	7.8	No.	25	36
Significant spills	7.8	No.	-	-
Neighbor complaints	7.8	No.	11	11
<b>Animals for testing</b>				
Animals for testing	7.9	No.	1,600	2,665

# Environmental and social data (continued)

SOCIAL AND GOVERNANCE PERFORMANCE	Note		2014	2013
<b>Employee statistics</b>				
Employees, total	2.3	No.	6,454	6,236
Women	2.3	%	37.7	36.4
Men	2.3	%	62.3	63.6
Rate of employee turnover	8.1	%	8.1	7.5
Rate of absence	8.1	%	1.8	1.8
Percentage of new leaders who are women	8.1	%	34	26
Percentage of new leaders of a nationality other than Danish	8.1	%	71	44
<b>Training costs</b>				
Average spent per employee		DKK	5,399	5,004
Costs as percentage of total employee costs		%	1.1	1.0
<b>Health and safety</b>				
Fatalities		No.	-	-
Occupational accidents with absence	8.2	No.	17	24
Of which life-threatening accidents		No.	-	-
Occupational diseases	8.2	No.	4	8
Frequency of occupational accidents	8.2	Per million working hours	1.7	2.4
Frequency of occupational diseases	8.2	Per million working hours	0.4	0.8
<b>Processes and technology</b>				
New products	8.3	No.	8	11
Active patent families	8.3	No.	1,191	1,242
<b>Training and compliance</b>				
Supplier performance management	8.4	%	99	97
Completion of business integrity training for employees	8.4	%	94	84
Breaches of competition law	8.4	No.	-	-
Fraud cases	8.4	No.	2	2
<b>Corporate citizenship</b>				
Regional flagship projects	8.5	No.	13	9
Learners reached	8.5	No.	51,000	36,320

# Note list

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## Basis of reporting

Reading guide

- 1 Basis of reporting
- 

## Net operating profit after tax

- 2.1 Segments
- 2.2 Revenue
- 2.3 Employees
- 2.4 Other operating income, net
- 2.5 Tax

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## Invested capital

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

## Net working capital

- 4.1 Inventories
- 4.2 Trade receivables
- 4.3 Other receivables
- 4.4 Other liabilities
- 4.5 Assets held for sale

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## Capital structure and financing

- 5.1 Financial risk factors
  - 5.2 Financial income and Financial costs
  - 5.3 Other financial assets and liabilities
  - 5.4 Derivatives - hedge accounting
  - 5.5 Common stock
  - 5.6 Earnings per share
- 

## Other 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

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## Environmental data

- 7.1 Climate change impact
  - 7.2 Energy
  - 7.3 Greenhouse gas emissions
  - 7.4 Water
  - 7.5 Wastewater
  - 7.6 Production inputs
  - 7.7 Waste and by-products
  - 7.8 Environmental compliance, etc.
  - 7.9 Animals for testing
- 

## Social and governance data

- 8.1 Development of the workforce
- 8.2 Occupational accidents and occupational diseases
- 8.3 Processes and technology
- 8.4 Training and compliance
- 8.5 Corporate citizenship



## Reading guide

The financial statements have been presented in a manner that attempts to make them less complex and more relevant to readers.

The notes have been structured to provide enhanced understanding of each accounting area, by describing relevant accounting policies and sources of estimation uncertainty in the notes to which they relate. Accounting policies applied to the consolidated financial statements as a whole are described below.

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 notes, Environmental data and Social data. The purpose is to provide a clearer understanding of what drives performance.

Novozymes explains the accounting choices that have been made within the framework of the prevailing IFRS policy and has elected not to repeat the actual text of the standard, unless Novozymes considers it particularly important to the understanding of the note content. The descriptions of

accounting policies in the notes form part of the overall description of accounting policies.

Environmental and social data are an integrated part of The Novozymes Report and are covered by the statutory audit performed by the auditor elected at the Annual Shareholders' Meeting. The notes for these data are structured in the same way as described for the financial notes.

The symbols **I/S**, **B/S** and **CSR** show which amounts in the notes can be found in the income statement, balance sheet and environmental and social data respectively.

# 1

## Basis of reporting

The consolidated financial statements of the Novozymes Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish requirements for the presentation of financial statements. Novozymes has prepared its consolidated financial statements in accordance with all the IFRS standards in force at December 31, 2014. 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 statements are prepared in accordance with principles that adhere to the following internationally recognized voluntary reporting standards and principles:

- AA1000 framework for accountability. The framework states that reporting must provide a complete, accurate, relevant and balanced picture of the organization's approach to and impact on society
- UN Global Compact. Novozymes is a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment and anticorruption

- Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. The Guidelines (G3) include an internationally recognized set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance

The accounting policies are unchanged from last year.

Novozymes' reporting according to GRI and UN Global Compact (Communication on Progress), including the required disclosures, can be found under Supplementary Reporting.

# 1 Basis of reporting (continued)

## IMPACT OF NEW ACCOUNTING STANDARDS

Novozymes has adopted the following new or amended standards and interpretations from January 1, 2014. None of these have been early adopted, and their adoption has not had an impact on the consolidated financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities was published in December 2011 and permits financial assets and financial liabilities to be offset in the balance sheet only where a current existing, legally enforceable, unconditional right of set-off applies in the normal course of business, default or insolvency
- Amendments to IAS 39/IFRS 9 – Novation of Derivatives and Continuation of Hedge Accounting was published in June 2013 and requires that hedge accounting is continued when a derivative is novated to a central counterparty as a result of laws and regulations
- IFRIC 21 Levies was published in May 2013 and contains guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy are certain

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The IASB has issued a number of new or amended standards and interpretations with effective dates for annual periods beginning after January 1, 2014. Some of these have not yet been endorsed by the EU. None of these are expected to have a significant impact on recognition and measurement, but may lead to further specifications in the notes.

- IFRS 15 – Revenue from Contracts with Customers was published in May 2014 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The main principle is that an entity should recognize revenue to depict the transfer of promised goods and services to customers at an amount that

reflects the consideration to which the entity expects to be entitled. The standard requires extensive disclosures. The standard is effective for annual periods beginning on or after January 1, 2017. The standard is not expected to have a significant effect on recognition and measurement, but is expected to impact disclosures due to the extensive disclosure requirements.

## DEFINING MATERIALITY

Novozymes' annual report is based on the concept of materiality, to ensure that the content is material and relevant to the reader. This objective is pursued, amongst other things, by providing relevant rather than generic descriptions.

The consolidated financial statements consist of a large number of transactions. These transactions are aggregated into classes according to their nature or function and presented in classes of similar items in the financial statements and in the notes as required by IFRS. If items are individually immaterial, they are aggregated with other items of similar nature in the statements or in the notes. The disclosure requirements throughout IFRS are substantial, and Novozymes provides these specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the readers of these financial statements or not applicable.

The consolidated environmental and social statements include the data parameters that, based on an assessment of materiality for Novozymes and its stakeholders, are deemed the most relevant. The materiality assessment can be found in Market trends.

The environmental data cover those activities that, based on an overall annual assessment, 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.

## ACCOUNTING POLICIES

The descriptions of accounting policies in the notes form part of the overall description of accounting policies. Descriptions of financial accounting policies are included in the following notes:

### Net operating profit after tax

Revenue	Note 2.2
Other operating income, net	Note 2.4
Tax	Note 2.5

### Invested capital

Intangible assets and impairment test of goodwill	Note 3.1
Property, plant and equipment	Note 3.2
Provisions	Note 3.3
Deferred income	Note 3.4
Joint operations and associates	Note 3.5
Business acquisitions	Note 3.6

### Net working capital

Inventories	Note 4.1
Trade receivables	Note 4.2
Other receivables	Note 4.3
Other liabilities	Note 4.4
Assets held for sale	Note 4.5

### Capital structure and financing

Financial income and Financial costs	Note 5.2
Other financial assets and liabilities	Note 5.3
Derivatives – hedge accounting	Note 5.4
Common stock	Note 5.5
Earnings per share	Note 5.6

### Other notes

Stock-based payment	Note 6.2
Cash flow	Note 6.6

# 1 Basis of reporting (continued)



## ACCOUNTING POLICIES

### CONSOLIDATION

The consolidated financial statements comprise the financial statements of Novozymes A/S (the parent company) and subsidiaries controlled by Novozymes A/S, prepared in accordance with Group accounting policies. The consolidated financial statements are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal stockholdings and balances, and unrealized intercompany profits and losses.

Environmental and social data are similarly based on data for the parent company and all subsidiaries by combining items of a uniform nature compiled using the same accounting principles. Recognition of newly acquired or divested sites and subsidiaries follows the same principles as for the financial reporting.

Resource consumption from construction work in relation to new production plants is not included, unless the resource consumption (water and energy) is registered by meters that measure resource consumption at Novozymes' premises. Resource consumption from production trials at new facilities is included.

### 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 are recognized in Other comprehensive income.



## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the assessment of carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate

was based, or as a result of new information or more experience. Such changes are recognized in the period in which the estimate is revised.

Key assumptions about the future and key sources of accounting estimates where there is a significant risk of a material adjustment being made to the carrying amounts of assets and liabilities within the next 12 months are described in the notes to which they relate.

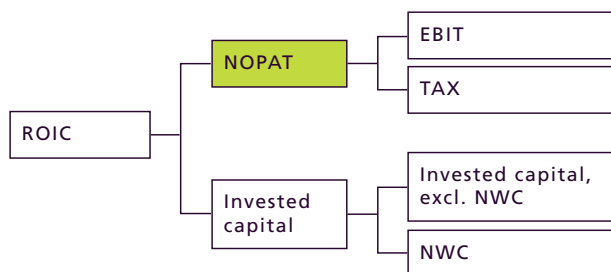
The table below shows descriptions of accounting estimates and the corresponding note reference.

Other operating income	Note 2.4
Useful life of intangible assets	Note 3.1
Impairment	Note 3.2
Provisions	Note 3.3
Deferred income	Note 3.4
Joint operations and associates	Note 3.5
Business acquisitions	Note 3.6
Cost of work in progress and finished goods	Note 4.1
Allowance for doubtful trade receivables	Note 4.2

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. This includes, but is not limited to, the following:

Investment in Beta Renewables S.p.A.	Note 3.5
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# Net operating profit after tax



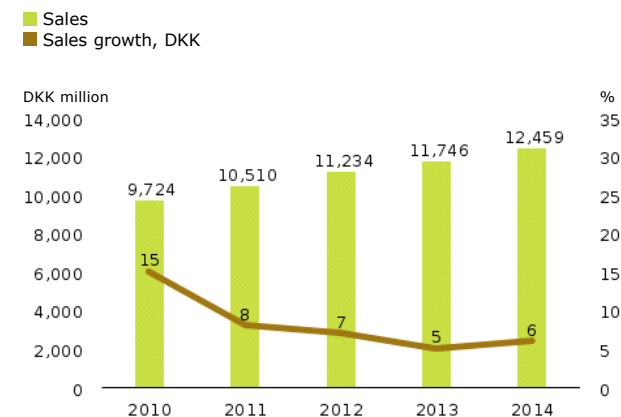
Net operating profit after tax (NOPAT) increased significantly in 2014 to DKK 2,588 million from DKK 2,289 million in 2013.

The main reason for the increase in net operating profit after tax was that EBIT grew by 17% to DKK 3,384 million, up from DKK 2,901 million in 2013, while the EBIT margin increased by 2.5 percentage points to 27.2% from 24.7% in 2013. A significant driver for the increase was the one-time gain from transferring primarily intangible assets to Monsanto as a result of The BioAg Alliance.

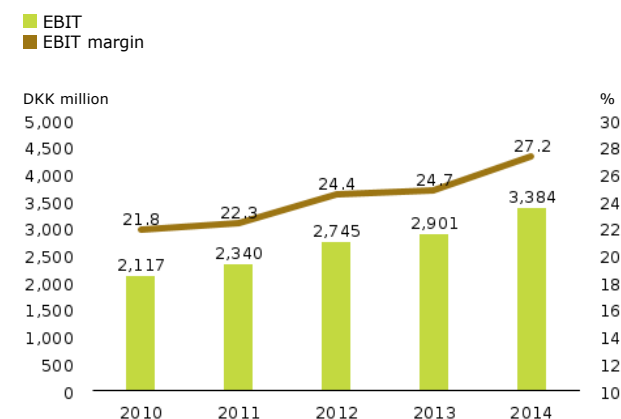
The increase in EBIT was partly offset by an increase in the effective tax rate to 23.0% from 20.2% in 2013, mainly due to the absence of the deferred tax effect realized in 2013 following the enactment of new lower corporate tax rates in Denmark.

DKK million	Note	2014	2013
Revenue	I/S	12,459	11,746
Cost of goods sold	I/S	(5,310)	(5,030)
<b>Gross profit</b>		<b>7,149</b>	<b>6,716</b>
Sales and distribution costs	I/S	(1,406)	(1,476)
Research and development costs	I/S	(1,841)	(1,528)
Administrative costs	I/S	(857)	(824)
Other operating income, net	I/S	339	13
<b>Operating profit (EBIT)</b>		<b>3,384</b>	<b>2,901</b>
Exchange gains/(losses)	5.2	6	(22)
Tax of adjusted operating profit		(780)	(582)
Share of loss in associate	5.2	(21)	(8)
<b>Adjusted operating profit (NOPAT)</b>		<b>2,589</b>	<b>2,289</b>
<b>Average invested capital</b>		<b>11,203</b>	<b>11,435</b>
<b>ROIC</b>		<b>23.1%</b>	<b>20.0%</b>

## SALES AND SALES GROWTH



## EBIT AND EBIT MARGIN



# 2.1 Segments

## NO SEGMENT REPORTING

The internal reporting framework used for reporting on revenue and expenses to the Executive Leadership Team and the Board of Directors has been set up to reflect and report on the global functional responsibility setup at Novozymes. The functional responsibility 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/MEA (including Denmark), North America, Asia Pacific and Latin America.

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

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

REVENUE 2014 (2013)



DKK million

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT 2014 (2013)



DKK million

CAPITAL EXPENDITURE 2014 (2013)



DKK million

# 2.2 Revenue

DKK million	2014	2013
Household Care	4,353	4,222
Food & Beverages	3,278	3,190
Bioenergy	2,270	1,909
Agriculture & Feed	1,728	1,668
Technical & Pharma	830	757
<b>Revenue</b>	<b>12,459</b>	<b>11,746</b>
Sales to the five largest customers as a percentage of revenue	31%	29%

## ACCOUNTING POLICIES

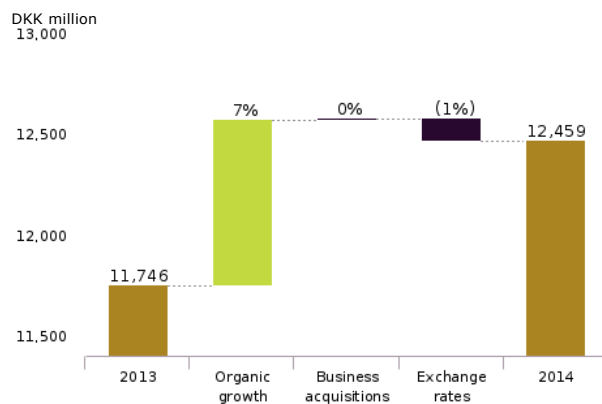
Revenue includes sales of goods and related services, commission income and royalties, less goods returned and volume and cash discounts. Sales are recognized at the time of risk transfer relating to the goods sold, provided that the revenue can be measured on a reliable basis and is expected to be received.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

The Group has entered into a few 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.

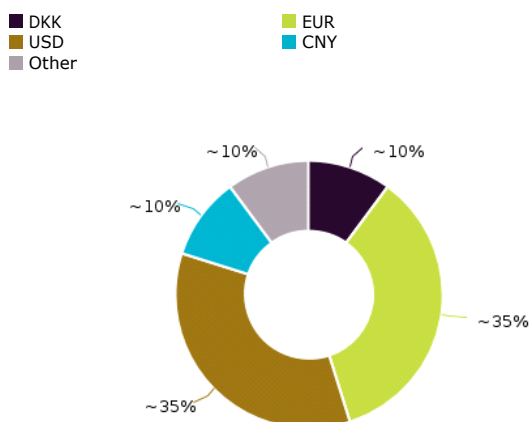
Sales from these arrangements are recognized using information on the other contracting party's realized sales. Distribution of the profit is calculated and distributed periodically, and a receivable/liability is recognized for any unsettled profit at the reporting date.

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

### SALES DEVELOPMENT 2014



### SALES BY CURRENCY 2014



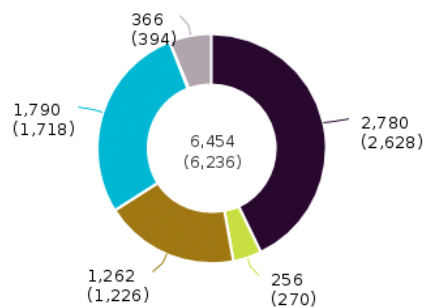
## 2.3 Employees

DKK million	2014	2013
Wages and salaries	2,613	2,546
Pensions - defined contribution plans	252	237
Other social security costs	210	208
Other employee costs	146	124
Stock-based payment	94	55
<b>Employee costs</b>	<b>3,315</b>	<b>3,170</b>
Recognized in the income statement under the following items:		
Cost of goods sold	1,212	1,151
Sales and distribution costs	697	732
Research and development costs	887	808
Administrative costs	501	482
	<b>3,297</b>	<b>3,173</b>
Change in employee costs recognized in Inventories	18	(3)
<b>Employee costs</b>	<b>3,315</b>	<b>3,170</b>

NUMBER OF EMPLOYEES 2014 (2013)

■ Denmark  
 ■ North America  
 ■ Latin America  
 ■ Rest of Europe, Middle East & Africa  
 ■ Asia Pacific

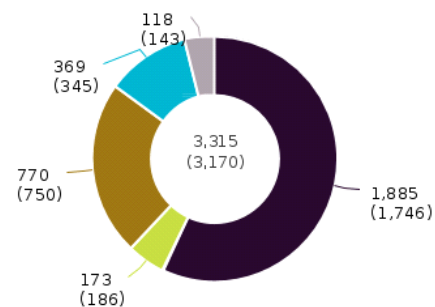
No.



