

# The Novozymes Report 2020

Rethink tomorrow

novozymes 

Our purpose

**Together we find  
biological answers  
for better lives in  
a growing world**

**- Let's rethink tomorrow**

# Contents

## 01

### The big picture

- 5 2020 in brief
- 15 Five-year summary
- 16 Message from the Chair and the CEO
- 19 This is Novozymes
- 20 Working with the SDGs

## 02

### Our business

- 23 Strategy
- 25 Risk management
- 30 Targets
- 34 Outlook for 2021

## 03

### Governance

- 38 Corporate governance
- 42 Board of Directors
- 44 Executive Leadership Team
- 46 Summary of the Remuneration report
- 50 The Novozymes stock

## 04

### Accounts and performance

- 53 Performance and consolidated financial statements
- 61 Performance and consolidated environmental data
- 63 Performance and consolidated social and governance data
- 65 Notes
- 138 Statements
- 143 Financial statements for Novozymes A/S
- 159 Glossary
- 160 About the report

## 05

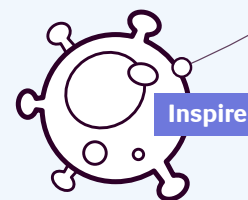
### Sustainability

- 163 CEO statement
- 164 Novozymes and the UNGC
- 167 Sustainability governance
- 168 Collective action



#### Message from the Chair and the CEO

“This year has proven to us that Novozymes has strong partnerships with customers, a resilient portfolio and committed employees”



Collaborating with communities during COVID-19



for better lives in a growing world



Together we find biological answers



BioFresh® 4+ is a tablet for oral use which helps reduce bad breath and is effective for up to 4 hours



The highlights of the Novozymes Report 2020 – at [report2020.novozymes.com](https://report2020.novozymes.com)



01

# The big picture



# Financial highlights

## EBIT margin

**26.1%**

(2019: 28.1%) 

The EBIT margin ended at 26.1%, down from 28.1% in 2019. Excluding the one-off settlement related to the former BioAG setup, reorganization costs, acquisition-related transaction costs and an impairment loss, the underlying EBIT margin was ~27% in 2020, which was ~1 percentage point higher than the underlying EBIT margin of ~26% in 2019. The improvement was driven by a higher underlying gross margin and lower operating costs.

## Organic sales growth

**0%**

(2019: -1%) 

Total sales in 2020 were DKK 14,012 million, flat organically and a decline of 3% in DKK compared with 2019. Resilient 2020 performance despite the COVID-19 pandemic.

## Cash flow, DKKbn


**3.4**

(2019: 2.2 DKKbn) 

The increase of DKK 1.2 billion was mainly due to higher cash flows from operating activities. Driven by higher cash conversion from better earnings quality, a settlement related to the former BioAg setup and positive changes and timing effects in working capital.

## ROIC

**18.9%**

(2019: 21.1%) 


Return on invested capital (ROIC), including goodwill, was 18.9%, down 2.2 percentage points from 21.1% in 2019. The decrease was mainly driven by lower net profit and higher average invested capital.

## Key figures

	2020 realized	2020 outlook <sup>1</sup>
Sales growth, organic	0%	0%
EBIT margin	26.1%	26-27%
ROIC (including goodwill)	18.9%	18-19%
Free cash flow before acquisitions, DKKbn	3.4	2.6-3.0

1. Outlook guided as of December 11, 2020.

 **Outlook 2021**

 **See more details on performance in Accounts and performance**

# Sustainability highlights

## Electricity from renewable sources

**69%**

Electricity from renewable sources accounted for 69% of our total electricity use in 2020. At our site in Franklinton, USA, we sourced 100% of our electricity from renewable sources by purchasing renewable energy certificates from local solar farms.

## Women in senior management

**33%**

In 2020, 33% of our senior management (directors or higher) were women. We firmly believe that a diverse workforce will drive change and a thriving culture.

## Lost time injuries/ million working hours

**1.5**

*(three-year rolling average 2018-2020)*

We are within our 2022 target for lost time injuries per million working hours. We will continue to prioritize safety across the organization.

