

# Chairman's introduction

**Novozymes' Board of Directors has a collective responsibility to develop and drive company strategy, performance and accountability, to ensure that every decision lives up to our purpose and core values and is in the best interests of our stakeholders. In 2018, the Board took further steps to help Novozymes harness future opportunities.**

2018 was another exciting year for the Board of Novozymes. We started the year by welcoming Ms. Patricia Malarkey as a member of the Board. Patricia Malarkey is an experienced R&D business leader with more than 30 years in the global agrochemical industry. The Board now has 10 members: seven elected at the Annual Shareholders' Meeting and three employee representatives.

## **Ensuring the right competencies and composition**

In the past few years, the Board has welcomed some very strong, internationally experienced people, and thereby further strengthened the Board's collective executive competencies in such important areas as industrial biotech, R&D within biotech, innovation pipeline management and emerging markets.

We continuously evaluate the Board's balance of skills and experience, so that we have the right people in place to ensure that the Board is the best sparring partner for the Executive Leadership Team. The combined strength of all the members of Novozymes' Board is what makes it operate so effectively. Every year, we conduct an internal analysis and assessment of the Board's competencies and experience. In 2018, the Board was assisted in this task by

an external facilitator, as we are every three years. The resulting assessment consisted of both a self-evaluation and an evaluation with external consultants of the composition of the Board and its talents. I am very pleased with the overall results, which are available to read in the Governance section.

## **Effective Nomination and Remuneration Committee**

The Board believes that a proactive and transparent corporate governance structure promotes sustainable business behavior and long-term value creation. In 2017, we set up a Nomination and Remuneration Committee to assess the Board and its composition as well as its remuneration. In 2018, the committee contributed to the appointment of a new board member and assisted CEO Peder Holk Nielsen in developing the Executive Leadership Team, including onboarding Ms. Prisca Havranek-Kosicek as the new CFO of Novozymes. The committee also reviewed Novozymes' remuneration policy, salary increases and variable pay elements to senior management, among other matters.

## **Closer to the business**

In 2018, as in previous years, the Board conducted reviews of Novozymes' business

and of the mid- and long-term strategies for our industries and functions. We held three meetings outside the boardroom: at Novozymes' production site in Kalundborg, Denmark, at the future Innovation Campus in Lyngby, Denmark, and at our site in Bangalore, India. This was a great opportunity to gain an even better understanding of the challenges and opportunities facing Novozymes' employees as they work to grow the company.

We spent a couple of days in Bangalore meeting employees, visiting the production site and the Detergent Design Center, and discussing priorities, growth opportunities and investments in India and the rest of Southeast Asia. I was impressed by the dedication and drive of our employees, and was thrilled to see for myself how Novozymes works with customers in emerging markets.

## **Ensuring our competitive edge**

In addition to ensuring that Novozymes harnesses opportunities in both mature and new markets in the best way possible, the Board explores current and emerging trends with the potential to impact Novozymes in the years to come. By building on its enhanced competencies and strategic proximity to the business, the Board can provide guidance on

how trends can be turned into competitive advantages for Novozymes.

In 2018, the Board specifically focused on understanding the new technologies and ways of working in R&D and production as well as on the potential that digitalization holds for our business – with and for our customers. Only by knowing as much as possible about the topic can we challenge the company's readiness and ensure that Novozymes is futureproof. This is an exciting task, and one that will require our constant vigilance for many years to come.

These were just a few of the activities and matters covered by the Board during this eventful year.



Jørgen Buhl Rasmussen  
Chairman of the Board of Directors  
Novozymes A/S

# Corporate governance

A proactive and transparent corporate governance structure promotes sustainable business behavior and long-term value creation.

## Board 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 responsibilities 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 the Rules of Procedure for the Executive Leadership Team, both available on Novozymes.com.

Novozyymes' Articles of Association require the Board of Directors to have four to eight members elected at the Annual Shareholders' Meeting. The Board currently has seven elected members. Individuals 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 performance.

In accordance with Danish law, the Board of Directors also includes three employee-elected members, who serve four-year terms. The Board of Directors is accountable to the company's shareholders for the management of the company. The composition of the Board of Directors must therefore be such that the

## Audit Committee meetings

Committee member	Meetings attended
Lars Green	● ● ● ●
Agnete Raaschou-Nielsen	● ● ● ●
Jørgen Buhl Rasmussen	● ● ● ●

## Nomination and Remuneration Committee meetings

Committee member	Meetings attended
Jørgen Buhl Rasmussen	● ● ● ● ●
Agnete Raaschou-Nielsen	● ● ● ● ●
Kim Stratton	● ● ● ● ●

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 facing the company at any time.