EMPLOYEE COSTS 2014 (2013)

■ Denmark  
 ■ North America  
 ■ Latin America  
 ■ Rest of Europe, Middle East & Africa  
 ■ Asia Pacific

DKK million



## 2.3 Employees (continued)

	2014	2013
Average number of employees in the Group	6,260	6,162
Average number of employees that work with R&D	1,463	1,387
Number of employees outside Denmark as a percentage of total number of employees	57%	58%
<hr/>		
Part-time employees	375	340
Full-time employees	6,079	5,896
<b>Employees</b>	<b>6,454</b>	<b>6,236</b>
<hr/>		
Senior management	201	194
Management	1,096	1,004
Professional	1,844	1,877
Administrative	634	588
Skilled workers, laboratory technicians and other technicians	1,467	1,408
Process operators	1,212	1,165
<b>Employees by category</b>	<b>6,454</b>	<b>6,236</b>



### ACCOUNTING POLICIES

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

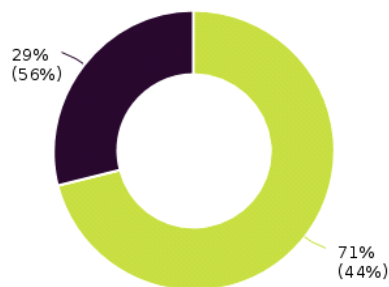
The average number of employees is calculated as the average of the number of permanent employees at the end of each quarter.

Job categories are defined as follows:

Senior management comprises the CEO, executive vice presidents, vice presidents and directors. Management comprises middle managers and specialists. Professional comprises employees with academic backgrounds as well as team leaders. Administrative comprises administrative personnel. Process operators comprises operators and unskilled workers.

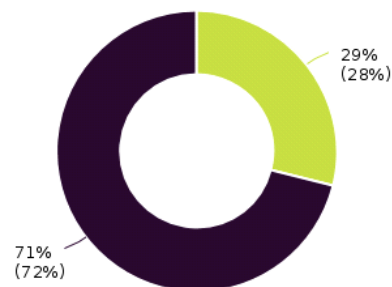
### NEW LEADERS APPOINTED 2014 (2013)

■ Nationality other than Danish  
■ Danish



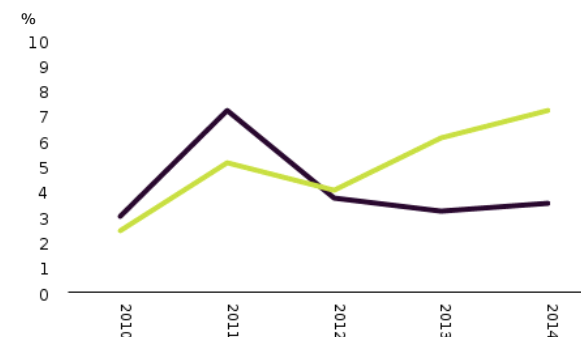
### WOMEN IN MANAGEMENT AND SENIOR MANAGEMENT 2014 (2013)

■ Women  
■ Men



### EMPLOYEE GROWTH

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





## 2.4 Other operating income, net

DKK million	2014	2013
Income and grants concerning research projects/collaborations	44	3
The BioAg Alliance one-time gain	237	-
Other secondary income, net	58	10
<b>Other operating income, net</b>	<b>339</b>	<b>13</b>

Other operating income is significantly impacted by the one-time realized gain from the transfer of intangible assets and property, plant and equipment to Monsanto on completion of The BioAg

Alliance, as the transaction value of the assets exceeded the book value.



### ACCOUNTING POLICIES

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



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

# 2.5 Tax

## TAX IN THE INCOME STATEMENT

DKK million	2014	2013
Tax payable on net profit	914	568
Change in deferred tax	(140)	109
Revaluation of deferred tax due to changes in corporation tax rate	-	(78)
Adjustment for previous years	(20)	(41)
<b>Tax in the income statement</b>	<b>754</b>	<b>558</b>

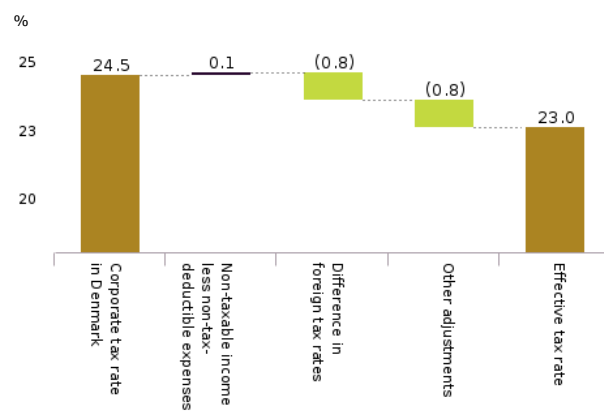
## ACCOUNTING POLICIES

Corporation tax, comprising the current tax liability, change in deferred tax for the year and possible adjustments relating to previous years, is recognized in the income statement, except to the extent that it relates to items recognized either in Other comprehensive income or directly in Shareholders' equity.

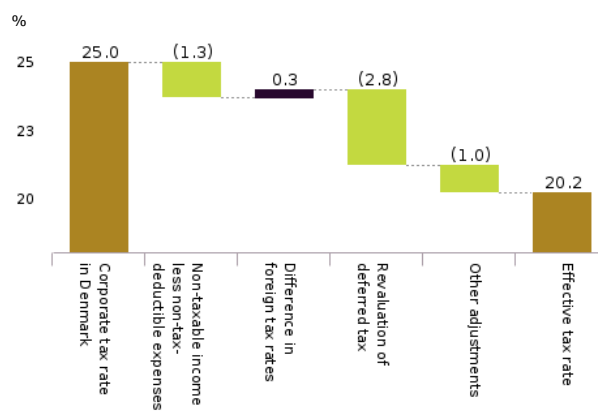
Uncertain tax positions are recognized if it is probable that an amount is to be paid or received. Deferred tax is measured using the balance-sheet liability method and comprises all temporary differences between the carrying amount and tax base of assets and liabilities. No deferred tax is recognized 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.

### EFFECTIVE TAX RATE 2014



### EFFECTIVE TAX RATE 2013



## 2.5 Tax (continued)

### DEFERRED TAX

DKK million	Deferred tax assets		Deferred tax liabilities	
	2014	2013	2014	2013
Intangible assets and property, plant and equipment	465	203	(1,363)	(1,181)
Inventories	498	379	(136)	(113)
Tax-loss carry-forwards	2	3	-	-
Stock options	128	106	-	-
Other	243	154	(136)	(51)
	<b>1,336</b>	<b>845</b>	<b>(1,635)</b>	<b>(1,345)</b>
Offsetting items	(851)	(389)	851	389
<b>Deferred tax at December 31</b>	<b>485</b>	<b>456</b>	<b>(784)</b>	<b>(956)</b>

Tax value of unrecognized share of tax-loss carry-forwards, tax credits, etc. that do not expire amounts to DKK 20 million (2013: DKK 47 million).

DKK million		2014	2013
Deferred tax at January 1		(500)	(517)
Currency translation adjustments		2	(6)
Effect of business acquisitions		25	(8)
Tax related to the income statement		154	32
Tax on shareholders' equity items		20	(1)
<b>Deferred tax at December 31</b>		<b>(299)</b>	<b>(500)</b>
Deferred tax assets	B/S	485	456
Deferred tax liabilities	B/S	(784)	(956)
<b>Deferred tax at December 31</b>		<b>(299)</b>	<b>(500)</b>



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's tax charge is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows. The complexity of the Group's structure following its geographic expansion makes the degree of estimation and judgment more challenging. The resolution of issues is not always within the control of the Group and is often dependent on the efficiency of the legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the tax charge in the consolidated income statement and actual tax payments. The Group regularly enters into dialogue with the tax authorities to reduce this risk and has a major part of its internal transactions covered by advance pricing agreements.

## 2.5 Tax (continued)

### TAX RECEIVABLES AND PAYABLES

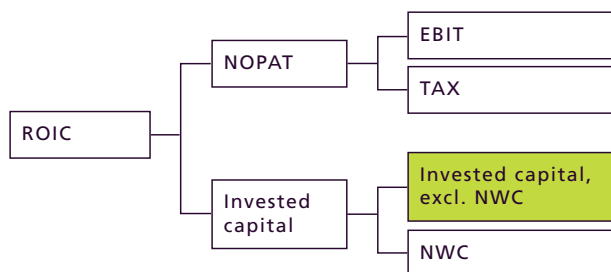
DKK million		2014	2013
Tax payable at January 1		(205)	(233)
Currency translation adjustments		(1)	1
Tax related to the income statement		(908)	(590)
Tax on shareholders' equity items		51	18
Tax paid for the current year, net		777	599
<b>Tax payables, net, at December 31</b>		<b>(286)</b>	<b>(205)</b>
Tax receivables	B/S	103	151
Tax payables	B/S	(389)	(356)
<b>Tax payables, net, at December 31</b>		<b>(286)</b>	<b>(205)</b>
Of which due within 12 months		(58)	(41)
Of which due after more than 12 months		(228)	(164)
<b>Tax payables, net, at December 31</b>		<b>(286)</b>	<b>(205)</b>

### TAX RISK

Novozymes operates in many markets via sales companies and distributors, while production takes place in a small number of countries. This leads to transactions between Group companies. Novozymes follows the OECD principles in setting internal transfer prices for these transactions, but this is a complicated area and entails a tax risk, partly because the area is subject to political judgment in each individual country. Novozymes regularly enters into dialogue with the tax authorities to reduce this risk, and we have entered into advance pricing agreements with the tax authorities in the countries where internal transactions are most significant, such as the U.S. and China.

For Novozymes, such agreements create predictability in relation to taxation and reduce the risk of Novozymes becoming part of the ongoing transfer-pricing debate around the world. A major part of internal transactions in the Group is covered by advance pricing agreements. See also Novozymes' position on tax at [www.novozymes.com](http://www.novozymes.com).

# Invested capital



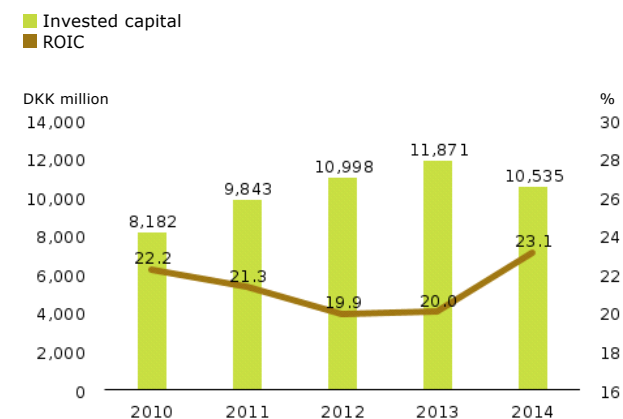
Invested capital has decreased from DKK 11,871 million in 2013 to DKK 10,535 million in 2014. A significant driver for the decrease in invested capital is recognition of deferred income related mainly to payments from Monsanto on the formation of The BioAg Alliance; refer to Note 3.4 for more information.

Over the last five years, invested capital has increased by 28.8%, mainly driven by business acquisitions and investments in new production facilities, etc.

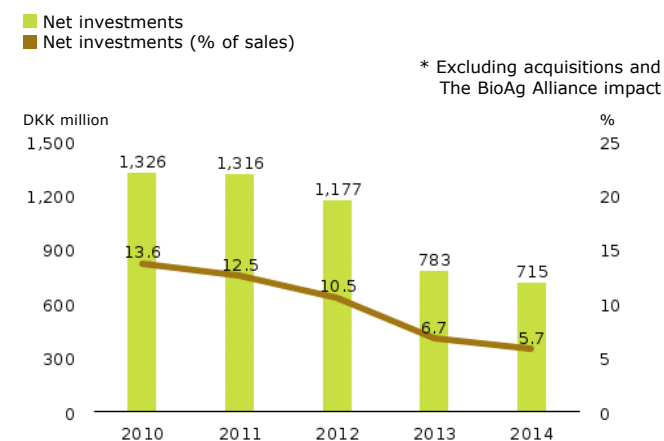
Novozymes' updated long-term target for ROIC including goodwill is 25% and above. This replaces the previous target of more than 22%. This is expected to be reached throughout the period as a result of the anticipated higher profit generation over the period in combination with lower growth in invested capital than over the past five years, when a number of large investments and minor acquisitions were made in preparation for growth in the period up to and beyond 2020.

DKK million	Note	2014	2013
Intangible assets	B/S	2,954	2,864
Property, plant and equipment	B/S	7,498	7,135
Investment in associate	B/S	24	45
Other financial assets		-	14
Net working capital (see note section 4)		1,059	2,741
Financial assets, non-interest-bearing	5.3	17	87
Provisions	B/S	(279)	(279)
Other non-current financial liabilities, non-interest-bearing		(17)	(18)
Other financial liabilities, non-interest-bearing		(136)	(13)
Tax, net	2.5	(585)	(705)
<b>Invested capital</b>		<b>10,535</b>	<b>11,871</b>
<b>Average invested capital</b>		<b>11,203</b>	<b>11,435</b>

## ROIC AND INVESTED CAPITAL



## NET INVESTMENTS\*



## 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, 2014	1,022	2,599	291	2	3,914
Currency translation adjustments	6	17	1	-	24
Additions from business acquisitions	88	(94)	-	-	(6)
Additions during the year	-	329	20	-	349
Disposals during the year	(3)	(15)	-	-	(18)
Transfer to/(from) other items	-	-	2	(2)	-
<b>Cost at December 31, 2014</b>	<b>1,113</b>	<b>2,836</b>	<b>314</b>	<b>-</b>	<b>4,263</b>
Amortization and impairment losses at January 1, 2014		845	205		1,050
Currency translation adjustments		5	-		5
Amortization during the year		229	27		256
Disposals during the year		(2)	-		(2)
<b>Amortization and impairment losses at December 31, 2014</b>		<b>1,077</b>	<b>232</b>		<b>1,309</b>
<b>Carrying amount at December 31, 2014</b>	<b>1,113</b>	<b>1,759</b>	<b>82</b>	<b>-</b>	<b>2,954</b>

### IMPAIRMENT

No impairment losses on intangible assets have been recognized in 2014 (2013: no impairment losses recognized).

### IMPAIRMENT TEST OF GOODWILL

Management monitors goodwill for the Novozymes Group as a whole, which means that the impairment test of goodwill is performed for the Novozymes Group as a whole.

The fair market value of Novozymes is significantly greater than equity and, with reference to our materiality concept, no further key assumptions are used in determining whether impairment of goodwill exists.

### 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 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 7-15 years

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

The Group regularly reviews the carrying amounts of its finite-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, an impairment loss is recognized to the extent that the assets 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.

## 3.1 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, 2013	811	2,492	225	62	3,590
Currency translation adjustments	(93)	(49)	-	-	(142)
Additions from business acquisitions	344	282	-	-	626
Additions during the year	-	18	4	2	24
Disposals during the year	-	(11)	-	-	(11)
Transfer to assets held for sale	(40)	(133)	-	-	(173)
Transfer to/(from) other items	-	-	62	(62)	-
<b>Cost at December 31, 2013</b>	<b>1,022</b>	<b>2,599</b>	<b>291</b>	<b>2</b>	<b>3,914</b>
Amortization and impairment losses at January 1, 2013		733	185		918
Currency translation adjustments		(12)	-		(12)
Amortization during the year		168	20		188
Disposals during the year		(11)	-		(11)
Transfer to assets held for sale		(33)	-		(33)
<b>Amortization and impairment losses at December 31, 2013</b>		<b>845</b>	<b>205</b>		<b>1,050</b>
<b>Carrying amount at December 31, 2013</b>	<b>1,022</b>	<b>1,754</b>	<b>86</b>	<b>2</b>	<b>2,864</b>

B/S



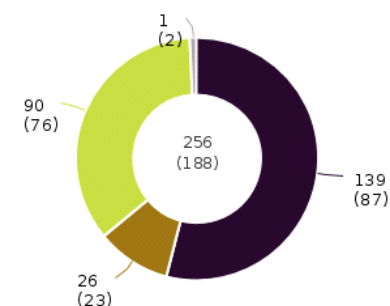
### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The estimated useful life reflects the period over which the Group expects to derive economic benefits from intangible assets. The most significant intangible assets are patents, trademarks, licenses and know-how, which are amortized over 7-15 years. The economic lives are reviewed on an annual basis, taking into consideration future events that may impact them, such as changes in scope of patents and in technology.

### RECOGNITION OF AMORTIZATION BY FUNCTION 2014 (2013)

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

DKK million



## 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, 2014	4,469	7,934	1,323	550	14,276
Currency translation adjustments	234	461	58	29	782
Additions during the year	33	195	94	381	703
Disposals during the year	(7)	(86)	(96)	-	(189)
Transfer to/(from) other items	109	275	52	(436)	-
<b>Cost at December 31, 2014</b>	<b>4,838</b>	<b>8,779</b>	<b>1,431</b>	<b>524</b>	<b>15,572</b>
Depreciation and impairment losses at January 1, 2014	1,989	4,356	796		7,141
Currency translation adjustments	92	190	35		317
Depreciation for the year	175	331	104		610
Impairment losses	50	100	-		150
Disposals during the year	(5)	(82)	(57)		(144)
<b>Depreciation and impairment losses at December 31, 2014</b>	<b>2,301</b>	<b>4,895</b>	<b>878</b>		<b>8,074</b>
<b>Carrying amount at December 31, 2014</b>	<b>2,537</b>	<b>3,884</b>	<b>553</b>	<b>524</b>	<b>7,498</b>

Interest of DKK 0 million (2013: DKK 0 million) has been capitalized under Additions during the year above and under Investing activities in the Consolidated statement of cash flows.

