

Financial statements for Novozymes A/S

Financial statements

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Income statement, Novozymes A/S

DKK million	Note	2018	2017
Revenue	2.1	8,272	8,273
Cost of goods sold		(3,965)	(4,062)
Gross profit		4,307	4,211
Sales and distribution costs		(1,092)	(960)
Research and development costs		(1,482)	(1,433)
Administrative costs		(600)	(556)
Other operating income	2.3	1,458	1,516
Operating profit / EBIT		2,591	2,778
Income from investments in subsidiaries	3.3	818	963
Share of result in associates	3.3	(7)	(11)
Financial income	4.1	34	79
Financial costs	4.1	(164)	(191)
Profit before tax		3,272	3,618
Tax		(555)	(597)
Net profit		2,717	3,021
Proposed appropriation of net profit			
Dividend to shareholders		1,485	1,266
Revaluation reserve according to the equity method		2,434	952
Retained earnings		(1,202)	803
	4.3	2,717	3,021
Proposed dividend per share		DKK 5.00	DKK 4.50

Balance sheet, Novozymes A/S

Assets

DKK million	Note	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	3.1	2,446	1,709
Property, plant and equipment	3.2	4,255	3,798
Investments in subsidiaries	3.3	8,163	7,321
Investments in associates	3.3	42	49
Other long-term receivables	3.4	6	2
Other financial assets		-	10
Receivables from Group enterprises	3.3	350	1,411
Financial fixed assets		8,561	8,793
Fixed assets		15,262	14,300
Raw materials and consumables		160	134
Work in progress		478	486
Finished goods		816	830
Inventories		1,454	1,450
Trade receivables		920	900
Receivables from Group enterprises		671	1,222
Tax receivables		12	25
Other receivables	3.4	85	90
Receivables		1,688	2,237
Cash at bank and in hand		104	130
Current assets		3,246	3,817
Assets		18,508	18,117

Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2018	Dec. 31, 2017
Common stock	5.4	594	610
Treasury stock		(4,163)	(4,698)
Revaluation reserve according to the equity method		1,050	92
Reserve for development costs		127	151
Retained earnings		11,316	13,250
Proposed dividend		1,438	1,216
Shareholders' equity		10,362	10,621
Deferred tax	3.5	380	235
Other provisions		9	8
Provisions		389	243
Credit institutions	4.2	1,474	1,312
Non-current liabilities		1,474	1,312
Credit institutions		1,895	968
Trade payables		749	670
Payables to Group enterprises		2,883	3,474
Other payables		756	829
Current liabilities		6,283	5,941
Liabilities		8,146	7,496
Liabilities and shareholders' equity		18,508	18,117

Statement of shareholders' equity, Novozymes A/S

DKK million	Common stock	Treasury stock	Revaluation reserve according to the equity method	Reserve for development costs	Retained earnings	Proposed dividend	Total
Shareholders' equity at January 1, 2018	610	(4,698)	92	151	13,250	1,216	10,621
Net profit for the year			2,434		283		2,717
Capitalized development costs				(24)	24		-
Dividend received			(1,805)		1,805		-
Dividend paid						(1,358)	(1,358)
Dividend paid relating to treasury stock						42	42
Proposed dividend, gross					(1,485)	1,485	-
Proposed dividend relating to treasury stock					47	(47)	-
Purchase of treasury stock		(2,000)					(2,000)
Sale of treasury stock		172					172
Write-down of common stock	(16)	2,363			(2,347)		-
Currency translation adjustments of investments in subsidiaries, etc.			306		(49)		257
Value adjustment of derivatives					(71)		(71)
Other adjustments			23		(141)	100	(18)
Shareholders' equity at December 31, 2018	594	(4,163)	1,050	127	11,316	1,438	10,362

1 Accounting policies

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

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

No separate statement of cash flows has been prepared for Novozymes A/S; please refer to the Consolidated statement of cash flows.