## Other key figures

	2020 realized	2022 targets
Gain food by improving efficiency from farm to table	136,000 tons of food	500,000 tons of food
Reduce absolute CO <sub>2</sub> (scope 1+2) emissions from operations	46%	40%
Develop context-based water management programs	13% of sites*	100% of sites*
Develop zero waste programs	20% of sites*	100% of sites*
Manage biomass in circular systems	97%	100%
Develop circular management plans for key packaging materials	Roadmap defined	100%
Enable learning	78	80
Nurture diversity	83	86
Pledge employee time to local outreach	Program launched	~ 1% of time
Excite employees	81	81

\* The target does not include sites with activities considered not to have a significant environmental impact, e.g sales offices, R&D labs, etc.

[For more information on our nonfinancial targets see Targets](#)

[See more details on performance in Accounts and performance](#)

## Number of people reached

**3.98 billion**

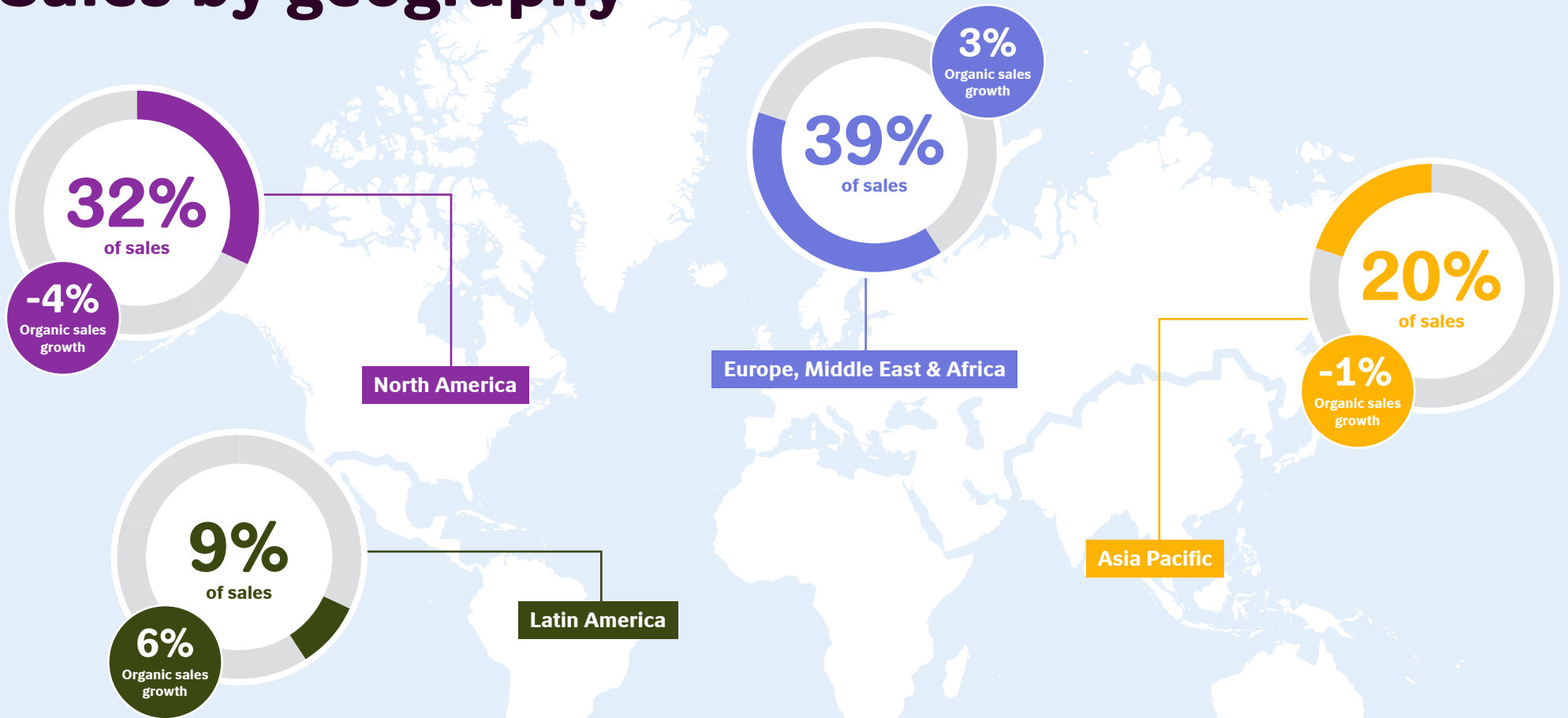
In 2020, we reached 3.98 billion people with our laundry solutions that replace chemicals and contribute to cleaner water.