Land and buildings with a carrying amount of DKK 422 million (2013: DKK 438 million) has been pledged as security to credit institutions. The mortgage loan expires in 2029.

### IMPAIRMENT

An impairment loss of DKK 150 million on property, plant and equipment has been recognized in 2014, of which DKK 75 million

was included in Cost of goods sold and Research and development costs respectively (2013: no impairment losses recognized).

The impairment loss was the result of an impairment test performed on specific assets where indications of impairment has been identified. The impairment test compared the discounted cash flow related to the assets with the carrying amounts of the assets. The cash flow used was based on business plans for the period 2015-2029. A WACC of 9% was used in calculating the discounted cash flows.

### ACCOUNTING POLICIES

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

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

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

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

The Group regularly reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount.

Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.



## 3.2 Property, plant and equipment (continued)

DKK million	Land and buildings	Plant and machinery	Other equipment	Assets under construction and prepayments	Total
Cost at January 1, 2013	4,492	7,456	1,218	677	13,843
Currency translation adjustments	(107)	(140)	(29)	(21)	(297)
Additions from business acquisitions	-	35	6	-	41
Additions during the year	17	164	81	500	762
Disposals during the year	-	(38)	(30)	-	(68)
Transfer to assets held for sale	-	-	(5)	-	(5)
Transfer to/(from) other items	67	457	82	(606)	-
<b>Cost at December 31, 2013</b>	<b>4,469</b>	<b>7,934</b>	<b>1,323</b>	<b>550</b>	<b>14,276</b>
Depreciation and impairment losses at January 1, 2013	1,873	4,143	743		6,759
Currency translation adjustments	(38)	(59)	(20)		(117)
Depreciation for the year	154	298	98		550
Disposals during the year	-	(26)	(24)		(50)
Transfer to assets held for sale	-	-	(1)		(1)
<b>Depreciation and impairment losses at December 31, 2013</b>	<b>1,989</b>	<b>4,356</b>	<b>796</b>		<b>7,141</b>
<b>Carrying amount at December 31, 2013</b>	<b>2,480</b>	<b>3,578</b>	<b>527</b>	<b>550</b>	<b>7,135</b>



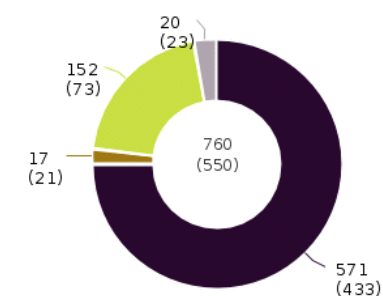
### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

If there is any indication that an asset may be impaired, the assets value in use is estimated and compared with the carrying amount. The calculation of value in use is based on the discounted cash flow method using estimates of future cash flows from the continuing use of the asset. The key parameters are expected utilization of the asset, expected growth in sales of products produced by the asset, expected growth in cash flow in the terminal period, etc. All these parameters are based on estimates of the future, and thereby the value in use calculated aggregates the natural uncertainty of these estimates. More information related to the estimates made may become available in future periods, which may give rise to changes in the estimated value in use.

### RECOGNITION OF DEPRECIATION AND IMPAIRMENT LOSSES BY FUNCTION 2014 (2013)

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

DKK million



## 3.3 Provisions

DKK million	2014			2013		
	Dismantling and restoration	Legal, contingent consideration and other	Total	Dismantling and restoration	Legal, contingent consideration and other	Total
Provisions at January 1	112	167	279	114	116	230
Currency translation adjustments	6	3	9	(3)	-	(3)
Additions during the year	11	75	86	1	97	98
Reversals during the year	-	(45)	(45)	-	(19)	(19)
Utilization during the year	-	(50)	(50)	-	(27)	(27)
<b>Provisions at December 31</b>	<b>129</b>	<b>150</b>	<b>279</b>	<b>112</b>	<b>167</b>	<b>279</b>
Recognized in the balance sheet as follows:						
Non-current	B/S 124	88	212	107	44	151
Current	B/S 5	62	67	5	123	128
<b>Provisions at December 31</b>	<b>129</b>	<b>150</b>	<b>279</b>	<b>112</b>	<b>167</b>	<b>279</b>

### DISMANTLING AND RESTORATION

Dismantling and restoration relates to estimated future costs of environmental restoration – Novozymes aims for production sites not to have a negative environmental impact – and restoration of leased premises when terminating the lease and vacating the premises. These liabilities relate to established circumstances, and these costs are expected to be incurred either when concrete measures are implemented or when the sites are vacated. The expected costs and timing are by nature uncertain. With regard to restoration of leased premises, amounts are considered uncertain as the final settlements will depend on thorough inspection of the premises and negotiations with the lessor at the time of vacating. The costs are expected to be incurred in a minimum of two years/maximum of 15 years from termination of the leases.

### 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 2015-2016. In management's opinion, the outcome of these cases will not give rise to any significant loss beyond the amounts provided at December 31, 2014.

Contingent consideration and other provisions cover a number of minor obligations, including liability for returned goods, other long-term employee benefits, etc. These obligations are mainly expected to be incurred over a longer period. The contingent consideration related to acquisitions made in 2013 has been settled or reversed, where conditions were not met, in 2014.

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

### 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.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

## 3.4 Deferred income

At December 31, 2014, deferred income amounts to DKK 1,208 million. This amount relates mainly to payments from Monsanto in connection with formation of The BioAg Alliance. Deferred

income will be released to income over the coming nine years based on an assessment of the earning process and the underlying deliverables.

DKK million		2014	2013
Recognized in the balance sheet as follows:			
Non-current	B/S	950	-
Current	B/S	258	35
<b>Deferred income at December 31</b>		<b>1,208</b>	<b>35</b>



### 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.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Assessing the earning process and the underlying deliverables for The BioAg Alliance requires judgment and is based on estimates of the future. The 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.

## 3.5 Joint operations and associates

### JOINT OPERATIONS

In 2012 Novozymes formed a strategic partnership with Beta Renewables S.p.A. The objective of the partnership is globally to market, demonstrate and guarantee cellulosic biofuel solutions based on technologies held by Beta Renewables S.p.A. and Novozymes. Both parties have equal controlling interests in the partnership. The partnership had no material impact on revenue and earnings in 2014 (2013: no material impact).

Novozymes has interests in joint operations with Novo Nordisk. These are homeowners' associations and related utility facilities in connection with the shared production sites in Kalundborg and Bagsvaerd, Denmark. The operations had no impact on revenue and earnings (2013: no impact). Novozymes and Novo Nordisk share control of the arrangements equally.

### ASSOCIATE

Novozymes holds 9.95% of the shares in Beta Renewables S.p.A., with which Novozymes has formed a jointly controlled operation within cellulosic biofuel solutions. Situated in Crescentino, Italy, Beta Renewables S.p.A. operates the first plant in the world to produce bioethanol from agricultural residues and energy crops at commercial scale using enzymatic conversion. The plant was officially opened in 2013, and builds on the PROESA™ engineering and production technology and the Novozymes Cellic® CTeC enzyme systems.



### 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 associates is initially recognized at cost, and the carrying amount is increased or decreased to recognize Novozymes' share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

Profits 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' interests in the associates. The accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Although Novozymes holds less than 20% of the equity shares in Beta Renewables S.p.A., the Group exercises significant influence by virtue of its contractual right to appoint members of key management boards, and has the power to participate in Beta Renewables' financial and operating policy decisions. Consequently, this investment has been classified as an associate.

## 3.6 Business acquisitions

No business acquisitions have taken place in 2014.

The final purchase price allocations for businesses acquired in 2013 are as follows:

DKK million	logen Bio- Products	TJ Technologies Inc.
The assumed fair value of acquired assets and liabilities is as follows:		
Intangible assets	196	226
Property, plant and equipment	33	8
Inventories	28	23
Trade and other receivables	13	3
Deferred tax asset	35	-
Cash and cash equivalents	-	27
Provisions	(12)	(7)
Financial and other liabilities	(8)	(98)
<b>Acquired net assets</b>	<b>285</b>	<b>182</b>
The purchase price is as follows:		
Cash	374	237
Contingent consideration	62	11
<b>Total purchase price</b>	<b>436</b>	<b>248</b>
<b>Goodwill</b>	<b>151</b>	<b>66</b>
Cash flow for acquisitions:		
Cash payment in 2013	374	239
Less cash and cash equivalents in acquired business	-	(27)
<b>Cash outflow for acquisitions 2013</b>	<b>374</b>	<b>212</b>
Cash payment in 2014 (contingent consideration)	38	-
<b>Cash outflow for acquisitions 2014</b>	<b>38</b>	<b>-</b>



### 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.

If uncertainty exists at the acquisition date concerning the measurement of identifiable net assets acquired, initial recognition is based on provisional fair values.

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.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In business acquisitions for which the final valuations are pending, the acquired assets and liabilities are recognized at provisional fair values. Assumptions are used to determine the provisional fair values, and these values may differ significantly from the final valuation of the assets and liabilities, which is based on more complex and detailed assumptions and projections. Specific uncertainty exists regarding intangible assets including goodwill. No assets acquired through acquisitions have been recognized based on provisional fair values at December 31, 2014 (2013: DKK 609 million).

## 3.6 Business acquisitions (continued)

### IOGEN BIO-PRODUCTS

On February 22, 2013, Novozymes acquired control of Iogen Bio-Products, an industrial enzyme business of Ottawa-based Iogen Corporation, through an asset deal. Iogen Bio-Products produces and sells enzymes for the pulp & paper, textile, grain-processing and animal feed industries, and the acquisition provides Novozymes with all commercial rights to Iogen Bio-Products' existing product portfolio, pipeline, facilities and know-how, complementing the current enzyme business.

Goodwill of DKK 151 million is attributable to acquired customer relations, the distribution network and expected synergies with the existing enzyme business. Goodwill of DKK 143 million is expected to be tax-deductible. The purchase agreement included a contingent consideration of up to DKK 69 million. The consideration was contingent on achievement of specified technology and market targets in 2013 and 2014. The full consideration has been settled or reversed at December 31, 2014.

The valuation of the acquired net assets was finalized as per February 22, 2014. The final valuation has led to recognition of goodwill of DKK 151 million (DKK 60 million reported in 2013), intangible assets of DKK 196 million (DKK 308 million reported in 2013) and a deferred tax asset of DKK 35 million (DKK 0 million reported in 2013).

### TJ TECHNOLOGIES INC.

On June 28, 2013, Novozymes acquired 100% of the voting shares in TJ Technologies Inc. TJ Technologies Inc. provides North American farmers with biological solutions that enhance plant growth, increase stress tolerance and improve yields. Combining Novozymes' existing BioAg business with TJ Technologies' strong and proven portfolio, brands and regional market coverage will strengthen Novozymes' commercial position in important crop markets.

Goodwill of DKK 66 million is attributable to expected synergies in the existing BioAg business. The goodwill is not tax-deductible. The purchase agreement included a contingent consideration of up to DKK 34 million. The consideration was contingent on

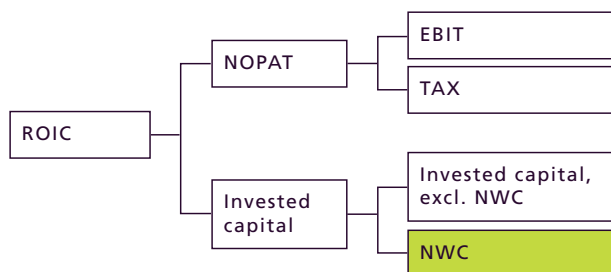
achievement of a number of specific registrations and sales targets, and was recognized at the anticipated fair value at the acquisition date. The full consideration has been settled or reversed at December 31, 2014.

The valuation of acquired net assets was finalized as per March 31, 2014. The final valuations have not led to any significant adjustments to previously reported numbers.

### OTHER TRANSACTIONS

Other minor acquisitions with a total purchase price of DKK 52 million were also made in 2013.

# Net working capital



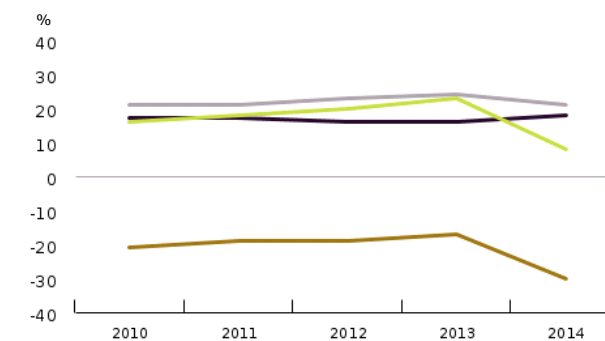
Novozymes' net working capital decreased to DKK 1,059 million, down from DKK 2,741 million in 2013. This is mainly attributable to the recognition of deferred income related to payments from Monsanto on the formation of The BioAg Alliance.

Since 2010, net working capital ratio as a percentage of sales has improved from 16% to 8%.

DKK million	Note	2014	2013
Other receivables, non-current	B/S	125	162
Inventories	B/S	2,184	1,902
Trade receivables	B/S	2,244	2,242
Other receivables	B/S	228	301
Assets held for sale	B/S	-	144
Other liabilities, non-current		(17)	-
Deferred income	3.4	(1,208)	(35)
Trade payables		(1,122)	(976)
Other liabilities	B/S	(1,375)	(999)
<b>Net working capital</b>		<b>1,059</b>	<b>2,741</b>
Average net working capital		1,900	2,468

## NET WORKING CAPITAL

■ Inventories (% of sales)  
 ■ Receivables (% of sales)  
 ■ Payables and deferred income (% of sales)  
 ■ Net working capital (% of sales)



## 4.1 Inventories

DKK million	2014	2013
Raw materials and consumables	318	276
Work in progress	431	467
Finished goods	1,435	1,159
<b>Inventories at December 31</b>	<b>2,184</b>	<b>1,902</b>

Cost of materials, included under Cost of goods sold, is DKK 2,792 million (2013: DKK 2,873 million).

Inventory write-downs expensed during 2014 amount to DKK 104 million (2013: DKK 86 million), while reversal of

inventory write-downs amount to DKK 52 million (2013: DKK 58 million).

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



### ACCOUNTING POLICIES

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

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

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

Novozymes has entered into a few agreements where Novozymes supplies goods to a customer's premises but retains title to the risk of ownership of 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.



### 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 amount to DKK 736 million at the end of 2014 (2013: DKK 640 million). The indirect production costs are assessed on an ongoing basis to ensure optimal measurement of payroll 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.



## 4.2 Trade receivables

DKK million	2014	2013
Trade receivables	2,345	2,336
Allowances for doubtful trade receivables	(168)	(152)
	<b>2,177</b>	<b>2,184</b>
Amounts owed by related companies	67	58
<b>Trade receivables at December 31</b>	<b>2,244</b>	<b>2,242</b>
Changes in allowances for doubtful trade receivables:		
At January 1	152	153
Allowances during the year	76	59
Write-offs during the year	(7)	(4)
Reversed allowances	(53)	(56)
<b>Allowances at December 31</b>	<b>168</b>	<b>152</b>
The cost of allowances for doubtful trade receivables is included in Sales and distribution costs.		
Age of trade receivables that are past due but not impaired:		
Up to 30 days	126	191
Between 30 days and 90 days	8	48
More than 91 days	-	2
<b>Trade receivables past due but not impaired at December 31</b>	<b>134</b>	<b>241</b>



### 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.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Allowances for doubtful trade receivables are based on a country-specific credit rating by external rating agencies. However, the allowances also reflect management's assessment and review of the individual receivables based on individual customer creditworthiness, overdue and current economic trends. If customers' financial situations change in the future, this may give rise to additional indications of impairment in future accounting periods.

The credit risk on trade receivables is countered by thorough, regular analyses based on customer type, country and specific conditions. In general, customers are creditworthy.

## 4.3 Other receivables

DKK million		2014	2013
Deposits		21	17
Prepaid expenses		124	223
Loans		25	72
Other		183	151
<b>Other receivables at December 31</b>		<b>353</b>	<b>463</b>
Recognized in the balance sheet as follows:			
Non-current	B/S	125	162
Current	B/S	228	301
<b>Other receivables at December 31</b>		<b>353</b>	<b>463</b>

## 4.4 Other liabilities

DKK million		2014	2013
Employee costs payable		673	593
Stock-based payment settled in cash		34	29
Other payables		668	377
<b>Other liabilities at December 31</b>	B/S	<b>1,375</b>	<b>999</b>



### ACCOUNTING POLICIES

Prepaid expenses comprise expenses paid relating to subsequent financial years such as sales commission, rent, insurance premiums, subscription fees and interest.

Prepaid expenses and Loans and receivables are measured at amortized cost or net realizable value, whichever is lower.



### ACCOUNTING POLICIES

Other liabilities are measured at amortized cost.

## 4.5 Assets held for sale

At the end of 2014 no assets have been classified as held for sale.

In December 2013 Novozymes signed an agreement with Monsanto with a view to the two companies combining their strengths within microbial solutions for global broad-acre crops, fruit and vegetables. The transaction was completed on February 10, 2014, and a gain has been realized and included in Other

operating income in 2014. On completion, commercial responsibility for Novozymes' current product portfolio in agricultural biologicals was transferred to Monsanto along with much of Novozymes' commercial organization responsible for that work. Non-current assets related to Novozymes' commercial organization included in the transaction were classified as assets held for sale in 2013.

DKK million	2014	2013
Carrying amount of non-current assets held for sale:		
Goodwill	-	40
Trademarks and other commercial intangibles	-	100
Other equipment	-	4
<b>Total</b>	<b>B/S -</b>	<b>144</b>

The amount of intangible assets in 2013 was provisional as this included assets acquired through business acquisitions in 2013 for

which the final purchase price allocation was pending. The finalization of this did not lead to any significant adjustments.



### ACCOUNTING POLICIES

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable.

They are stated at the lower of carrying amount and fair value less costs of disposal.