Recognition and measurement in general

Income is recognized in the income statement as it is earned.

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

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

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. Assets and liabilities are subsequently measured as described below for each item.

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

Intangible assets

The accounting policies for intangible fixed assets follow those of the Group with the exception of goodwill, which is amortized over a period of 10 years using the straight-line method.

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

Financial assets

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

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

The proportionate share of the net profits of subsidiaries less goodwill amortization is recognized under Income from investments in subsidiaries in the income statement. Goodwill in subsidiaries is amortized over a period of 10 years using the straight-line method.

Dividend

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

NOTE SECTION 2

2.1 Revenue

DKK million	2018	2017
Geographical distribution:		
Denmark	203	205
Rest of Europe, Middle East & Africa	5,039	4,939
North America	1,228	1,265
Asia Pacific	1,407	1,427
Latin America	395	437
Revenue	8,272	8,273

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

2.2 Employee costs

DKK million	2018	2017
Wages and salaries	1,674	1,593
Pensions - defined contribution plans	180	175
Other social security costs	21	21
Other employee costs	141	170
Employee costs	2,016	1,959
Average number of employees in Novozymes A/S	2,663	2,613

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	2018	2017
Royalty income relating to subsidiaries	1,422	1,490
Other	36	26
Other operating income	1,458	1,516

NOTE SECTION 3

3.1 Intangible assets

DKK million	2018				2017	
	Goodwill	Acquired patents, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total	Total
Cost at January 1	897	1,558	483	61	2,999	2,186
Additions during the year	942	130	14	23	1,109	863
Disposals during the year	-	-	-	-	-	(50)
Transfers to/(from) other items	-	-	26	(26)	-	-
Cost at December 31	1,839	1,688	523	58	4,108	2,999
Amortization and impairment losses at January 1	(124)	(816)	(350)		(1,290)	(1,130)
Amortization for the year	(197)	(107)	(68)		(372)	(183)
Impairment losses	-	-	-		-	(27)
Disposals during the year	-	-	-		-	50
Amortization and impairment losses at December 31	(321)	(923)	(418)		(1,662)	(1,290)
Carrying amount at December 31	1,518	765	105	58	2,446	1,709

Impairment

In 2017, an impairment loss of DKK 27 million on abandoned patents was recognized and

included in Cost of goods sold and Research and development costs at DKK 15 million and DKK 12 million respectively.

NOTE SECTION 3

3.2 Property, plant and equipment

	2018				2017	
DKK million	Land and buildings	Production equipment and machinery	Other equipment	Property, plant and equipment under construction	Total	Total
Cost at January 1	2,490	4,581	888	1,042	9,001	8,272
Additions during the year	6	156	27	555	744	774
Disposals during the year	(2)	(63)	(5)	-	(70)	(45)
Transfers to/(from) other items	13	234	36	(283)	-	-
Cost at December 31	2,507	4,908	946	1,314	9,675	9,001
Depreciation and impairment losses at January 1	(1,308)	(3,233)	(662)		(5,203)	(4,952)
Depreciation for the year	(81)	(156)	(46)		(283)	(294)
Disposals during the year	1	62	3		66	43
Depreciation and impairment losses at December 31	(1,388)	(3,327)	(705)		(5,420)	(5,203)
Carrying amount at December 31	1,119	1,581	241	1,314	4,255	3,798

Capitalized interest

Interest of DKK 10 million (2017: DKK 6 million) has been capitalized under Additions during the year above and under Investing activities in the Consolidated statement of cash flows. Capitalization rate: 1.40% (2017: 1.62%).

Land and buildings with a carrying amount of DKK 355 million (2017: DKK 377 million) have been pledged as security to credit institutions. The mortgage loan expires in 2029.