## Tons of CO<sub>2</sub> emissions saved

**49,000,000**

In 2020, Novozymes enabled savings of 49 million tons of CO<sub>2</sub> in global transport. The savings achieved are equivalent to taking approximately 20 million cars off the road.

# Sales by geography



## North America

The severe effects of COVID-19 restrictions on US ethanol production was the primary cause of the 4% organic sales decline in North America for the full-year. Also, sales in Grain & Tech Processing declined during the year, whereas the other business areas grew.

## Latin America

Sales in Latin America grew 6% organically in 2020, driven by increased enzymatic penetration in Household Care, ethanol capacity expansion in Bioenergy and market penetration of solutions for vegetable oil processing in Grain & Tech Processing. Performance in Agriculture, Animal Health & Nutrition was weak due to lower in-market demand and inventory adjustments in animal nutrition.

## Europe, the Middle East & Africa

Full-year sales grew 3% organically compared to 2019. Growth in the region was primarily driven by a strong performance in Household Care but with contributions from most of the other business areas as well.

## Asia Pacific

Organic sales declined 1% in 2020 primarily due to the COVID-19 related effects on the textile industry, which had a negative effect on Grain & Tech Processing. Sales in Agriculture, Animal Health & Nutrition also declined, whereas Bioenergy and Household Care both grew.

# Sales by business area

Three out of five of our business areas grew in 2020. Household Care delivered solid organic sales growth. Sales in Food, Beverages & Human Health and Agriculture, Animal Health & Nutrition were up slightly, while Bioenergy and Grain & Tech Processing were impacted severely by COVID-19 effects which reduced ethanol and textile production.