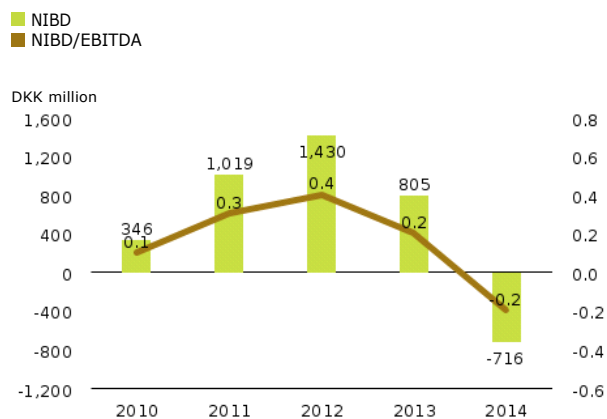
# Capital structure and financing

Novozymes' international operations mean that the income statement and balance sheet are exposed to a number of financial risk factors. Financial risks are managed centrally for the entire Group. The treasury policy is approved by Novozymes' Board of Directors, and sets the limits for the various financial risks and the financial instruments 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 financial instruments can be used for hedging, which counterparties can be used and the risk profile that is to be applied. Financial instruments are used to hedge existing assets, liabilities and future net cash flows.

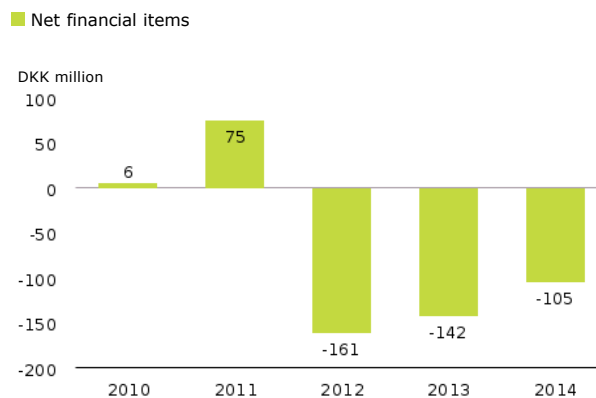
## NEW KEY MEASURE

Net interest-bearing debt-to-EBITDA (NIBD/EBITDA) is a measure of a company's ability to decrease its debt burden. In 2014, it was introduced as a key measure in Novozymes' long-term financial targets for the capital structure. The realized NIBD/EBITDA ratio was negative 0.2, implying that Novozymes was net cash positive at the end of 2014. Novozymes has no desire to maintain a negative ratio, but aims for a long-term target range of 0–1.

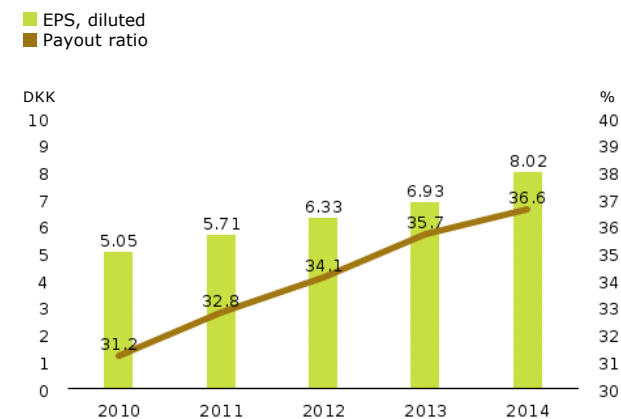
## NET INTEREST-BEARING DEBT (NIBD) AND NIBD-TO-EBITDA



## NET FINANCIAL ITEMS



## DILUTED EARNINGS PER SHARE (EPS) AND PAYOUT RATIO



## 5.1 Financial risk factors

Novozymes is exposed to the following financial risks.

### CURRENCY RISK

Currency risk arises due to imbalances between income and costs in each individual currency and because Novozymes has more assets than liabilities in foreign currencies in connection with its global operations. Hedging of currency risk is carried out in the currencies where Novozymes has the largest exposure. The hedging is managed by entering into forward contracts, currency options, swaps, and loans and deposits in foreign currency.

Operating profit is most exposed to the USD and EUR. A movement of 5% in the USD would result in a change in the expected operating profit of around DKK 80-100 million (2013: DKK 70-90 million). A 0.5% movement in the EUR would, other things being equal, result in a change in operating profit of around DKK 15-20 million (2013: DKK 15-20 million). Of the expected USD cash flows for 2015, approx. 85% has been hedged by forward contracts and currency options at an average rate of 569.

Shareholders' equity is most exposed to the CNY, CHF and USD. A 5% movement in the CNY would, other things being equal, result in a change in Shareholders' equity of around DKK 116 million (2013: DKK 103 million), while a movement of 5% in the CHF would result in a change in Shareholders' equity of around DKK 44 million (2013: DKK 28 million). A movement of 5% in the USD would result in a change in Shareholders' equity of around DKK 42 million (2013: DKK 35 million).

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.

### INTEREST RATE RISK

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

An increase of 1 percentage point in the average interest rate on Novozymes' net interest-bearing debt would have a positive effect on profit of DKK 20 million (2013: DKK 5 million). At year-end 2014, 76% (2013: 78%) 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. In general, customers are creditworthy. The credit risk on cash and cash equivalents and derivatives is countered by Novozymes' treasury policy, which limits the exposure to counterparties based on a credit rating. The credit risk is calculated on the basis of net market values and is governed by the Group's treasury policy. Novozymes has entered into netting agreements (ISDA) with all

the banks used for trading in financial instruments, which means that Novozymes' credit risk is limited to net assets.

At December 31, 2014, the Group considered its maximum credit risk to be DKK 5,053 million (2013: DKK 3,586 million), which is the total of the Group's financial assets. At December 31, 2014, the maximum credit risk related to one counterparty was DKK 453 million (2013: DKK 350 million).

### LIQUIDITY RISK

In connection with the Group's ongoing financing of operations, including refinancing risk, 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, 2014, the Group has undrawn committed credit facilities of DKK 2,000 million, which expire in 2017.

## 5.1 Financial risk factors (continued)

### FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The table below shows the future net draw on liquidity based on the financial assets and financial liabilities at December 31, 2014.

Except for credit institutions, the contractual maturity dates are primarily within 1 year. The carrying amounts approximate fair value.

DKK million	Note	2014	2013
Trade receivables and other receivables, excl. prepaid expenses	4.2, 4.3	2,473	2,482
Cash and cash equivalents	B/S	2,535	1,003
<b>Loans and receivables</b>		<b>5,008</b>	<b>3,485</b>
Securities	5.3	29	14
<b>Available-for-sale financial assets</b>		<b>29</b>	<b>14</b>
Derivatives	5.3	17	87
<b>Hedge accounting (asset)</b>		<b>17</b>	<b>87</b>
Credit institutions	5.3	(1,798)	(1,788)
Trade payables and other payables	4.4, 5.3	(1,811)	(1,373)
<b>Financial liabilities</b>		<b>(3,609)</b>	<b>(3,161)</b>
Derivatives	5.3	(153)	(31)
<b>Hedge accounting (liability)</b>		<b>(153)</b>	<b>(31)</b>

## 5.2 Financial income and Financial costs

DKK million		2014	2013
Interest income		9	5
Gains on derivatives, net		26	77
<b>Financial income</b>	I/S	<b>35</b>	<b>82</b>
Interest costs		(58)	(66)
Other financial costs		(27)	(30)
Share of loss in associate		(21)	(8)
Other foreign exchange losses, net		(21)	(99)
Fair value adjustments of stock options settled in cash		(13)	(21)
<b>Financial costs</b>	I/S	<b>(140)</b>	<b>(224)</b>
<b>Financial income/costs, net</b>		<b>(105)</b>	<b>(142)</b>

## 5.3 Other financial assets and liabilities

DKK million		2014	2013
Derivatives		17	87
Securities		29	14
<b>Other financial assets at December 31</b>		<b>46</b>	<b>101</b>
Recognized in the balance sheet as follows:			
Non-current	B/S	29	14
Current	B/S	17	87
<b>Other financial assets at December 31</b>		<b>46</b>	<b>101</b>

### ACCOUNTING POLICIES

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

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

### ACCOUNTING POLICIES

Unrealized fair value adjustments relating to cash flow hedges and securities are recognized in Other comprehensive income. Value adjustments are transferred from Other comprehensive income to Financial income or Financial costs when realized.

Securities are classified as available-for-sale financial assets. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment. If there is objective evidence that the securities have suffered an impairment loss, this is recognized under Financial costs.

Other financial assets and liabilities are measured at amortized cost.

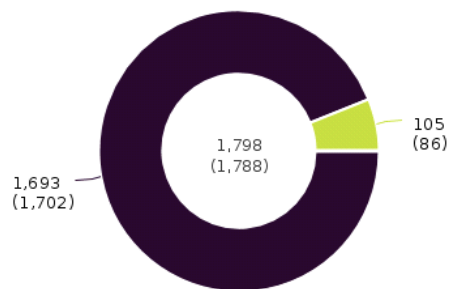
## 5.3 Other financial assets and liabilities (continued)

DKK million	2014	2013
Credit institutions	1,798	1,788
Derivatives	153	31
Other	21	20
<b>Other financial liabilities at December 31</b>	<b>1,972</b>	<b>1,839</b>
Recognized in the balance sheet as follows:		
Non-current	B/S 1,242	1,738
Current	B/S 730	101
<b>Other financial liabilities at December 31</b>	<b>1,972</b>	<b>1,839</b>

CREDIT INSTITUTIONS – CURRENCY 2014 (2013)

■ EUR  
■ Other

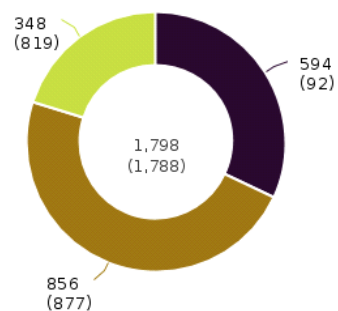
DKK million



CREDIT INSTITUTIONS – TIME TO MATURITY 2014 (2013)

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

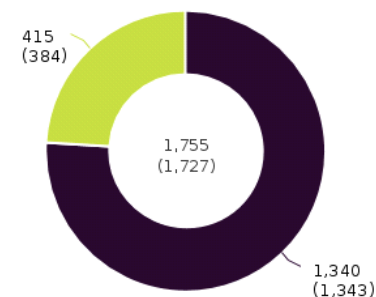
DKK million



LOAN PORTFOLIO – FIXED OR FLOATING INTEREST RATE 2014 (2013)

■ Fixed interest rate  
■ Floating interest rate

DKK million





## 5.4 Derivatives – hedge accounting

### FAIR VALUE HEDGES

The table below shows the derivatives that the Group has contracted to hedge currency exposure on financial assets and

liabilities that give rise to currency adjustments in the income statement. Gains or losses on fair value adjustments at year-end are recognized in the income statement.

DKK million	2014		2013	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
<b>Forward exchange contracts</b>				
CAD	(269)	9	(241)	(1)
CHF	(279)	-	(305)	-
USD	3,127	(76)	3,188	(8)
Other	(140)	1	(57)	2
<b>Fair value hedges at December 31</b>	<b>2,439</b>	<b>(66)</b>	<b>2,585</b>	<b>(7)</b>

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

The forward exchange contracts fall due in the period February 2015 to May 2015 (2013: April 2014 to December 2014).

The fair value hedges were 100% effective, as the loss on

forward exchange contracts was DKK 368 million (2013: gain of DKK 79 million), compared with a gain on the hedged items of DKK 368 million (2013: loss of DKK 79 million).



### ACCOUNTING POLICIES

Hedge accounting consists of positive and negative fair values of derivatives, which are itemized 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 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 are transferred from Other comprehensive income on realization of the hedged item and are recognized as Financial income or Financial costs.

Derivatives are recognized on the settlement date, while other financial instruments are recognized on the transaction date.

## 5.4 Derivatives – hedge accounting (continued)

### CASH FLOW HEDGES

The table below shows the derivatives that the Group has contracted to hedge currency exposure, interest rate exposure or

price exposure in future cash flows. The total fair value adjustment at year-end is entered directly in Other comprehensive income and will be taken to the income statement as the financial contracts are realized.

DKK million	2014		2013	
	Contract amount based on agreed rates*	Fair value Dec. 31	Contract amount based on agreed rates*	Fair value Dec. 31
<b>Forward exchange contracts</b>				
USD	757	(51)	1,320	84
	<b>757</b>	<b>(51)</b>	<b>1,320</b>	<b>84</b>
<b>Currency options</b>				
USD	746	2	-	-
	<b>746</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Interest rate swaps</b>				
EUR/EUR - pays fixed rate of 3.06% / earns variable rate of 0.305% (2013: 0.33%)	112	(3)	112	(6)
EUR/EUR - pays fixed rate of 3.58% / earns variable rate of 0.305% (2013: 0.33%)	112	(18)	112	(15)
	<b>224</b>	<b>(21)</b>	<b>224</b>	<b>(21)</b>
<b>Cash flow hedges at December 31</b>	<b>1,727</b>	<b>(70)</b>	<b>1,544</b>	<b>63</b>

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

The forward exchange contracts fall due in the period January 2015 to December 2015 (2013: January 2014 to December 2014), while option contracts fall due in the period January 2015 to December 2015 (2013: no options contracts), and swaps fall due in the period July 2015 to July 2019 (2013: July 2015 to July 2019).

At the end of 2014 the Group had hedged 85% of expected

future cash flows in USD for 2015 (2013: 76%).

### OTHER INFORMATION

The derivatives are not traded on an active market based on quoted prices, but are individual contracts. The fair value of the derivatives is determined using valuation techniques that utilize market-based data such as exchange rates, interest rates and volatilities (level 2).

# 5.5 Common stock

	2014		2013	
	No.	Nominal value DKK million	No.	Nominal value DKK million
<b>Common stock</b>				
A common stock (shares of DKK 2)	53,743,600	107	53,743,600	107
B common stock (shares of DKK 2)	265,956,400	532	265,956,400	532
<b>Common stock at December 31</b>	<b>B/S 319,700,000</b>	<b>639</b>	<b>319,700,000</b>	<b>639</b>
<b>Treasury stock - B stock</b>				
Shares of stock at January 1	5,499,476	11	12,774,634	26
Additions during the year	7,734,631	15	-	-
Disposals during the year	(1,744,219)	(3)	(1,975,158)	(4)
Write-down of common stock	-	-	(5,300,000)	(11)
<b>Treasury stock at December 31</b>	<b>11,489,888</b>	<b>23</b>	<b>5,499,476</b>	<b>11</b>



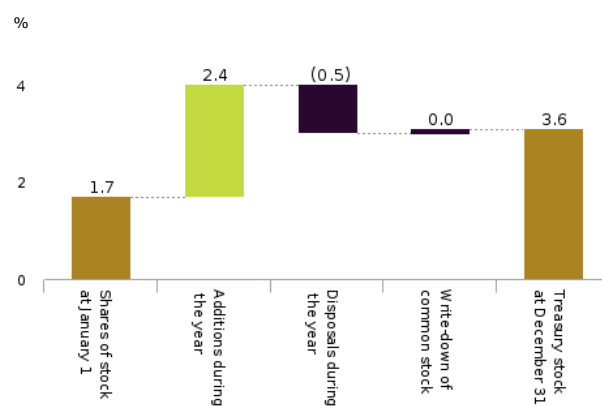
## ACCOUNTING POLICIES

The cost price and proceeds from the sale of treasury stock are recognized in Retained earnings. Among other things, the company's holding of treasury stock is used to hedge employees' exercise of granted stock awards and stock options.

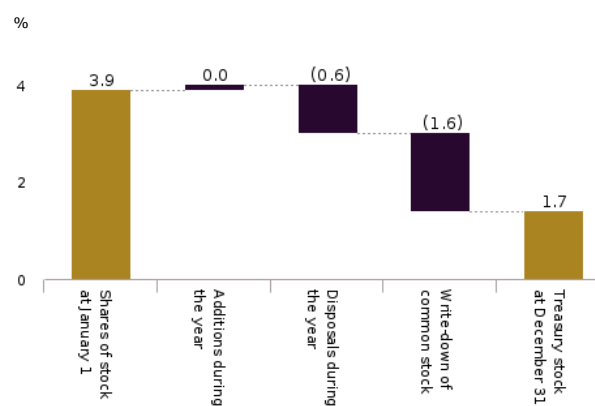
Each A share gives an entitlement to 20 votes, while each B share gives an entitlement to 2 votes.

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.

TREASURY STOCK 2014



TREASURY STOCK 2013



No.	2014	2013
<b>Shares of common stock in circulation</b>		
Shares of stock at January 1	314,200,524	312,225,366
Purchase of treasury stock	(7,734,631)	-
Sale of treasury stock	1,744,219	1,975,158
<b>Shares of common stock in circulation at December 31</b>	<b>308,210,112</b>	<b>314,200,524</b>

## 5.6 Earnings per share

DKK million		2014	2013
Profit used to calculate earnings per share	1/5	2,526	2,200
<b>Average number of shares</b>			
Weighted average number of stock in circulation		311,897,872	313,757,042
Average dilutive effect of outstanding stock options		3,180,742	3,651,444
<b>Average number of diluted shares</b>		<b>315,078,614</b>	<b>317,408,486</b>
Earnings per share		DKK 8.10	DKK 7.01
Earnings per share, diluted		DKK 8.02	DKK 6.93



### ACCOUNTING POLICIES

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

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

# Other notes

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

Information on management remuneration is given in Note 6.1, and Note 6.2 contains information on the new three-year incentive programs established in 2014 for the Executive Leadership Team, key employees and other employees.