To ensure the right competencies and promote diversity, the following targets have been set for the composition of the Board of Directors:

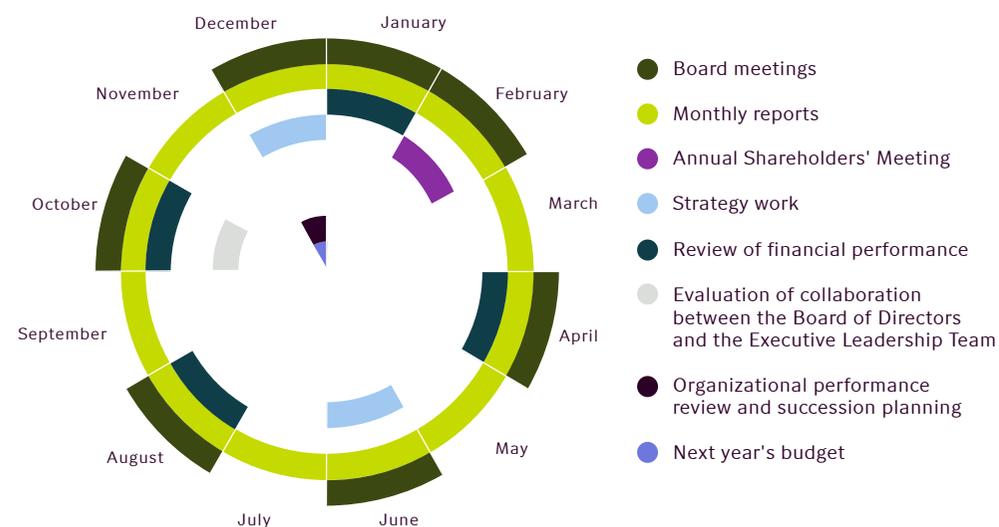
1. At least half of the shareholder-elected board members shall be independent as defined in the Danish Recommendations on Corporate Governance.
2. At least 40% of the shareholder-elected board members shall have substantial international experience from the management of large corporations or institutions 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 three targets were met in 2018. 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 presentation of the Board of Directors.

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 operational management of the company
- Decide the overall management and strategic development of the company

## A year with the Board of Directors



## Governance structure

In accordance with the Articles of Association and the Rules of Procedure for the Board of Directors, the Board has a Chairmanship consisting of two members – the Chairman and the Vice Chairman – responsible for assisting the Board of Directors in matters concerning the Executive Leadership Team’s operational management of the company and for reporting back to the Board of Directors. The Chairmanship is also responsible for planning and preparing meetings of the Board of Directors.

The Board of Directors has two committees, one of which is a Nomination and Remuneration Committee that assists the Board of Directors with the nomination of candidates for the Board of Directors, board committees and the Executive Leadership Team as well as with the remuneration of board members, board committee members and members of the Executive Leadership Team. In addition, the Board of Directors has an Audit Committee that assists the Board of Directors with monitoring aspects relating to accounting, auditing, internal controls and financial, environmental and social reporting. Further information about both committees can be found on [Novozymes.com](http://Novozymes.com).

As part of the internal control system, all cases of identified fraud and all concerns raised are investigated and reported to the Audit Committee and the Board of Directors. 34 cases were investigated and reported in 2018. None of the investigated fraud cases had a material financial impact on Novozymes. Further information on fraud can be found in Note 8.3 to the Consolidated financial statements.

## 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 Copenhagen.

These recommendations are available on [corporategovernance.dk](http://corporategovernance.dk). 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 at [report2018.novozymes.com/governancereport2018](http://report2018.novozymes.com/governancereport2018). These recommendations require companies to explain any noncompliance. The recommendations were changed from Jan. 1, 2018. With the revised recommendations, Novozymes still follows 45 of the 47 recommendations, the exceptions being:

- The remuneration policy for the Executive Leadership Team does not contain a specific clause pertaining to the repayment of variable remuneration components paid on the basis of misstated information, as Novozymes considers the rules under 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)