## Household Care

**35%**

of sales

2019: 33%

## Agriculture, Animal Health & Nutrition

**13%**

of sales

2019: 13%

## Grain & Tech Processing

**14%**

of sales

2019: 15%

## Bioenergy

**18%**

of sales

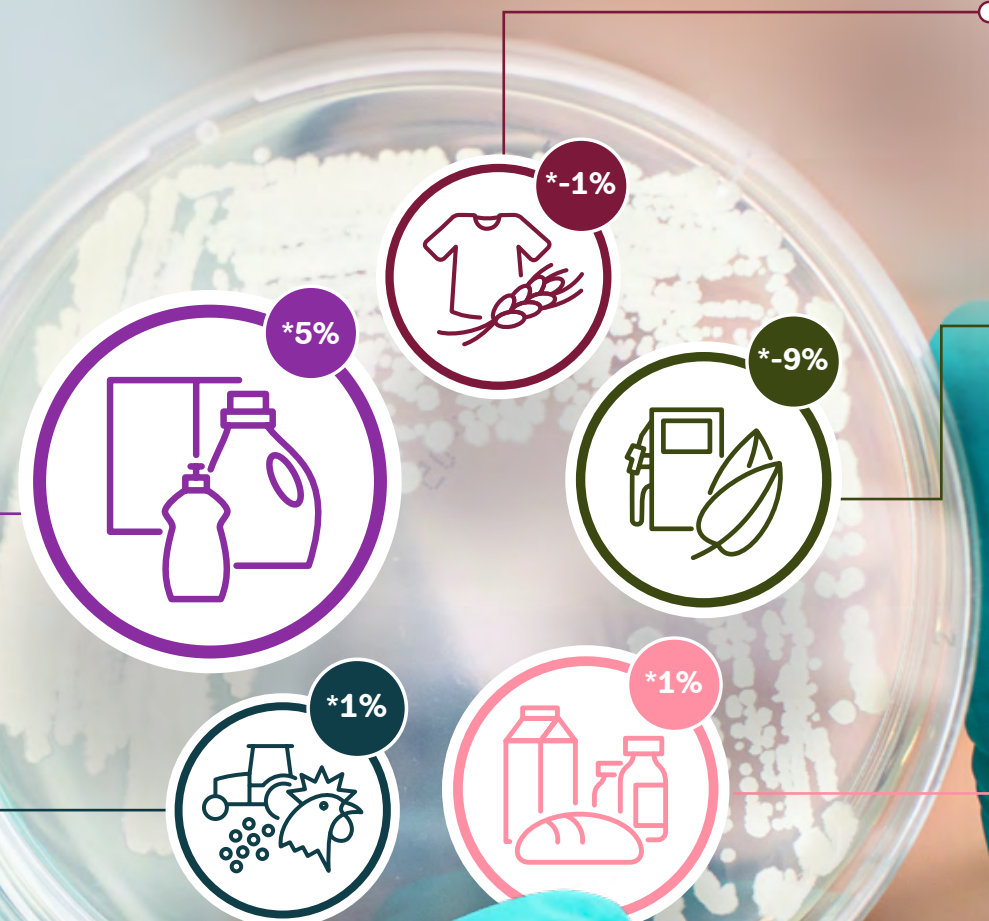
2019: 20%

## Food, Beverages & Human Health

**20%**

of sales

2019: 19%



\* Organic sales growth



# Household Care



**35%**  
of 2020 sales

## 2020 performance

Household Care sales grew 5% organically and 3% in reported DKK in 2020.

Sales performance was mainly driven by the rollout of the Freshness technology in Europe and broader enzymatic penetration of detergents, especially in emerging markets. Growth from the Freshness platform was additionally fueled by the introduction of a new liquid and pod format.

Increased consumer focus on cleanliness and more at-home dish washing induced by the COVID-19 pandemic also contributed to sales growth.

## 2021 outlook

Organic sales growth is expected to be driven by market penetration, focusing on emerging markets and

a continued rollout of the Freshness technology, with a broad-market launch in the second half of the year. The broad-market launch is an important milestone, that is expected to become a significant growth contributor in future years.

The 2021 outlook for Household Care builds on improving the underlying performance on top of a better than expected performance in 2020.

## Product launches in 2020

- ✓ **Remify® Everis** – our first enzyme solution for cleaning surgical instruments and devices to help prevent healthcare associated infections
- ✓ **Microvia™** - a bacterial bio-cleaning solution for hard surface cleaners

## Key trends

- Strong interest in freshness solutions for the removal of malodor and grime in clothing
- Renewed industry focus on sustainable detergents by replacing chemicals with biological alternatives
- Increased focus on household cleaning during COVID-19 pandemic
- Compaction of laundry detergents remains a strong trend, driven in part by increased sales through online retailers
- Growing consumer and professional interest in microbial and bio-based cleaning solutions



Read more about our Household Care solutions at [Novozymes.com](https://www.novozymes.com)

## SDG impact



Our solutions in Household Care are being used by more than half the world's population to improve the overall cleaning of clothes and dishes while reducing the consumption of water, energy and the usage of traditional chemicals.



Read more about our contributions to the SDGs

# Food, Beverages & Human Health



**20%**  
of 2020 sales

## 2020 performance

Full-year sales in Food, Beverages & Human Health grew 1% both organically and in reported DKK. Sales benefitted from moderate growth in the food-related business areas which was to a large extent offset by declining sales in beverages. The growth in food was mainly driven by increased market penetration and the success of tailored solutions in baking as well as higher demand for low-lactose solutions, such as Saphera®, in dairy.

COVID-19 restrictions resulted in more at-home and less out-of-home consumption of foods and beverages. This had a minor positive effect on the food business but resulted in declining beverage sales as especially the global brewing industry was adversely affected.

The human health opportunity progressed well during the year and contributed positively to sales although from a small base.

## 2021 outlook

2021 organic sales growth is expected to be broad-based. Innovation and emerging market penetration, supported by increasing consumer dietary-health-awareness, are the main drivers of growth in the food business.

Beverages is expected to gradually recover following a 2020 severely affected by COVID-19 implications. The PrecisionBiotics Group and Microbiome Labs acquisitions are both estimated to contribute to growth in reported DKK and to grow organically by solid double-digits.

## Product launches in 2020

- ✓ **Saphera® Fiber** - a new solution for dairy products to increase fiber content while reducing sugar, providing added value to brands of yoghurt and functional milk
- ✓ **Protana® Prime** - a new biological solution that brings out the natural umami flavor from plant proteins and enable food manufacturers to produce tasty, label-friendly meat alternatives with less salt
- ✓ **Gluzyme® Fortis** - Enhances dough handling and allows for

salt reduction. The high product stability even at high storage temperatures makes it perfect for warm climates

- ✓ **BioFresh® 4+** - Clinically proven enzymatic solution that eliminates bad breath for up to four hours
- ✓ **Optiva® LS** - Cuts costs on added sugar by >30% for every loaf of bread

## Key trends

- Strong consumer demand for new plant-based proteins drives industry innovation
- Focus on improved product quality and taste
- Consumers demand better and more convenient food with attention to natural, healthy and sustainable ingredients
- The healthcare industry is pivoting from symptoms treatment towards preventive measures with biology as a key part of the solution



Read more about our Food, Beverages & Human Health solutions at [Novozymes.com](https://www.novozymes.com)

## SDG impact



Our solutions in Food, Beverages & Human Health make food consumption more sustainable by reducing food waste and enabling the use of local raw materials. In addition, our solutions enable consumers to live healthier lives free from additives, unwanted compounds and by adding dietary beneficial bacteria and enzymes for improved gut health.