# 6.1 Management remuneration

DKK million	2014			2013		
	Executive Leadership Team	Board of Directors	Total	Executive Leadership Team	Board of Directors	Total
Salaries and other short-term benefits	39	6	45	35	6	41
Defined contribution plans	10	-	10	8	-	8
<b>Remuneration excl. expensed stock-based incentive programs</b>	<b>49</b>	<b>6</b>	<b>55</b>	<b>43</b>	<b>6</b>	<b>49</b>
Expensed stock-based incentive programs	28	-	28	35	-	35
<b>Remuneration</b>	<b>77</b>	<b>6</b>	<b>83</b>	<b>78</b>	<b>6</b>	<b>84</b>

## EXECUTIVE LEADERSHIP TEAM

Remuneration paid to individual members of the present

Executive Leadership Team:

DKK million	Peder Holk Nielsen*	Benny D. Loft	Per Falholt	Andrew Fordyce**	Thomas Videbæk	Thomas Nagy	Total
Salary	7.0	4.3	4.4	3.9	4.7	4.3	28.6
Cash bonus	2.7	1.6	1.6	1.5	1.7	1.6	10.7
Contribution-based pension	2.6	1.4	1.4	1.4	1.5	1.4	9.7
Expensed incentive programs	6.4	4.2	4.2	4.4	4.2	4.2	27.6
<b>Total remuneration 2014</b>	<b>18.7</b>	<b>11.5</b>	<b>11.6</b>	<b>11.2</b>	<b>12.1</b>	<b>11.5</b>	<b>76.6</b>
Salary	6.1	3.9	3.9	2.7	3.9	3.9	24.4
Cash bonus	2.2	1.3	1.1	0.9	1.4	1.3	8.2
Contribution-based pension	2.2	1.2	1.2	0.9	1.2	1.2	7.9
Expensed incentive programs	6.1	5.4	5.4	1.6	5.4	5.4	29.3
<b>Total remuneration 2013</b>	<b>16.6</b>	<b>11.8</b>	<b>11.6</b>	<b>6.1</b>	<b>11.9</b>	<b>11.8</b>	<b>69.8</b>

\* Peder Holk Nielsen took over as CEO on April 1, 2013.

\*\* Joined the Executive Leadership Team on April 1, 2013.

## 6.1 Management remuneration (continued)

### EXECUTIVE LEADERSHIP TEAM

Remuneration to the Executive Leadership Team comprises a base salary, pension, a bonus scheme, stock-based incentive programs and other (car, telephone, etc.). The variable part of the total remuneration (cash bonus and stock-based programs) is relatively large compared with the base salary, and is dependent on achievement of individual targets and the company's targets for financial, social and environmental performance. The

maximum cash bonus is equivalent to five months' fixed base salary plus pension. General guidelines for remuneration of the Executive Leadership Team are approved at the Annual Shareholders' Meeting, and more detailed information is available at [www.novozymes.com](http://www.novozymes.com).

Members of the Executive Leadership Team have contracts of employment containing standard conditions for executive officers of Danish listed companies, including the periods of notice that

both parties are required to give and noncompetition clauses. If the executive officer's contract of employment is terminated by the company without there having been misconduct on the part of the executive officer, the executive officer has the right to compensation, which, depending on the circumstances, may amount to a maximum of two years' base salary and pension contributions.

### BOARD OF DIRECTORS

Remuneration paid to individual members of the Board of Directors:

DKK '000	2014			2013		
	Board of Directors	Audit Committee	Total	Board of Directors	Audit Committee	Total
Henrik Gürtler	1,250	-	1,250	1,250	-	1,250
Agnete Raaschou-Nielsen	763	208	971	417	208	625
Mathias Uhlén	417	-	417	417	-	417
Anders Hentze Knudsen*	417	-	417	347	-	347
Lars Bo Kjøppler	417	-	417	417	-	417
Lena Bech Holskov*	417	-	417	347	-	347
Lena Olving	417	208	625	417	208	625
Lars Green**	347	347	694	-	-	-
Jørgen Buhl Rasmussen	417	-	417	417	-	417
Kurt Anker Nielsen***	138	70	208	833	417	1,250
Søren Henrik Jepsen****	-	-	-	69	-	69
Ulla Morin****	-	-	-	69	-	69
<b>Remuneration</b>	<b>5,000</b>	<b>833</b>	<b>5,833</b>	<b>5,000</b>	<b>833</b>	<b>5,833</b>

\* Joined on February 28, 2013.

\*\* Joined on February 26, 2014.

\*\*\* Resigned on February 26, 2014.

\*\*\*\* Resigned on February 28, 2013.

Directors' remuneration does not include minor social security contributions paid by Novozymes.

## 6.1 Management remuneration (continued)

### HOLDINGS OF STOCK

The following members of the present Board of Directors and Executive Leadership Team hold shares of stock in Novozymes A/S:

Shares of stock	Shares of stock at Jan. 1, 2014	Purchased/released during the year	Sold during the year	Shares of stock at Dec. 31, 2014	Market value DKK million
Agnete Raaschou-Nielsen	430	-	-	430	0.1
Mathias Uhlén	-	650	-	650	0.2
Anders Hentze Knudsen	356	-	-	356	0.1
Lena Bech Holskov	270	-	-	270	0.1
Lena Olving	1,000	-	-	1,000	0.3
Jørgen Buhl Rasmussen	-	2,000	-	2,000	0.5
<b>Board of Directors</b>	<b>2,056</b>	<b>2,650</b>	-	<b>4,706</b>	<b>1.3</b>
Peder Holk Nielsen	-	125,075	42,887	82,188	21.3
Benny D. Loft	2,260	111,177	111,177	2,260	0.6
Per Falholt	-	111,177	111,177	-	0
Andrew Fordyce	-	27,794	27,794	-	0
Thomas Videbæk	-	111,177	111,177	-	0
Thomas Nagy	-	111,177	91,177	20,000	5.2
<b>Executive Leadership Team</b>	<b>2,260</b>	<b>597,577</b>	<b>495,389</b>	<b>104,448</b>	<b>27.1</b>

Members of the Board of Directors are not granted stock options or stock awards. However, employee-elected board members hold a limited number of stock options in Novozymes A/S due to Group-wide employee stock option programs.

economic profit for the three years was DKK 3,818 million, thereby exceeding the target of DKK 3,750 million. As a result, on January 21, 2014, 597,577 shares associated with the program were released to the Executive Leadership Team.

The incentive program for the Executive Leadership Team for the period 2011-2013 has come to an end. The accumulated



## 6.1 Management remuneration (continued)

### HOLDINGS OF STOCK OPTIONS AND STOCK AWARDS

The following members of the present Executive Leadership Team hold stock options and stock awards in Novozymes A/S:

Stock options	Options at Jan. 1, 2014	Additions during the year	Exercised during the year	Options at Dec. 31, 2014	Market value DKK million
Peder Holk Nielsen	121,215	148,047	-	269,262	27.5
Benny D. Loft	61,215	98,698	-	159,913	15.1
Per Falholt	121,215	98,698	-	219,913	25.0
Andrew Fordyce	38,233	98,896	32,940	104,189	5.4
Thomas Videbæk	-	98,698	-	98,698	5.0
Thomas Nagy	60,000	98,698	-	158,698	14.9
<b>Executive Leadership Team</b>	<b>401,878</b>	<b>641,735</b>	<b>32,940</b>	<b>1,010,673</b>	<b>92.9</b>

Stock awards	Awards at Jan. 1, 2014	Additions during the year	Exercised during the year	Awards at Dec. 31, 2014	Market value DKK million
Andrew Fordyce	4,602	-	-	4,602	1.2
<b>Executive Leadership Team</b>	<b>4,602</b>	<b>-</b>	<b>-</b>	<b>4,602</b>	<b>1.2</b>

A new incentive program covering the period 2014-2016 has been established for the Executive Leadership Team. The program is described in Note 6.2.

As a result of this program, 641,735 stock options have been granted to the Executive Leadership Team in 2014. Stock options will also be awarded in 2015 and 2016. Furthermore, 282,152 shares will be released in January 2017, and dividends from these shares during the three-year period will be used to buy additional shares. Combined, these shares will give the maximum number of shares that can be released in January 2017.

As the program is based on achievement of cumulative targets for economic profit in the three-year period, the final number of stock options and stocks granted will not be known until the end of the program in January 2017. The fair value of the program on the grant date was DKK 134 million, which will be expensed over a six-year period assuming that the target is met and the maximum-value clause does not come into effect. These assumptions were unchanged at year-end and DKK 28 million was thus expensed in 2014.

## 6.2 Stock-based payment

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

In 2014 a new three-year incentive program for the Executive Leadership Team has been established covering the period 2014-2016. The program is a combination of stock options and stock with half of the incentive program allocated in stocks and half in stock options. The stock options will be granted annually, while the stock will be allocated in January 2017. Achievement of a cumulative economic profit of DKK 5.5 billion over the three-year period is required for the full program to be awarded. If the economic profit for the period is below DKK 2.5 billion, no stock or stock options will be granted. Between these two points, stock and stock options will be granted proportionally.

The total fair value at grant date was DKK 134 million, which will be expensed over a six-year period. The value of the stock will be expensed over the qualifying period of three years (2014-2016). 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 (2014-2016).

The program contains a maximum-value clause, allowing the Board of Directors to choose to limit the total allocation of stock and stock options if the intrinsic value of the program exceeds DKK 268 million at the end of the program in January 2017.

Furthermore, a three-year program has been established for senior leadership below executive level (approximately 180 vice presidents and directors). To a large degree the program follows the same mechanisms as the program for the Executive

Leadership Team. The value of this three-year program is DKK 150 million, and the maximum-value clause is approximately DKK 300 million. The maximum number of shares of stock that can be awarded under this program in 2017 is 324,013.

For other employees a new three-year incentive program has been established in 2014. All employees employed by Novozymes on April 1, 2014 are eligible for the new stock option program. The Executive Leadership Team and other senior management, who are already included in an existing incentive program, are excluded from this new program. In total, around 6,000 employees will be covered by the program. In the program, employees will be awarded stock options annually in 2014, 2015 and 2016. When the 2016 results are published in 2017, the awarded number of stock options will be granted to employees based on the cumulative level of achievement of economic profit, EBIT and sustainability targets for 2014-2016.

The awarded stock options have a vesting period of four years, after which there is an exercise period of five years. The value of the three-year program is approximately DKK 120 million.

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



### ACCOUNTING POLICIES

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

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

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

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

## 6.2 Stock-based payment (continued)

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

	2014		2013	
	Number of options	Avg. exercise price per option in DKK	Number of options	Avg. exercise price per option in DKK
<b>Employees</b>				
Outstanding at January 1	1,221,314	87	1,825,781	87
Granted*	821,712	233	295	99
Exercised	(200,764)	257	(599,077)	195
Forfeited	(820)	98	(1,580)	85
Expired	(1,320)	84	(4,105)	85
<b>Outstanding at December 31</b>	<b>1,840,122</b>	<b>152</b>	<b>1,221,314</b>	<b>87</b>
<b>Key employees</b>				
Outstanding at January 1	4,221,947	116	3,470,695	86
Change in management	-	-	677,170	88
Granted*	969,299	221	1,252,534	186
Exercised	(818,236)	256	(1,071,207)	193
Forfeited	(52,542)	182	(108,420)	104
Expired	(22,680)	172	1,175	69
<b>Outstanding at December 31</b>	<b>4,297,788</b>	<b>145</b>	<b>4,221,947</b>	<b>116</b>
<b>Executive Leadership Team</b>				
Outstanding at January 1	401,878	89	1,459,835	87
Change in management	-	-	(677,170)	88
Granted*	641,735	233	5,293	188
Exercised	(32,940)	258	(386,080)	188
<b>Outstanding at December 31</b>	<b>1,010,673</b>	<b>181</b>	<b>401,878</b>	<b>89</b>
<b>Outstanding at December 31, total</b>	<b>7,148,583</b>	<b>152</b>	<b>5,845,139</b>	<b>108</b>

\* The allocation of stock options for 2014-2016 will be adjusted in January 2017 based on the cumulative level of target achievement in the period. It is currently assumed that all the targets will be met.

## 6.2 Stock-based payment (continued)

The weighted average share price at the time of exercise was DKK 256 in 2014 (2013: DKK 193). Of the 7,148,583 outstanding options at December 31, 2014 (2013: 5,845,139), 3,509,296 options were exercisable (2013: 4,540,966), and the weighted average price for these options was DKK 87 (2013: DKK 86).

For stock options outstanding at December 31, the range of exercise prices is DKK 69-280 per option (2013: DKK 69-209 per option), and the weighted average remaining term to maturity is five years (2013: four years).

Fair value of services received is measured by reference to the fair value of the equity instruments granted. All values are measured on the basis of the Black-Scholes model. The weighted

average fair value of options granted during 2014 was DKK 50 per option (2013: DKK 53 per option). The fair value of stock options outstanding at December 31 is DKK 809 million (2013: DKK 696 million). The fair value of stock options granted during 2014 was DKK 111 million (2013: DKK 67 million), to be expensed over the four-year period. The fair value of stock awards outstanding at December 31 is DKK 252 million (2013: DKK 246 million). The fair value of stock awards granted during 2014 was DKK 157 million (2013: DKK 0 million), to be expensed over the three-year period.

Fair value at grant date is measured using the average exercise price (which is 0 for stock awards), the option term and the following significant assumptions:

	2014	2013
Expected future dividend per share, DKK	10.6	9.3
Volatility, %	19.0	23.2
Annual risk-free interest rate, %	0.6	0.5
Weighted average share price at grant date, DKK	233	186

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

Most programs are equity-settled, and no liability is recognized for these. In the case of allocations in countries where ownership of foreign stock is not permitted, the value of stock options is

settled in cash, and a liability of DKK 34 million has been recognized for this in 2014 (2013: DKK 29 million). The intrinsic value of exercisable cash-settled programs in 2014 was DKK 26 million (2013: DKK 27 million).

During 2014, DKK 94 million arising from stock-based payment has been recognized in the income statement (2013: DKK 55 million), of which DKK 91 million from equity-settled programs (2013: DKK 55 million).

## 6.3 Commitments and contingencies

DKK million	2014	2013
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	89	79
Between 1 and 2 years	51	41
Between 2 and 3 years	37	32
Between 3 and 4 years	29	26
Between 4 and 5 years	24	22
After 5 years	72	85
<b>Rental commitments at December 31</b>	<b>302</b>	<b>285</b>

Of which commitments to related companies at December 31, 2014, amount to DKK 32 million, compared with DKK 39 million at December 31, 2013. The above rental commitments relate to

noncancelable operating lease contracts, primarily for buildings and offices.

DKK million	Dec. 31, 2014	Dec. 31, 2013
The following amount has been recognized in the Consolidated income statement in respect of rentals	98	83
<b>Other commitments</b>		
Contractual obligations to third parties relating to capital expenditure, etc.	177	88
<b>Other guarantees</b>		
Other guarantees and commitments to related companies	48	68
Other guarantees and commitments	386	640

### PENDING LITIGATION AND ARBITRATION

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

### CONTRACT CONDITIONS

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

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

### JOINT TAXATION

Novozymes A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Novo A/S Group. The joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation. 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.

## 6.4 Related party transactions

Novozymes A/S is controlled by Novo A/S, which holds 70.4% 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). Both entities and the directors of these entities are considered related parties. Other related parties are considered to be the Novo Nordisk Foundation's subsidiaries, that is, the Novo and Novo Nordisk Groups, associated companies, the Chr. Hansen Group, Beta Renewables

S.p.A. and the Board of Directors and 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	2014	2013
<b>The Novo Nordisk Group</b>		
Sale of goods and materials	60	32
Sale of services	82	77
Purchase of goods and materials	(75)	(82)
Purchase of services	(114)	(132)
<b>The Chr. Hansen Group</b>		
Sale of goods and materials	21	14

There have not been any material transactions with the Novo Nordisk Foundation or with the management of Novozymes A/S, Novo A/S, the Novo Nordisk Foundation or the Novo Nordisk

Group, other than normal remuneration. The remuneration of the Board of Directors and Executive Leadership Team is presented in Note 6.1.

## 6.4 Related party transactions (continued)

### OUTSTANDING BALANCES

DKK million	2014	2013
<b>The Novo Nordisk Group</b>		
Receivables	61	56
Financial liabilities	(21)	(19)
Payables	(111)	(113)
<b>The Chr. Hansen Group</b>		
Receivables	6	2

## 6.5 Fees to statutory auditor

DKK million	2014	2013
Statutory audit	8	8
Other assurance engagements	-	-
Tax advisory services	6	7
Other services	5	3
<b>Fees to statutory auditor</b>	<b>19</b>	<b>18</b>

## 6.6 Cash flow

DKK million	Note	2014	2013
<b>Non-cash items</b>			
Accrued interest income and interest costs		49	62
(Gain)/loss on financial assets, etc., net		13	21
Depreciation, amortization and impairment losses		1,016	738
Allowances for doubtful trade receivables		18	16
Financial (gain)/loss on sale of assets		32	(2)
Unrealized foreign exchange (gain)/loss		(277)	160
Tax		754	558
Stock-based payment		94	55
Change in provisions		-	(49)
Monsanto - reversal of non-cash items		(582)	-
Other items		6	6
<b>Non-cash items</b>		<b>1,123</b>	<b>1,565</b>
<b>Business acquisitions and purchase of financial assets</b>			
Acquisition of Iogen Bio-Products	3.6	-	374
Acquisition of TJ Technologies Inc.	3.6	-	212
Other acquisitions and purchase of financial assets	3.6	14	54
<b>Cash flow from acquisitions</b>		<b>14</b>	<b>640</b>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents	B/S	2,535	1,003
Credit institutions - on demand		(82)	(61)
<b>Cash and cash equivalents at December 31</b>		<b>2,453</b>	<b>942</b>

Undrawn committed credit facilities were DKK 2,000 million at December 31, 2014 (2013: DKK 4,119 million). DKK 2,000 million expires in 2017.



### 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 purchase and 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.



## 6.6 Cash flow (continued)

On February 10, 2014, Novozymes formed The BioAg Alliance together with Monsanto. The formation of the alliance included an upfront payment that relates partly to the transfer of certain intangible assets and items of property, plant and equipment, and partly to future product deliverables and other obligations for Novozymes in the coming years.