## Nationality – board members elected by the shareholders

- Danish **43%**
- Swedish **14%**
- British **29%**
- Australian **14%**



## Tenure – board members elected by the shareholders

- 1-2 years **43%**
- 3-4 years **14%**
- +4 years **43%**



## Gender – board members elected by the shareholders

- Men **57%**
- Women **43%**

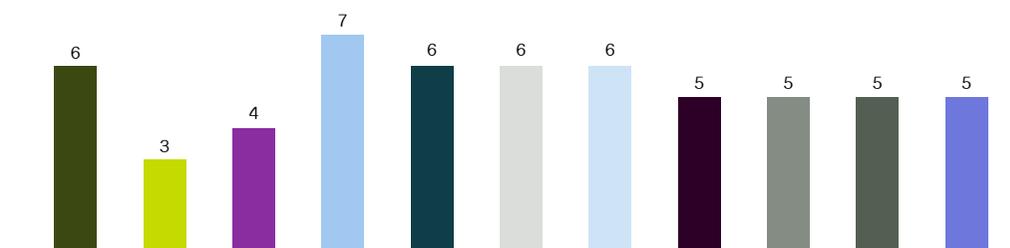


## Board governance structure (elected by shareholders)

- Independent board members **71%**
- Nonindependent board members **29%**



## Primary experience – board members elected by shareholders (number of board members)



- General board and/or executive management<sup>1</sup>
- R&D executive management<sup>2</sup>
- B2B & industry marketing & sales
- Governance & risk management<sup>3</sup>
- Stakeholder relations management (beyond customers and investors)<sup>3</sup>
- Financial management and investor relations<sup>3</sup>
- Alliance strategy and acquisitions<sup>3</sup>
- Total value and supply chain management<sup>3</sup>
- Innovation and pipeline management<sup>3</sup>
- Emerging market strategy<sup>3</sup>
- Digitalization strategy and/or management<sup>3</sup>

1. From industrial biotech or related industries (but not pharma).  
 2. From industrial biotech, pharma or related industries.  
 3. Within or outside industrial biotech.

Furthermore, under the Danish Financial Statements Act (sections 99a and 99b), it is mandatory for large companies to report on corporate responsibility and equal opportunities. As a member of the UN Global Compact, Novozymes prepares a Communication on Progress, which is available under Sustainability indices & data at [report2018.novozymes.com/sustainability/engagement](http://report2018.novozymes.com/sustainability/engagement). Together with our integrated financial, environmental and social reporting, the Communication on Progress meets both the requirements for reporting on corporate responsibility and equal opportunities, and the UN Global Compact's advanced reporting criteria.

Novozyymes also works within the parameters of Touch the World, the company's values and commitments, and has committed to the principles of the UN Global Compact and the UN Convention on Biological Diversity.

#### Other Board-related information

The Board of Directors held seven meetings in 2018, with an overall attendance rate of 99%.

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, provided the nominal value of the company's total holding of treasury stock does not exceed 10% of its share capital at any time, cf. section 198 of the Danish Companies Act.

The purchase price must not deviate by more than 10% from the price quoted on Nasdaq Copenhagen on the date of acquisition. This authorization applies until April 1, 2019. In addition, the Board of Directors is authorized to reduce the share capital.

Each year, one of the responsibilities of the Board of Directors is to assess whether the capital and share structure of Novozymes is optimal. The Board of Directors remains of the opinion that the share structure with A and B common stock is the best way to safeguard Novozymes' long-term strategy and development to the benefit of the company's shareholders and other stakeholders. Regarding capital structure, Novozymes will continue to favor a rather conservative balance sheet, reflected by a target for net interest-bearing debt of 0-1x EBITDA. This target was met in 2018.

Novozyymes is party to a number of partnership contracts that can be terminated by the other party in the event of significant changes to the ownership or control of Novozymes. A few of these contracts contain provisions that restrict Novozymes' licenses to use specific forms of technology in such situations.

#### Evaluation of the Board of Directors

In 2018, the annual evaluation of the Board of Directors was facilitated by external consultants and, in general, revealed a good performance by the Board of Directors as well as good collaboration between the Board of Directors and the Executive Leadership Team. The evaluation also resulted in increased focus on strategy development, the company culture and the risk management review by the Board of Directors.

Board member	Audit Committee member	Nomination and Remuneration Committee member	Nationality	Board meetings attended	Board tenure	Election period
Jørgen Buhl Rasmussen (Chairman) <sup>1,2</sup>	●	●	Danish	●●●●●●●	2011	1 year
Agnete Raaschou-Nielsen (Vice Chairman) <sup>1,2</sup>	●	●	Danish	●●●●●●●	2011	1 year
Lars Green <sup>1</sup>	●		Danish	●●●●●●●	2014	1 year
Kasim Kutay <sup>1</sup>			British	●●●●●●●	2017	1 year
Patricia Malarkey <sup>1,2,3</sup>			British	●●●●●●●	2018	1 year
Kim Stratton <sup>1,2</sup>		●	Australian	●●●●●●●	2017	1 year
Mathias Uhlén <sup>1,2</sup>			Swedish	●●●●●●●	2007	1 year
Lena Bech Holskov <sup>4</sup>			Danish	●●●●●●●	2013	4 years
Anders Hentze Knudsen <sup>4</sup>			Danish	●●●●●●●	2013	4 years
Lars Bo Kjøppler <sup>4</sup>			Danish	●●●●●●●	2010	4 years

1. Elected at the Shareholders' Meeting.
2. Independent.

3. Elected to the Board on March 13, 2018 and attended first two meetings as observer.

4. Employee representative.