Read more about our contributions to the SDGs



# Bioenergy



**18%**  
of 2020 sales

## 2020 performance

Bioenergy sales declined 9% organically and 13% in reported DKK in 2020. COVID-19 restrictions, first implemented in the spring, severely disrupted US gasoline and ethanol demand and, subsequently, ethanol production and Bioenergy sales. Monthly US ethanol production rates improved gradually from the trough in April/May but still ended the year well below 2019 levels.

Bioenergy's performance in North America ended roughly in line with the estimated industry development. Increased market penetration with yeast solutions, for example, and the continued expansion of corn-based ethanol production capacity in Brazil and China contributed positively to full-year sales.

## 2021 outlook

Organic sales growth in 2021 is expected to be driven by a gradual recovery in the US ethanol industry, following the severe disruption caused by the COVID-19 pandemic.

The mid-point of the Bioenergy organic sales range roughly corresponds to mid-single digit growth in the US ethanol production. The growth contribution from regions outside of the US is expected to be positive.

## Product launches in 2020

- ✓ **Fortiva® Hemi**  
Allows ethanol plants to express >10% more corn oil and accesses more fiber-bound starch for ethanol conversion

## Key trends

- US ethanol industry is under strong pressure due to the COVID-19 pandemic induced drop in gasoline consumption, the many small refinery exemptions from blending mandates and reduced exports due to trade barriers
- Climate change is high on public agendas, leading to growing demand for clean energy
- Follow-through on increased biofuel mandates and capacity expansions in key emerging markets



Read more about our Bioenergy solutions at [Novozymes.com](https://www.novozymes.com)

## SDG impact



Novozymes promotes the development and deployment of low-carbon fuels for the transport sector.

Enzymes and yeasts are critical for converting grains and straw into fuel ethanol, enabling a saving of 1,100–2,200 kg of CO<sub>2</sub> emissions per 1,000 liters of gasoline.



Read more about our contributions to the SDGs

# Grain & Tech Processing



**14%**  
of 2020 sales

## 2020 performance

Sales in Grain & Tech Processing declined 1% organically and 4% in reported DKK in 2020. Solid growth in grain did not fully compensate for a decline in tech.

The broad-based growth in grain was driven by strong performance in grain milling and vegetable oil processing.

COVID-19 severely affected the global textile industry and subsequently also resulted in a significant downturn in sales of enzymes for textile production, which was the main reason for the decline in tech.

## 2021 outlook

Organic sales growth is expected to be broad-based, with both grain and tech contributing positively.

The grain business is expected to outgrow a roughly flat underlying market, driven by innovation and increased local presence across key regions.

Tech is expected to gradually recover after the significant disruption of the global textile industry in 2020.

## Product launches in 2020

- ✓ **Quara® Boost** - a solution for vegetable oil processors to increase their profitability by retaining oil that is usually wasted in the gum fraction
- ✓ **LpHera** - next generation enzyme (alpha amylase) for starch processing that reduces the need for chemicals and drives higher fermentation yields
- ✓ **Frontia® GlutenEx** - Better wheat separation increases gluten protein recovery by 2% in grain milling

## Key trends

- Focus on cost reductions, process optimization and yield enhancement including increased protein extraction from grain processing
- Increased demand for sugar replacements
- Water scarcity and pollution driving legislation and demand for solutions that reduce water consumption and improve water quality
- Increased public interest for sustainability in fashion leading to consumer pull and renewed interest for biological alternatives to the harsh chemicals currently being used



Read more about our Grain & Tech Processing solutions at [Novozymes.com](https://www.novozymes.com)

## SDG impact



Our solutions in grain processing improve yields and save energy. Our solutions for technical industries help save chemicals, water, steam and electricity. For example, one of our solutions for textile production saves 350 kg of CO<sub>2</sub> per ton of fabric produced.