The total upfront payment amounted to DKK 1,971 million, of which DKK 1,642 million has been settled in cash and DKK 329

million by transfer of intangible assets to Novozymes. A cash receipt of DKK 1,222 million is included in deferred income under Operating activities and a cash receipt of DKK 419 million is included as Sale of intangible assets and Sale of property, plant and equipment under Investing activities in the Consolidated statement of cash flows.

## 6.7 Events after the reporting date

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

# 6.8 Group companies

	Country	Activity					Issued common stock/paid-up stock	Percentage of shares owned	
<b>Parent company</b>									
Novozymes A/S	Denmark	■	□	●	▲	○	DKK	639,400,000	
<b>Subsidiaries</b>									
Novozymes BioAg S.A.	Argentina		□	●	▲		ARS	700,000	100
Novozymes Australia Pty. Ltd.	Australia			●			AUD	500,000	100
Novozymes Belgium BVBA	Belgium			●			EUR	18,600	100
Novozymes Latin America Ltda.	Brazil	■	□	●			BRL	23,601,908	100
Novozymes BioAg Productos Para Agricultura Ltda.	Brazil		□	●			BRL	7,454,860	100
Novozymes BioAg Limited	Canada		□	●	▲		CAD	4,079,799	100
Novozymes Canada Limited	Canada		□	●	▲		CAD	100	100
Novozymes (China) Biotechnology Co. Ltd.	China	■	□	●			CNY	859,058,400	100
Novozymes (China) Investment Co. Ltd.	China			●	▲		CNY	816,449,373	100
Novozymes (Shenyang) Biologicals Co. Ltd.	China		□	●			CNY	31,793,578	100
Suzhou Hongda Enzyme Co. Ltd.	China	■	□	●			CNY	356,744,150	96
Novozymes (China) Biopharma Co. Ltd.	China		□	●			CNY	327,242,564	100
Novozymes Bioindustrial A/S	Denmark					○	DKK	1,100,000	100
Novozymes Bioindustrial China A/S	Denmark					○	DKK	729,700,000	100
Novozymes Biopharma DK A/S	Denmark			●	▲	○	DKK	612,000	100
Novozymes BioAg A/S	Denmark					○	DKK	600,000	100
Novozymes Biologicals France S.A.S.	France			●			EUR	210,832	100
Novozymes Deutschland GmbH	Germany			●			EUR	255,646	100
Novozymes Hong Kong Ltd.	Hong Kong					○	HKD	768,285,140	100
Novozymes Biopharma Hong Kong Co. Ltd.	Hong Kong					○	HKD	551,386,045	100
Novozymes South Asia Pvt. Ltd.	India		□	●	▲		INR	1,550,000,020	100
Novozymes Italia S.r.l.	Italy			●			EUR	10,400	100
Novozymes Japan Ltd.	Japan			●	▲		JPY	300,000,000	100
Novozymes Malaysia Sdn. Bhd.	Malaysia			●			MYR	6,666,414	100
Novozymes Mexicana, S.A. de C.V.	Mexico			●			MXN	338,100	100

## 6.8 Group companies (continued)

	Country	Activity			Issued common stock/paid-up stock	Percentage of shares owned	
Novozymes Mexico, S.S. de C.V.	Mexico	●			MXN 35,224,200	100	
Novozymes Netherlands BVBA	Netherlands	●			EUR 18,000	100	
Novozymes RUS LLC	Russia	●			RUB 5,010,000	100	
Novozymes Singapore Pte. Ltd.	Singapore			○	SGD 59,071,000	100	
Novozymes South Africa (Pty) Ltd.	South Africa	●			ZAR 100	100	
Novozymes Korea Limited	South Korea	●			KRW 300,000,000	100	
Novozymes Spain S.A.	Spain	●			EUR 360,607	100	
Novozymes Biopharma Sweden AB	Sweden	●			SEK 500,000	100	
Novozymes Switzerland AG	Switzerland	●			CHF 5,000,000	100	
Novozymes Switzerland Holding AG	Switzerland			○	CHF 3,000,000	100	
Novozymes Enzim Dis Ticaret Ltd. Sirketi	Turkey	●			TRY 21,000	100	
Novozymes Biopharma UK Ltd.	UK	□	●	▲	GBP 22,535,113	100	
Novozymes UK Ltd.	UK		●		GBP 1,000,000	100	
Novozymes BioAg, Inc.	USA	□	●	▲	USD 1	100	
Novozymes Biologicals, Inc.	USA	□	●	▲	USD 3,000,000	100	
Novozymes Biopharma US, Inc.	USA		●		USD 1	100	
Novozymes Blair, Inc.	USA	□			USD 1	100	
Novozymes, Inc.	USA			▲	USD 1,000	100	
Novozymes North America, Inc.	USA	■	□	●	▲	USD 17,500,000	100
Novozymes US, Inc.	USA			○	USD 115,387,497	100	
<b>Joint operations/associates</b>							
Houseowners' Association Smørmosen	Denmark				DKK		
Houseowners' Association Hallas Park	Denmark				DKK		
Beta Renewables S.p.A.	Italy				EUR	9.95	

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

□ Production

● Sales & Marketing

▲ Research & Development

○ Holding companies, etc.

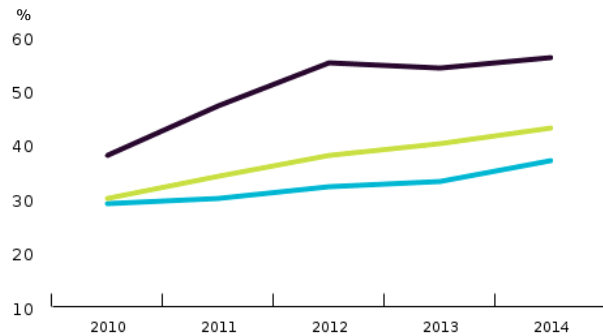
# Environmental data

We measure our environmental performance on matters that have an impact on the environment. One of the most important measures is our estimate of CO<sub>2</sub> emissions reduced by customers' application of Novozymes' products in their products or processes. But we also focus on our own CO<sub>2</sub> emissions and use of resources, and to track our improvement in this area we employ three efficiency improvement indicators that measure our performance against the base year 2005.

Going forward, we will adopt 2014 as the new baseline year for all our operational eco-efficiency targets. By measuring our performance against a more recent baseline, we can ensure that our data are more accurate, relevant and transparent for our stakeholders.

## EFFICIENCY IMPROVEMENT COMPARED WITH 2005

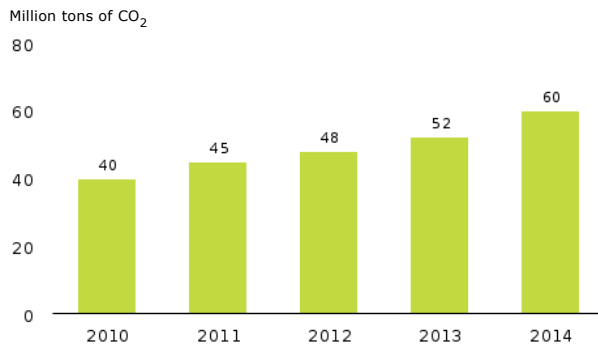
- Water efficiency improvement
- Energy efficiency improvement
- CO<sub>2</sub> efficiency improvement



## 7.1 Climate change impact

With its products, Novozymes has a unique ability to facilitate CO<sub>2</sub> savings for its customers, whether as a consequence of improved production processes or improved performance of the customer's product. An example of this is detergents optimized for washing at low temperatures, which help save energy. The total annual reduction of CO<sub>2</sub> emissions through the application of Novozymes' products is comparable to those of a small country.

### ESTIMATED ANNUAL CO<sub>2</sub> REDUCTION



#### ACCOUNTING POLICIES

The estimated reduction in CO<sub>2</sub> emissions as a consequence of 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.



#### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

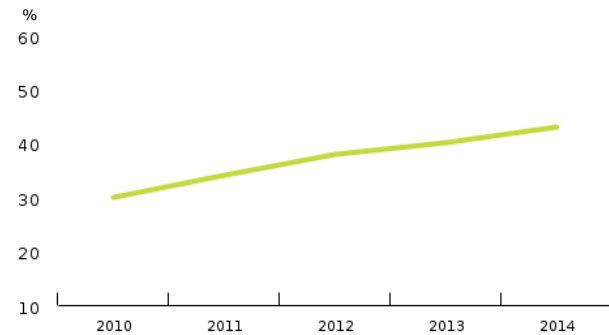
Novozymes uses LCAs to estimate the CO<sub>2</sub> emissions that customers avoid by using Novozymes' products in their processes or products. A calculation methodology to consolidate the LCAs has been defined and consistently applied, but the individual LCAs depend on assumptions and estimates, which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

# 7.2 Energy

## Energy consumption by primary source

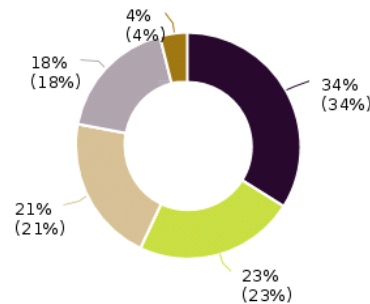
1,000 GJ	2014	2013
Town gas	143	151
Gas oil	20	-
Light fuel oil and diesel oil	2	-
Natural gas	575	588
<b>Internally generated energy, total</b>	<b>740</b>	<b>739</b>
Electricity from renewable sources	962	950
Electricity (conventional)	1,497	1,471
District heat	155	175
Steam	886	861
Energy from waste	(52)	(22)
<b>Externally purchased energy, total</b>	<b>3,448</b>	<b>3,435</b>
<b>Energy consumption, total</b>	<b>4,188</b>	<b>4,174</b>

## ENERGY EFFICIENCY IMPROVEMENT



## ENERGY BY SOURCE 2014 (2013)

■ Electricity (conventional)    ■ Electricity from renewable sources  
■ Steam    ■ Fuels  
■ Heat



## ACCOUNTING POLICIES

The energy consumption includes quantities consumed both in the production process and in other areas.

Internally generated energy is measured as fuel consumption converted to energy on the basis of the lower combustion value and weight by volume, except in the U.S., where legal requirements for reporting of CO<sub>2</sub> state that the higher combustion value is to be applied.

Fuel consumption comprises all types of fuels used to produce electricity, heat and steam on site. Fuel consumption does not include fuel for transportation.

Externally generated energy is the input to Novozymes of externally generated electricity, heat and steam, less energy production from Novozymes' waste. Energy produced from waste or wastewater is renewable and amounts to the total energy (heat, electricity or steam) produced by an internal or external utility provider. Examples are 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.

The energy efficiency improvement indicator measures the weighted sum of the efficiency improvement for Novozymes' production plants. The efficiency improvement is calculated as the relative improvement in efficiency compared with the efficiency calculated for the base year (2005).

The quantities used in the calculation correspond to those reported as energy consumption less energy produced from Novozymes' biomass waste by a utility provider.

For sites acquired in 2005 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 the first quarter after qualification.

## 7.3 Greenhouse gas emissions

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

1,000 tons	2014	2013
Town gas	9	9
Gas oil	1	-
Natural gas	30	31
<b>CO<sub>2</sub> - scope 1</b>	<b>40</b>	<b>40</b>
District heat	8	9
Electricity	271	269
Steam	70	68
Energy from waste	(5)	(3)
<b>CO<sub>2</sub> - scope 2</b>	<b>344</b>	<b>343</b>
Ship	7	4
Truck	15	11
Air freight	11	7
<b>CO<sub>2</sub> - scope 3</b>	<b>33</b>	<b>22</b>
<b>CO<sub>2</sub> emissions, total</b>	<b>417</b>	<b>405</b>
HCFCs	2	1
<b>CO<sub>2</sub>-equivalents, total</b>	<b>419</b>	<b>406</b>

CSR



### ACCOUNTING POLICIES

Reported CO<sub>2</sub> emissions are calculated on the basis of internally and externally generated energy, and outbound transport of products.

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

CO<sub>2</sub> from externally generated energy (scope 2) is calculated using annually determined local emission factors from power plants or their organizations.

If emission factors are not available, annually determined emission factors from Danish authorities and suppliers are used.

Transport-related CO<sub>2</sub> emissions (scope 3) are calculated on the basis of principles described in the GHG Protocol. Reported quantities comprise CO<sub>2</sub> emissions related to transport from all primary enzyme production sites to the customer where Novozymes pays for the freight. Transport between production sites is also included. Transport of raw materials to a production site is not included. CO<sub>2</sub> emissions generated at external warehouses are not included.

Emission data are calculated on the basis of distance and emission factors from the GHG Protocol.

Emissions to air of ozone layer-depleting substances comprise consumption of CFCs, HCFCs and halons.

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

The CO<sub>2</sub> efficiency improvement indicator measures the weighted sum of the efficiency improvement for Novozymes' production plants. The efficiency improvement is calculated as the relative improvement in efficiency compared with the efficiency calculated for the base year (2005).

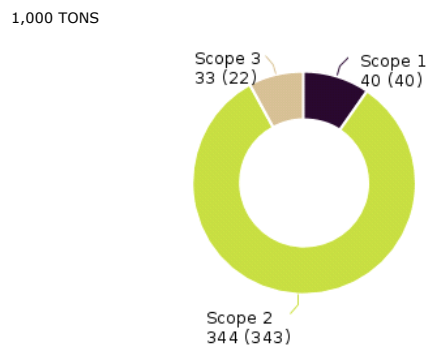
For definition of quantities used and sites included in the calculation, see accounting policies for energy in Note 7.2.

# 7.3 Greenhouse gas emissions (continued)

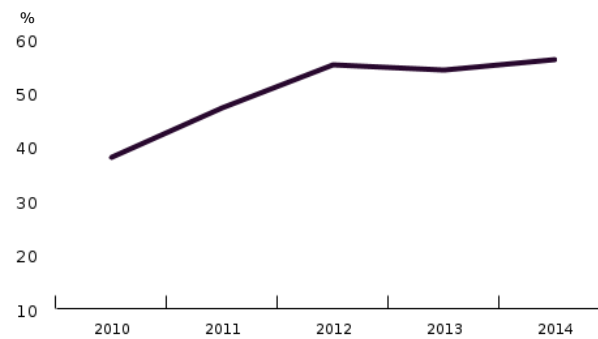
## Emissions to air of ozone layer-depleting substances

Kg	2014	2013
CFCs	-	-
HCFCs	924	475
<b>Total</b>	<b>924</b>	<b>475</b>

CO<sub>2</sub> EMISSIONS BY SCOPE 2014 (2013)



CO<sub>2</sub> EFFICIENCY IMPROVEMENT





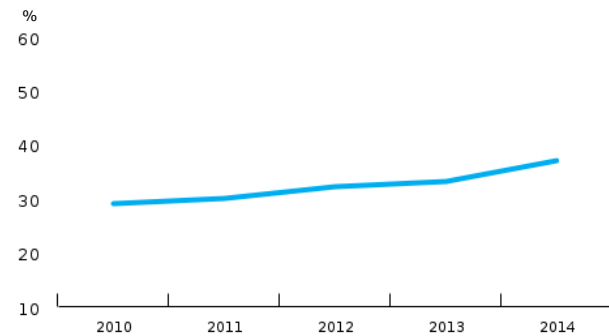
# 7.4 Water

**Water by primary source**  
1,000 m<sup>3</sup>

	2014	2013
Drinking water	4,539	4,464
Industrial water	1,885	2,037
Steam	318	306
<b>Water, total</b>	<b>6,742</b>	<b>6,807</b>

CSR

## WATER EFFICIENCY IMPROVEMENT



### ACCOUNTING POLICIES

Water includes drinking water, industrial water and externally supplied steam.

Drinking water is water of drinking water quality.

Industrial water is water that is not of drinking water quality, but which is suitable for certain industrial processes, for example for use in cooling towers. Industrial water can come from lakes or from own wells.

The reported quantities are stated on the basis of 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.

The water efficiency improvement indicator measures the weighted sum of the efficiency improvement for Novozymes' production plants. The efficiency improvement is calculated as the relative improvement in efficiency compared with the efficiency calculated for the base year (2005).

The quantities used in the calculation correspond to those reported as water consumption.

For sites acquired in 2005 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 the first quarter after qualification.

## 7.5 Wastewater

Wastewater from Novozymes' production is treated internally or externally in biological wastewater treatment systems before it is discharged to the recipient, or used as water for irrigation in agriculture.

1,000 m <sup>3</sup>	2014	2013
Wastewater used for irrigation	355	430
Wastewater discharged	4,431	4,223
<b>Wastewater volume, total</b>	<b>4,786</b>	<b>4,653</b>

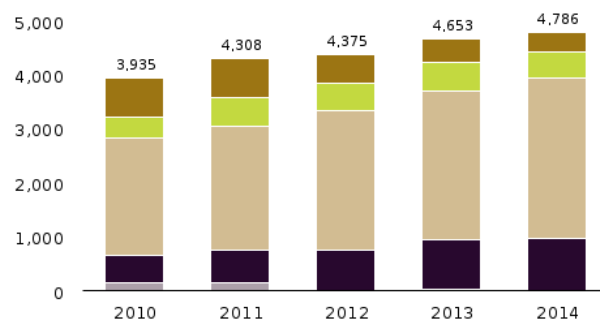


### ACCOUNTING POLICIES

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

### WASTEWATER BY TREATMENT METHOD (1000 M<sup>3</sup>)

- Novozymes-treated to irrigation
- Novozymes-treated to external water recipient
- Novozymes-treated to external treatment
- Untreated to external treatment
- Untreated to water recipient



## 7.6 Production inputs

The large-scale production of our products requires raw materials, utilities and packaging materials. Purchase and subsequent disposal of such resources can impact the environment and is therefore important for Novozymes to

monitor. Efficient use and disposal of resources are key to Novozymes in order to both reduce costs and improve its environmental footprint.

## 7.7 Waste and by-products

Novozymes' production generates solid waste and biomass as by-products.