NOTE SECTION 3

3.3 Financial fixed assets

DKK million	Investments in subsidiaries	Investments in associates	Receivables from Group companies	Total
Cost at January 1, 2018	7,150	128	1,411	8,689
Additions during the year	1,500	-	188	1,688
Disposals during the year	-	-	(1,249)	(1,249)
Cost at December 31, 2018	8,650	128	350	9,128
Revaluation reserve at January 1, 2018	171	(79)		92
Share of net profit/(loss)	1,685	(7)		1,678
Elimination of profit on internal asset transfers	(867)	-		(867)
Dividends received	(1,805)	-		(1,805)
Currency translation adjustment	306	-		306
Other adjustments	23	-		23
Revaluation reserve at December 31, 2018	(487)	(86)		(573)
Carrying amount at December 31, 2018	8,163	42	350	8,555

As of December 31, 2018, DKK 1,623 million elimination of profit on internal asset transfer is included in the revaluation reserve.

Reference is made to Note 6.8 to the consolidated financial statements concerning investments in subsidiaries, joint operations and associates.

NOTE SECTION 3

3.4 Other receivables

DKK million	2018	2017
Prepaid expenses	41	40
Derivatives	14	16
Other receivables	36	36
Other receivables at December 31	91	92
Recognized in the balance sheet as follows:		
Non-current	6	2
Current	85	90
Other receivables at December 31	91	92

3.5 Deferred tax

DKK million	2018	2017
Deferred tax at January 1	235	367
Adjustment for previous years	(12)	(24)
Tax related to the income statement	68	(9)
Tax on shareholders' equity items	89	(99)
Deferred tax at December 31	380	235

NOTE SECTION 4

4.1 Financial income and costs

DKK million	2018	2017
Interest income relating to subsidiaries	28	67
Interest costs relating to subsidiaries	(18)	(12)

The financial asset relating to the partnership with Beta Renewables S.p.A. was fully written down in 2017. This related to a guarantee provided by M&G because cellulosic ethanol projects had

not commercialized as expected in Beta Renewables S.p.A. The write-down of DKK 120 million, included in Financial costs, was made because M&G was experiencing financial difficulties.

4.2 Credit institutions

DKK million	2018	2017
Long-term debt to credit institutions falling due after 5 years	473	428

4.3 Proposed appropriation of net profit

DKK million	2018	2017
Proposed appropriation of net profit		
Dividend to shareholders	1,485	1,266
Revaluation reserve according to the equity method	2,434	952
Retained earnings	(1,202)	803
Net profit	2,717	3,021

NOTE SECTION 5

5.1 Contingent liabilities and pending litigation

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

DKK million	2018	2017
Recognized in the income statement in respect of rentals	60	56
Rental commitments expiring within the following periods from the reporting date:		
Less than 1 year	56	59
Between 1 and 2 years	30	19
Between 2 and 3 years	7	13
Between 3 and 4 years	5	5
Between 4 and 5 years	4	4
More than 5 years	5	7
Contingent liabilities at December 31	107	107
Other contingent liabilities		
Contractual obligations to third parties relating to property, plant and equipment	89	544
Other guarantees and commitments to related companies	2,311	2,140
Other guarantees and commitments to third parties	126	97

Pending litigation and arbitration

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

5.2 Related party transactions

Transactions

DKK million	2018	2017
The Novo Nordisk Group		
Sales	121	162
Purchases	(109)	(131)
The NNIT Group		
Purchases	(32)	(34)
The Chr. Hansen Group		
Sales	76	33
Purchases	(26)	-

Outstanding balances

DKK million	2018	2017
The Novo Nordisk Group		
Receivables	9	13
Payables	(76)	(66)
The NNIT Group		
Payables	(5)	(4)
The Chr. Group		
Receivables	18	4
Payables	(3)	-

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

5.3 Fees to statutory auditor

DKK million	2018	2017
Statutory audit	4	4
Other assurance engagements	-	-
Tax advisory services	1	2
Other services	1	1
Fees to statutory auditor	6	7

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

NOTE SECTION 5

5.4 Common stock and treasury stock

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

5.5 Derivatives

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

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