Read more about our contributions to the SDGs



# Agriculture, Animal Health & Nutrition



**13%**  
of 2020 sales

## 2020 performance

Full-year sales in Agriculture, Animal Health & Nutrition sales grew 1% organically and declined 2% in reported DKK. Organic sales increased slightly as solid growth in agriculture more than offset a weak performance in animal health & nutrition.

Growth in agriculture was driven by increased demand across solutions. Agriculture sales also benefitted from a DKK ~60 million one-off in the second quarter related to the former BioAg setup.

The continued rollout of Balancius™ contributed to the sales development in animal health & nutrition, but it was not enough to compensate for lower in-market demand and inventory adjustments in animal nutrition.

Novozymes did not recognize any deferred income as revenue in 2020 while recognizing DKK 24 million in 2019. As the BioAg Alliance was terminated in April of 2019, the remaining and related balance of the deferred income of DKK 287 million was recognized as other operating income in the second quarter of 2019.

## 2021 outlook

Organic sales performance in 2021 will be driven by the continued expansion of the BioAg business across crops and regions, resulting in solid underlying double-digit organic sales growth when adjusted for the DKK ~60 million one-off in the second quarter of 2020.

The outlook for Animal Health & Nutrition includes some uncertainty as to stocking levels in the value chain, further accentuated by the pandemic. A strong innovative product portfolio and partnership setup coupled with signs of improving farmer economics make us carefully optimistic about the years to come.

## Product launches in 2020

✓ **Taegro®** - a microbial foliar fungicide launched by Syngenta in Europe and Latin America, enabling fruit and vegetable growers to protect against diseases such as powdery mildew and botrytis, while reducing the chemical load of crop protection programs

## Key trends

- World population growth and changing dietary habits affecting demand for protein and other food sources
- Stricter regulatory requirements for more sustainable farming practices and animal welfare with less use of antibiotics
- Continued focus on animal nutrition, soil health and agricultural yield efficiency



**Read more about our Agriculture, Animal Health & Nutrition solutions at [Novozymes.com](https://www.novozymes.com)**



## SDG impact



Our bio-based solutions improve yields in agriculture by improving plants' access to nutrients in the soil and by improving animals' access to energy, proteins and minerals in the feed. This saves agricultural land for food and feed production and reduces emissions to the environment from manure in livestock production. Enzymes can save approximately 130 kg of CO<sub>2</sub> emissions per 1,000 chickens by increasing the animals' access to starch in the feed.



**Read more about our contributions to the SDGs**

# Economic Contribution

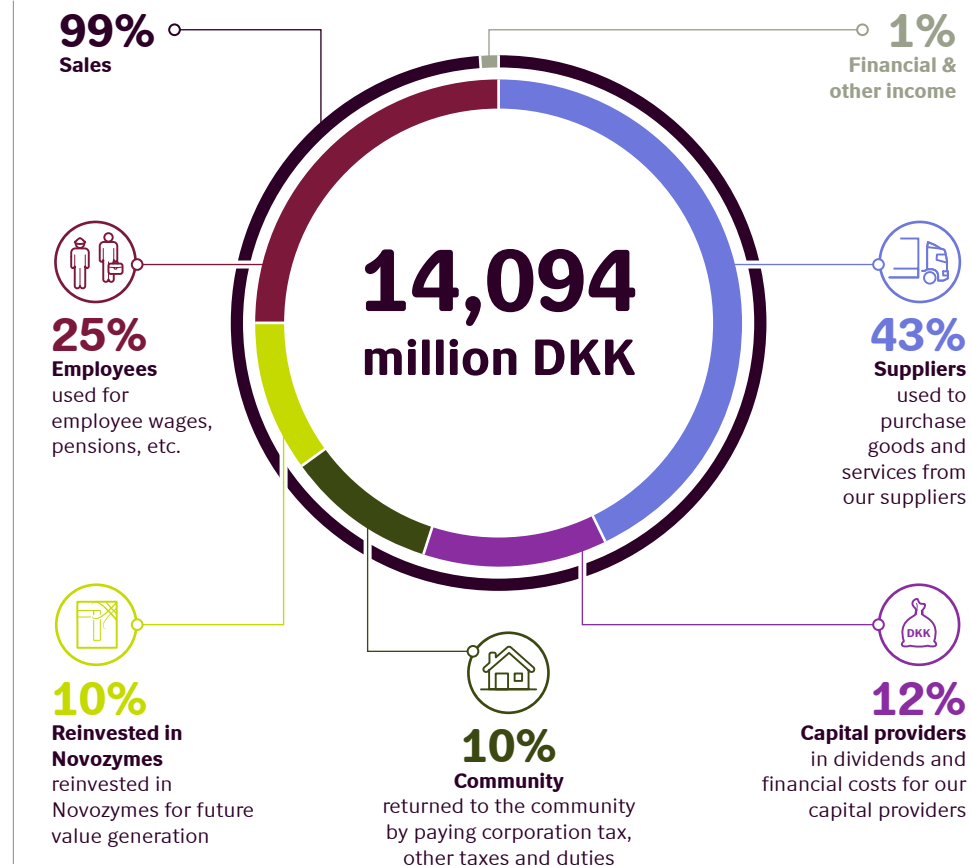
**In 2020, Novozymes generated value of DKK 14,094 million, of which 90% was returned to society. The remaining 10% was reinvested in Novozymes to develop the company, build competitive strength and ensure future value generation for distribution among key stakeholders.**