Biomass is liquid waste from Novozymes' production that is rich in nitrogen and phosphorus and can therefore be used as fertilizer. Instead of disposing of this biomass as waste, a major part of it is turned into a product, NovoGro®, and distributed to farmers, who use it as organic agricultural fertilizer in the fields, thus reducing their need for commercial fertilizers.

When part of the by-products from production is reused by farmers, the quantity of by-products that needs to be handled as waste is accordingly reduced. This reduces not only the costs associated with waste treatment, but also the negative impact on the environment.

Volume	2014 1,000 m <sup>3</sup>	2013 1,000 m <sup>3</sup>
NovoGro®	310	321
NovoGro® 30	153	140
Compost	72	77
Landfill	8	8
<b>Biomass, total</b>	<b>543</b>	<b>546</b>

CSR



### ACCOUNTING POLICIES

Raw materials comprises materials used directly or indirectly in the production process. Packaging comprises all products made of any material of any nature to be used for the containment, protection, handling, delivery and preservation of goods from the producer to the user or consumer.



### 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.

# 7.7 Waste and by-products (continued)

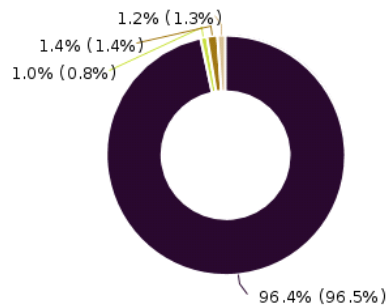
Tons

	2014	2013
<b>Nonhazardous waste</b>		
Incineration	1,010	1,017
Landfill	3,964	4,454
Recycling	3,803	3,638
Other	113	228
<b>Nonhazardous waste, total</b>	<b>8,890</b>	<b>9,337</b>
<b>Hazardous waste</b>		
Incineration	1,198	1,174
Landfill	52	120
Recycling	1,588	863
Other	181	176
<b>Hazardous waste, total</b>	<b>3,019</b>	<b>2,333</b>
<b>Waste, total</b>	<b>11,909</b>	<b>11,670</b>

CSR

## WASTE AND BY-PRODUCT RECOVERED 2014 (2013)

- Recovered biomass
- Recovered (recycled) solid waste
- Biomass sent for landfill
- Solid waste sent for landfill/incineration



## 7.8 Environmental compliance, etc.

It is important for Novozymes to act as a good corporate citizen. The three measures breaches, significant spills and neighbor complaints cover both legal requirements and moral obligations, and together they are key to ensuring that Novozymes maintains its license to operate.



### ACCOUNTING POLICIES

Breaches of environmental regulatory limits is measured as the number of incidents in the reporting year considered not to be in conformity to 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.

Significant spills is measured as the number of spills of chemicals, oil, etc. into water, air or soil and includes both on-site and transport-related spills. Significance is assessed both on the basis of extent of the spill and impact on the environment.

Minor spills not considered to have an impact on the environment are not included in this figure.

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

## 7.9 Animals for testing

Novozymes uses laboratory animals for safety testing, antibody production and research where no acceptable alternative methods exist or where animal testing is required by the authorities.

The use of experimental animals has been reduced by 40% from

2,665 to 1,600 animals in 2014. The number of animals used by Novozymes each year varies, depending on the nature of animal studies conducted; for instance, a higher level of activity within the Agriculture & Feed business requires increased use of broilers, and a higher level of activity within ecotoxicology leads to an increase in the use of fish.

No.	2014	2013
Mice	657	842
Rats	542	973
Fish	305	151
Rabbits	20	107
Birds	60	542
Other	16	50
<b>Total</b>	<b>1,600</b>	<b>2,665</b>

The use of experimental animals at Novozymes is supervised on an ongoing basis by an internal Science Ethics Committee (SEC), which reviews and approves all studies involving experimental animals prior to initiation. Moreover, post-approval monitoring is conducted on a regulatory basis, involving inspections at the laboratory where the animal study is being conducted to ensure that everything is done in accordance with the current legislation and the approved study plan. More information can be found in our Position paper on animal testing at [www.novozymes.com](http://www.novozymes.com).

Novozymes' objective is to stop using animals for experimental purposes. However, we realize that at present not all tests can be replaced by acceptable alternatives nor would the authorities accept full replacement by in vitro methods.

Ethical considerations and animal welfare are given high priority at Novozymes, and severe suffering is never accepted. As an integral part of our approach to animal testing, we are constantly looking for new ways to *replace, reduce* and *refine* the use of animals for testing. In 2014, Novozymes decided to invest time and resources in a project focusing on implementation of mechanism-based assessment of respiratory sensitization and inhalation toxicity of enzymes using MucilAir™ and the GARD test. The goal of this project is to establish a method by which RNA extracted from MucilAir tissue exposed to enzymes can be used to analyze differential gene expression and predict sensitization potential in humans.



### ACCOUNTING POLICIES

Animals for testing covers the number of animals used for all commenced internal and external testing undertaken for Novozymes. The figures include animals for testing used both by Novozymes and by external test companies during tests ordered by Novozymes.

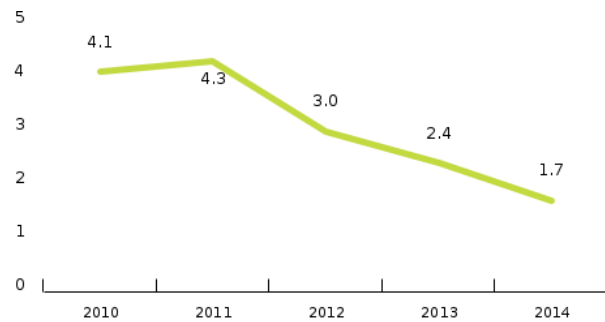
# Social and governance data

We measure our social performance using a number of indicators in the areas of workplace development, occupational health & safety, societal outreach and good governance. These indicators provide an overview of progress made and enable us to understand the trends so we can respond to risks and opportunities related to talent attraction and retention as well as business development.

As part of our long-term strategy, we have raised the level for the current measures and introduced new impact targets under the headings: REACH, EDUCATE, CATALYZE, DELIVER, SAVE AND ENABLE.

FREQUENCY OF ACCIDENTS (per million working hours)

■ Realized frequency



## 8.1 Development of the workforce

Novozymes' success is dependent on its employees' satisfaction and motivation in their daily work. Therefore, we monitor several parameters to ensure the well-being and development of our employees.

		2014	2013
		No.	No.
<b>Changes in number of employees</b>			
Net growth in number of employees, organic		340	112
Terminations - retirement		43	40
Terminations - dismissal		95	134
Terminations - voluntary		338	266
<b>Terminations, total</b>		<b>476</b>	<b>440</b>
<b>Rate of absence</b>			
		%	%
Senior management, management, professional and administrative		1.3	1.1
Skilled workers, laboratory technicians, other technicians and process operators		2.5	2.8
<b>Other employee statistics</b>			
Average age	Years	40.5	40.5
Average seniority	Years	9.0	9.1
Number of expatriates	No.	65	75

Rate of absence has been broken down by grouped job categories based on whether the work carried out is primarily office-based and is therefore not stated per job category.



### ACCOUNTING POLICIES

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

The rate of employee turnover is calculated as employee turnover divided by the average number of permanent employees.

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

Average age and seniority are calculated as the sum of employees' total seniority in whole years at the reporting date, divided by the number of employees.

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

A leader is defined as a person who has line management responsibility for at least three employees, not including students and trainees. New leaders are defined as leaders who have been promoted or hired to a position within the reporting period, and must not have been leaders within the last 12 months prior to promotion. New employees joining through acquisitions do not qualify as new leaders.

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.



## 8.2 Occupational accidents and occupational diseases

Novozymes has the ambition to maintain a safe and healthy workplace and thereby save both human suffering and production costs. In order to ensure this, management continuously monitors developments in accidents and illnesses with the aim of optimizing equipment, processes and the Group's safety culture.

### Consequences of occupational accidents

No.	2014	2013
Return to original job	14	24
Transfer to a different job outside Novozymes	2	-
Out of work or early retirement	-	-
Case pending	1	-
<b>Occupational accidents, total</b>	<b>17</b>	<b>24</b>
Total days of absence related to accidents registered in the same year	276	198
Injury severity rate	16	8

For comparison purposes, cases that were pending at the end of 2013 have been updated in line with information available at the end of 2014. The derived figure for total days of absence has also been updated.



### 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 an exposure to risk factors arising from work activity and notified as work-related in accordance with national legislation.

The consequences of occupational accidents with absence and occupational diseases are measured by recording the work situation once the outcome of the incident has stabilized, for example whether the employee has returned to his original job, and the total number of calendar days of absence.

The 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 accidents and occupational diseases (continued)

### Consequences of occupational diseases

No.	2014	2013
Return to original job	2	3
Return to a different job in the same department	1	3
Transfer to a different job in another department	-	1
Transfer to a different job outside Novozymes	1	1
Out of work or early retirement	-	-
Case pending	-	-
<b>Occupational diseases, total</b>	<b>4</b>	<b>8</b>
	CSR	
Total days of absence related to diseases registered in the same year	27	-

For comparison purposes, cases that were pending at the end of 2013 have been updated in line with information available at the end of 2014. The derived figure for total days of absence has also been updated.

### Types of occupational diseases

No.	2014	2013
Musculoskeletal disorder	1	-
Skin disease	2	2
Enzyme allergy	1	6
<b>Occupational diseases, total</b>	<b>4</b>	<b>8</b>
	CSR	

## 8.3 Processes and technology

In 2014, eight new products were launched compared with 11 in 2013.

Q1 2014	LpHera® - a new enzyme for starch liquefaction that lowers liquefaction pH, reducing the need for pH-adjusting chemicals while improving crystallization and fermentation yields.
Q1 2014	RONOZYME® MultiGrain (GT) - an enzyme solution for the animal feed market that offers superior formulation flexibility when using highly variable raw materials.
Q3 2014	Medley® - an enzyme solution with multiple enzyme activities for the Household Care market that makes it easier for detergent manufacturers to handle raw materials and to include more enzymes. Medley comes in different formulations.
Q3 2014	DeniLite® Cold - a textile solution that offers cold bleaching for denim manufacturers, allowing them to save on energy, water and time, while reducing the risk of fabric damage from chemicals.
Q4 2014	Leviti™ - a liquid enzyme solution with multiple enzyme activities tailored to professional laundry chemistry formulators in Household Care.
Q4 2014	Amplify® - a new starch-degrading amylase enzyme for consumer and professional laundry detergent solutions.
Q4 2014	Lipex® - a new fat-hydrolyzing liquid lipase enzyme for consumer laundry detergent solutions.
Q4 2014	Eversa® - a liquid enzyme solution that enables enzymatic production of biodiesel in a sustainable manner from lower-grade oils such as used cooking oils and waste oils.



### ACCOUNTING POLICIES

New products comprises the number of new products with new or improved characteristics launched during the year.

Active patent families comprises the number of inventions for which there are one or more active patent applications or active patents at year-end.

## 8.4 Training and compliance

### Supplier Performance Management

Through the Supplier Performance Management program, Novozymes' suppliers are systematically assessed from both a risk and an opportunity perspective. Novozymes engages frequently with its suppliers in order to develop partnerships and to promote a sustainable working environment.

### Completion of business integrity training for employees

In 2014 the scope of the training has been adjusted to include relevant employees only. Relevant employees comprise senior management, management, professional and administrative employees. The reported completion of business integrity training for 2013 has been updated to reflect the adjusted scope.

### Breaches of competition law

There were no violations of competition law in 2014.

Fraud cases	2014 No.	2013 No.
Dismissal of employee	1	1
Dismissal of employee and reported to the police	1	1
<b>Fraud cases, total</b>	<b>2</b>	<b>2</b>

CSR



### ACCOUNTING POLICIES

The supplier performance management indicator measures the ratio of suppliers with an annual spend above DKK 1 million that are covered by the supplier evaluation system.

The completion of business integrity training refers to the number of relevant employees who have undergone business integrity training in the last training period.

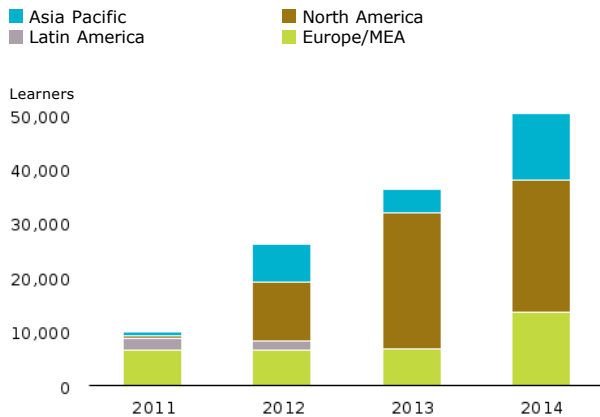
The reporting criteria for competition law violations are whether it has been established by an authority member of the International Competition Network or by a competent court anywhere in the world that a company in the Novozymes Group of companies has violated applicable antitrust regulations.

All allegations of fraud are investigated until it can be determined whether or not they can be substantiated. The number of fraud cases represents substantiated matters reported to the Audit Committee in the reporting year.

# 8.5 Corporate citizenship

Through our corporate citizenship program we give back to communities around the world by presenting our competencies in scientific understanding and environmental responsibility to benefit and inspire the next generation of scientists and innovators. We measure our efforts by tracking the number of learners reached through the program and the number of corporate citizen projects (flagship projects).

CITIZYMES: LEARNERS REACHED BY GEOGRAPHY



## ACCOUNTING POLICIES

Regional flagship projects is the number of corporate citizenship/community engagement projects currently in progress where Novozymes engages with a community by providing competencies in the areas of scientific understanding and environmental awareness, for example through transfer of knowledge to help meet the community's needs. Regional flagship projects have a time horizon of minimum one year and are supplemented by relevant smaller activities and sponsorships within scope.

Learners reached comprises the total number of indirect and direct learners that Novozymes reaches via its corporate citizenship activities in the areas of scientific understanding and environmental awareness.



## 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.

# Statement of the Board of Directors and Executive Leadership Team

The Board of Directors and Executive Leadership Team have today considered and approved the Annual Report of Novozymes A/S for the financial year January 1 – December 31, 2014.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act. Moreover, the Consolidated

Financial Statements and the Parent Company Financial Statements are prepared in accordance with additional Danish disclosure requirements for listed companies. Management's Review is also prepared in accordance with Danish disclosure requirements for listed companies.

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 of the Group and the Parent Company at December 31, 2014, and of the results of the Group and the Parent Company operations, and of consolidated cash flows for the financial year 2014.

In our opinion, Management's Review includes a true and fair account of the developments in the operations and financial circumstances of the Group and the Parent Company, of the result 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 and social data are stated in accordance with the accounting policies.

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

*Bagsvaerd, January 20, 2015*

## EXECUTIVE LEADERSHIP TEAM

**Peder Holk Nielsen**  
*President & CEO*

**Per Falholt**

**Andrew Fordyce**

**Benny D. Loft**

**Thomas Nagy**

**Thomas Videbæk**

## BOARD OF DIRECTORS

**Henrik Gürtler**  
*Chairman*

**Agnete Raaschou-Nielsen**  
*Vice Chairman*

**Lars Bo Køppler**

**Mathias Uhlén**

**Lena Olving**

**Anders Hentze Knudsen**

**Lars Green**

**Lena Bech Holskov**

**Jørgen Buhl Rasmussen**

# Independent Auditor's Report

To the Shareholders of Novozymes A/S

## Report on Financial Statements and Environmental and Social Data

We have audited the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data of Novozymes A/S for the financial year January 1 to December 31, 2014. The Consolidated Financial Statements and the Parent Company Financial Statements comprise income statement, balance sheet, statement of changes in equity and financial notes, including summary of significant accounting policies for both the Group and the Parent Company, as well as statement of cash flows and financial resources and statement of comprehensive income for the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company Financial Statements are prepared under the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with Danish disclosure requirements for listed companies. The Environmental and Social Data are prepared in accordance with the accounting policies stated in the accounting policies for the Environmental and Social Data.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND ENVIRONMENTAL AND SOCIAL 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 Danish disclosure requirements for listed companies, and for preparing Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error. Furthermore, Management is responsible for preparing Environmental and Social Data in accordance with the accounting policies stated in accounting policies for Environmental and Social Data.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulations. This requires that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts, data and disclosures in the

Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view, and considers internal control relevant to the Company's preparation of Environmental and Social Data that are prepared in accordance with the accounting policies for Environmental and Social Data 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data.

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

The audit has not resulted in any qualification.

### **OPINION**

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position

at December 31, 2014, and of the results of the Group's operations and cash flows for the financial year January 1 to December 31, 2014, in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at December 31, 2014, and of the results of the Parent Company's operations for the financial year January 1 to December 31, 2014, in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies.

In our opinion, the Environmental and Social Data for the financial year January 1 to December 31, 2014, are prepared in accordance with the accounting policies stated in the accounting policies for the Environmental and Social Data.

## Statement on Management's Review

We have in accordance with the Danish Financial Statements Act read Management's Review, which comprises the sections The Big Picture, Business Review, Strategy & Performance and Governance. We have not performed any procedures additional to the audit of the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements, the Parent Company Financial Statements and the Environmental and Social Data.

*Bagsvaerd, January 20, 2015*

**PRICEWATERHOUSECOOPERS**  
Statsautoriseret Revisionspartnerselskab

**Mogens Nørgaard Mogensen**  
State Authorized Public Accountant

**Rasmus Friis Jørgensen**  
State Authorized Public Accountant



# Independent assurance statement on Novozymes' 2014 sustainability reporting and adherence to the AA1000 AccountAbility Principles

To the stakeholders of Novozymes A/S:

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

Regarding the audit of environmental and social 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.

## ASSURANCE PROVIDER'S RESPONSIBILITY

As assurance provider, it is our responsibility, based on our work, to make observations and recommendations with respect to the nature and extent of Novozymes' adherence to the AA1000 AccountAbility Principles.

Our team of experts has competencies with regard to assessing sustainability management systems. We have in

2014 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, 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:

(i) Enquiries and interviews with the members of the Board of Directors, members of the Executive Leadership Team, senior Management and heads of Project Management, Research and Development, Sustainability Development, and Marketing and Sales 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.

## CONCLUSION

Based on our review, nothing has come to our attention causing us to believe that Novozymes does not adhere to the AA1000 AccountAbility Principles.

## **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**

2014 has been a significant year for Novozymes in developing the next stage of its approach to sustainability, which has involved reviewing purpose, ambition, themes and targets. We noted an increased focus on further integrating sustainability into Novozymes core business by incorporating sustainability into the business strategy and development process and enhancing board level commitment and involvement. We also noticed engagement of a broader set of stakeholders across the business and more emphasis on building strategic partnerships and alliances to support the business externally.

As Novozymes increases its focus on external engagement, we recommend developing a company-wide stakeholder engagement plan, linked to actions that will drive long-term business value.

### **REGARDING MATERIALITY**

Novozymes continues to discuss, evaluate and determine the materiality of sustainability issues on an ongoing basis

through the Sustainability Board and other governance processes involving senior Management across the organisation. We have noted that work is ongoing to further embed and align considerations of material sustainability issues in core business processes.

We have no significant recommendations regarding materiality.

### **REGARDING RESPONSIVENESS**

Following last year's relocation of Corporate Sustainability to Business Development it has been noted that the customer centric and value chain approach has been further anchored in the organisation. This has enhanced responsiveness to stakeholder's needs and concerns. One example is the established Global Strategic Accounts that provides the opportunity to engage customers in active discussions on their sustainability challenges and opportunities.

Whilst Novozymes continues to demonstrate sustainability leadership, we have recommended that Novozymes strengthen this leadership position by introducing formal sustainability evaluation criteria into the product innovation prioritization process and continuing the development of a framework for measuring and valuing positive and negative sustainability impacts associated with its business activities.

*Bagsvaerd, January 20, 2015*

## **PRICEWATERHOUSECOOPERS**

**Statsautoriseret Revisionspartnerselskab**

**Mogens Nørgaard Mogensen**

*State Authorized Public Accountant*

**Rasmus Friis Jørgensen**

*State Authorized Public Accountant*

# Financial statements for Novozymes A/S

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## Financial statements

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# Income statement, Novozymes A/S

DKK million	Note	2014	2013
Revenue	2.1	6,991	6,484
Cost of goods sold	2.2	(3,460)	(3,018)
<b>Gross profit</b>		<b>3,531</b>	<b>3,466</b>
Sales and distribution costs	2.2	(919)	(778)
Research and development costs	2.2	(1,233)	(1,144)
Administrative costs	2.2	(514)	(600)
Other operating income	2.3	1,599	1,076
<b>Operating profit / EBIT</b>		<b>2,464</b>	<b>2,020</b>
Income from investments in subsidiaries	3.3	407	573
Financial income	4.1	328	156
Financial costs	4.1	(209)	(90)
<b>Profit before tax</b>		<b>2,990</b>	<b>2,659</b>
Tax		(539)	(514)
<b>Net profit</b>		<b>2,451</b>	<b>2,145</b>
<b>Proposed appropriation of net profit</b>			
Dividend to shareholders		925	786
Revaluation reserve according to the equity method		407	-
Retained earnings		1,119	1,359
		<b>2,451</b>	<b>2,145</b>
Proposed dividend per share		DKK 3.00	DKK 2.50

# Balance sheet, Novozymes A/S

## ASSETS

DKK million	Note	Dec. 31, 2014	Dec. 31, 2013
<b>Intangible assets</b>	3.1	991	714
<b>Property, plant and equipment</b>	3.2	2,787	2,682
Investments in subsidiaries		5,311	4,651
Investments in associates		24	-
Other long term receivable		104	-
Receivables from Group enterprises		2,715	2,423
<b>Financial fixed assets</b>	3.3	8,154	7,074
<b>Fixed assets</b>		11,932	10,470
Raw materials and consumables		136	106
Work in progress		239	307
Finished goods		795	599
<b>Inventories</b>		1,170	1,012
Trade receivables		845	865
Receivables from Group enterprises		1,289	2,403
Tax receivables		19	-
Other receivables	3.4	98	201
<b>Receivables</b>		2,251	3,469
<b>Cash at bank and in hand</b>		2,334	921
<b>Current assets</b>		5,755	5,402
<b>Assets</b>		17,687	15,872

## LIABILITIES AND SHAREHOLDERS' EQUITY

DKK million	Note	Dec. 31, 2014	Dec. 31, 2013
Common stock	5.3	639	639
Revaluation reserve according to the equity method		831	-
Treasury stock		(3,221)	(1,306)
Retained earnings		11,773	10,689
Proposed dividend		922	783
<b>Shareholders' equity</b>		10,944	10,805
Deferred tax		246	340
Other provisions		102	150
<b>Provisions</b>		348	490
Credit institutions	4.2	1,716	1,714
<b>Non-current liabilities</b>		1,716	1,714
Credit institutions		626	21
Trade payables		502	579
Payables to Group enterprises		2,872	1,701
Tax payable		-	69
Other payables		679	493
<b>Current liabilities</b>		4,679	2,863
<b>Liabilities</b>		6,395	4,577
<b>Liabilities and shareholders' equity</b>		17,687	15,872
Notes regarding:			
Contingent liabilities and pending litigation	5.1		
Related party transactions	5.2		
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# Statement of shareholders' equity, Novozymes A/S

DKK million	Common stock	Revaluation reserve according to the equity method	Treasury stock	Retained earnings	Proposed dividend	Total
<b>Shareholders' equity at January 1, 2014</b>	<b>639</b>	<b>-</b>	<b>(1,306)</b>	<b>10,689</b>	<b>783</b>	<b>10,805</b>
Adjustment opening balance		424		(424)		-
Net profit for the year		407		2,044		2,451
Dividend paid					(814)	(814)
Dividend paid relating to treasury stock					28	28
Proposed dividend, gross				(958)	958	-
Proposed dividend relating to treasury stock				33	(33)	-
Purchase of treasury stock			(2,000)			(2,000)
Sale of treasury stock			85			85
Currency translation adjustments of investments in subsidiaries, etc.				344		344
Value adjustment of derivatives				(105)		(105)
Other adjustments				150		150
<b>Shareholders' equity at December 31, 2014</b>	<b>639</b>	<b>831</b>	<b>(3,221)</b>	<b>11,773</b>	<b>922</b>	<b>10,944</b>
<b>Shareholders' equity at January 1, 2013</b>	<b>650</b>	<b>-</b>	<b>(2,543)</b>	<b>10,568</b>	<b>687</b>	<b>9,362</b>
Net profit for the year		237		1,908		2,145
Dividend paid					(702)	(702)
Dividend paid relating to treasury stock					12	12
Proposed dividend, gross				(800)	800	-
Proposed dividend relating to treasury stock				14	(14)	-
Sale of treasury stock			167			167
Depreciation of treasury stock	(11)		1,070	(1,059)		-
Currency translation adjustments of investments in subsidiaries, etc.				(342)		(342)
Value adjustment of derivatives				121		121
Other adjustments		(237)		279		42
<b>Shareholders' equity at December 31, 2013</b>	<b>639</b>	<b>-</b>	<b>(1,306)</b>	<b>10,689</b>	<b>783</b>	<b>10,805</b>

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

# 1 Accounting policies

The financial statements of Novozymes A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class D) and the regulations of Nasdaq OMX Copenhagen on the presentation of financial statements by listed companies. The accounting policies are unchanged from last year.

As the accounting policies for Novozymes A/S only differ from those of the Group, which follow IFRS, with respect to a few items, only those that differ from the Group's are detailed below. Reference is made to the accounting policies for the Novozymes Group for the other items.

As of January 1, 2014, Novozymes A/S has merged with the wholly owned affiliate Novozymes Bioindustrial Holding A/S. The figures for Novozymes Bioindustrial Holding A/S have been incorporated in the figures for Novozymes A/S as of the merger date. The comparison figures have not been restated.

## RECOGNITION AND MEASUREMENT IN GENERAL

Income is recognized in the income statement as it is earned. Value adjustments of financial assets and liabilities measured at fair value or amortized cost are also recognized in the income statement. All costs incurred in generating the year's revenue are also recognized in the income statement, including depreciation, amortization and impairment losses.

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

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

## INTANGIBLE ASSETS

The accounting policies for intangible fixed assets follow those of the Group with the exception of goodwill, which is amortized over its useful life, not exceeding 20 years.

## 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 Investment in associates respectively in the balance sheet. If the shareholders' equity of subsidiaries or associates is negative and Novozymes A/S has a legal or constructive obligation to cover the company's negative equity, a provision is recognized.

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

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

## DIVIDEND

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

## 2.1 Revenue

DKK million	2014	2013
Geographical distribution:		
Denmark	188	141
Rest of Europe, Middle East & Africa	4,443	4,023
North America	1,056	1,129
Asia Pacific	929	822
Latin America	375	369
<b>Revenue</b>	<b>6,991</b>	<b>6,484</b>

## 2.2 Employee costs

DKK million	2014	2013
Wages and salaries	1,566	1,496
Pensions - defined contribution plans	154	146
Other social security costs	26	25
Other employee costs	139	93
<b>Employee costs</b>	<b>1,885</b>	<b>1,760</b>
Average number of employees in Novozymes A/S	2,712	2,605

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



## 2.3 Other operating income

DKK million	2014	2013
Royalty income relating to subsidiaries	1,591	1,061
Other	8	15
<b>Other operating income</b>	<b>1,599</b>	<b>1,076</b>

# 3.1 Intangible assets

DKK million	2014				2013	
	Goodwill	Acquired patents, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total	Total
Cost at January 1	52	932	292	2	1,278	845
Additions from business acquisitions	69	(112)	-	-	(43)	409
Additions from merger	215	224	-	-	439	-
Additions during the year	-	-	20	-	20	24
Transfer to/(from) other items	-	-	2	(2)	-	-
<b>Cost at December 31</b>	<b>336</b>	<b>1,044</b>	<b>314</b>	<b>-</b>	<b>1,694</b>	<b>1,278</b>
Amortization and impairment losses at January 1	4	354	206	-	564	484
Additions from merger	15	1	-	-	16	-
Amortization for the year	26	74	23	-	123	80
<b>Amortization and impairment losses at December 31</b>	<b>45</b>	<b>429</b>	<b>229</b>	<b>-</b>	<b>703</b>	<b>564</b>
<b>Carrying amount at December 31</b>	<b>291</b>	<b>615</b>	<b>85</b>	<b>-</b>	<b>991</b>	<b>714</b>

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## 3.2 Property, plant and equipment

DKK million	2014				2013	
	Land and buildings	Production equipment and machinery	Other equipment	Property, plant and equipment under construction	Total	Total
Cost at January 1	2,152	3,870	807	268	7,097	6,776
Additions during the year	4	110	14	195	323	339
Disposals during the year	-	(9)	(35)	-	(44)	(18)
Transfer to/(from) other items	23	149	21	(193)	-	-
<b>Cost at December 31</b>	<b>2,179</b>	<b>4,120</b>	<b>807</b>	<b>270</b>	<b>7,376</b>	<b>7,097</b>
Depreciation and impairment losses at January 1	1,082	2,792	541		4,415	4,235
Depreciation for the year	44	123	49		216	193
Disposals during the year	-	(9)	(33)		(42)	(193)
<b>Depreciation and impairment losses at December 31</b>	<b>1,126</b>	<b>2,906</b>	<b>557</b>		<b>4,589</b>	<b>4,235</b>
<b>Carrying amount at December 31</b>	<b>1,053</b>	<b>1,214</b>	<b>250</b>	<b>270</b>	<b>2,787</b>	<b>2,862</b>

## 3.3 Financial fixed assets

DKK million	Investments in subsidiaries	Investments in associates	Receivables from Group enterprises	Other long term receivables	Total
Cost at January 1, 2014	4,947	-	2,423	-	7,370
Additions/disposals from merger	(1)	55	-	104	158
Additions during the year	1	-	418	-	419
Disposals during the year	(467)	-	(126)	-	(593)
<b>Cost at December 31, 2014</b>	<b>4,480</b>	<b>55</b>	<b>2,715</b>	<b>104</b>	<b>7,354</b>
Revaluation reserve at January 1, 2014	(296)	-			(296)
Share of net profit/(loss)	407	(21)			386
Dividends received	(62)	-			(62)
Currency translation adjustment	353	-			353
Additions/disposals from merger	14	(10)			4
Other adjustments	415	-			415
<b>Revaluation reserve at December 31, 2014</b>	<b>831</b>	<b>(31)</b>			<b>800</b>
<b>Carrying amount at December 31, 2014</b>	<b>5,311</b>	<b>24</b>	<b>2,715</b>	<b>104</b>	<b>8,154</b>

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

## 3.4 Other receivables

DKK million	2014	2013
Prepaid expenses	38	44
Derivatives	17	87
Other receivables	43	70
<b>Other receivables at December 31</b>	<b>98</b>	<b>201</b>

## 4.1 Financial income and costs

DKK million	2014	2013
Interest income relating to subsidiaries	138	155
Interest costs relating to subsidiaries	18	24
Share of loss in associates	(21)	(8)

## 4.2 Credit institutions

DKK million	2014	2013
Long-term debt to credit institutions falling due after 5 years	319	819

## 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	2014	2013
<b>Contingent liabilities</b>		
Less than 1 year	45	44
Between 1 and 2 years	15	15
Between 2 and 3 years	9	11
Between 3 and 4 years	5	5
Between 4 and 5 years	3	3
More than 5 years	16	19
<b>Contingent liabilities at December 31</b>	<b>93</b>	<b>98</b>
The following amounts have been recognized in the income statement for Novozymes A/S in respect of operating leases and rentals	52	52
<b>Other contingent liabilities</b>		
Contractual obligations to third parties relating to capital expenditure, etc.	124	63
Other guarantees and commitments to related companies	1,967	200
Other guarantees and commitments to third parties	151	338

### PENDING LITIGATION AND ARBITRATION

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

## 5.2 Related party transactions

In 2014 Novozymes A/S had sales to the Novo Nordisk Group of DKK 142 million (2013: DKK 109 million), sales to the Chr. Hansen Group of DKK 18 million (2013: DKK 10 million) and purchases from the Novo Nordisk Group of DKK 184 million (2013: DKK 197 million). As of December 31, 2014, Novozymes A/S had receivables from the Novo Nordisk Group of DKK 14 million (2013: DKK 16 million), receivables from the Chr. Hansen Group of DKK 4 million (2013: DKK 1 million) and payables to the Novo Nordisk Group of DKK 81 million (2013: DKK 84 million).

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

## 5.3 Common stock

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

## 5.4 Segment information

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



## 5.5 Joint operations and associates

Reference is made to Note 3.5 to the consolidated financial statements concerning joint operations and associates.

## 5.6 Statement of cash flows

Reference is made to the Consolidated statement of cash flows.

# The Novozymes Report 2014

At Novozymes, our reporting ambition is to provide a report that connects the company's value creation model, strategy, targets and performance through integrated financial and sustainability data. We have been working with integrated reporting for many years as it reflects the way we operate our business.

The Novozymes Report 2014 is available in English in a full online version at [www.report2014.novozymes.com](http://www.report2014.novozymes.com) and can be accessed via computer, tablet and smartphone. The online report features interactive graphics and videos for a full multimedia experience. Additionally, the reader can compile a full or customized PDF download of the report.

## Editorial team

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Nasdaq OMX Copenhagen A/S for the presentation of financial statements by listed companies. It has also been prepared as an element of Novozymes' reporting according to the GRI's G3 Sustainability Reporting Guidelines.

## Forward-looking statements

This annual report contains forward-looking statements, including statements about future events, future financial performance, plans, strategies and expectations. Forward-looking statements are associated with words such as, but not limited to, "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "could," "may," "might" and other words of similar meaning.

Forward-looking statements are by their very nature associated with risks and uncertainties that may cause actual results to differ materially from expectations, both positively and negatively. The risks and uncertainties may, among other things, include unexpected developments in i) the ability to develop and market new products; ii) the demand for Novozymes' products, market-driven price decreases, industry consolidation, and launches of competing products or disruptive technologies in Novozymes' core areas; iii) the ability to protect and enforce the company's intellectual property rights; iv) significant litigation or breaches of contract; v) the materialization of the company's growth platforms, notably the opportunity for marketing biomass conversion technologies or the development of microbial solutions for broad-acre crops; vi) political conditions, such as acceptance of enzymes produced by genetically modified organisms; vii) global economic and capital market conditions, including, but not limited to, currency exchange rates (USD/DKK & EUR/DKK in particular, but not exclusively), interest rates and inflation; viii) significant price decreases for inputs and materials that compete with Novozymes' biological solutions. The company undertakes no duty to update any forward-looking statements as a result of future developments or new information.

## Reporting and audits

The website contains The Novozymes Report 2014 (which, pursuant to section 149 of the Danish Financial Statements Act, is an extract of the company's annual report) and the financial statements of the parent company Novozymes A/S. Together these form the company's annual report, which will be filed with the Danish Business Authority.

PwC has audited the consolidated financial statements, the parent company financial statements, and environmental and social data. PwC has also been the sustainability assurance provider and has based the assurance on the AA1000 Assurance Standard (2008).

The audit covers financial, environmental and social data. These are marked "Audited by PwC." See also the statements in the report.

PwC has not audited the sections of the report found under the headings The big picture, Performance, Business & strategies, Governance and Supplementary reporting. The Supplementary reporting includes our Communication on Progress with respect to the UN Global Compact principles, our report index based on the Global Reporting Initiative (GRI), as well as detailed sustainability data from our activities in Argentina, Brazil, Canada, China, Denmark, India, the U.K. and the U.S.

The report has been produced in accordance with International Financial Reporting Standards (IFRS), the Danish Financial Statements Act and the additional requirements of