In 2020 Novozymes returned 12% of the value generated to our capital providers. The main part of this was our dividend payment of DKK 1,483 million. In addition to the 12%, Novozymes bought back shares worth 1,500 million in 2020.

At the end of 2020, the Novo Nordisk Foundation owned - through Novo Holdings A/S - 25.5% of the share in Novozymes (see The Novozymes Stock). The Novo Nordisk Foundation's objective is to support scientific, social and humanitarian purposes, and the Foundation contributes to communities in large scale through donations and impact investments, to which we indirectly contribute through our dividend payments.

## A responsible approach to tax

Novozymes' **tax policy** supports a positive tax contribution to society and governments. The group continuously works to fulfill its tax obligations in the countries in which it operates. We seek to obtain a competitive tax level in a responsible manner, and with full regard to national and international laws and regulations. Besides taxes, our economic contributions



include duties, VAT, employee taxes, employee pension and benefit programs, procurement from local vendors and job creation.

In 2020, Novozymes incurred corporate income taxes and other taxes and duties that amounted to approximately DKK 1,450 million. In addition, Novozymes collected and withheld tax contributions on dividends and wages totaling approximately DKK 1,400 million. Novozymes' total tax contribution therefore amounted to approximately DKK 2,850 million, compared with approximately DKK 3,000 million in 2019.

## Tax transparency

Tax is a core part of corporate responsibility and governance at Novozymes. The Board of Directors approves the tax policy and is accountable for it. Novozymes is committed to being open and transparent about its tax policy and tax affairs. We provide regular information to our stakeholders about our approach to tax and taxes paid.

Novozymes supports and complies with the transparency requirements on taxes, including the OECD Country-by-Country tax initiative. The Country-by-Country reporting is submitted to the tax authorities and not made public. Novozymes is transparent about the total tax contribution of the Novozymes Group, divided into taxes paid by Novozymes and taxes collected on behalf of employees and shareholders. Further, Novozymes is transparent about the entities owned around the world and the activity of each subsidiary, see note 6.8. We also provide information on taxes paid in Denmark vs rest of the World, see Note 2.6.

# Five-year summary

DKK million	2016	2017	2018	2019	2020	
<b>Income statement</b>						
Revenue	14,142	14,531	14,390	14,374	14,012	
Gross profit	8,126	8,413	8,255	7,954	7,853	
EBITDA	4,960	5,114	5,158	5,292	4,918	
Operating profit / EBIT	3,946	4,047	4,070	4,039	3,652	
Financial items, net	(34)	(157)	(117)	(235)	(127)	
Net profit	3,050	3,120	3,227	3,155	2,826	
<b>Balance sheet</b>						
Total assets	18,659	18,373	19,697	20,437	20,510	
Shareholders' equity	11,745	11,267	11,438	11,480	11,244	
Invested capital	12,584	12,880	13,953	15,507	15,094	
Net interest-bearing debt	990	1,642	2,535	4,049	3,871	
<b>Investments and cash flows</b>						
Cash flow from operating activities	3,840	4,063	3,679	3,196	4,355	
Purchases of property, plant and equipment	1,076	1,593	1,332	862	794	
Net investments excluding acquisitions	1,188	1,665	1,388	991	936	
Free cash flow before net acquisitions and securities	2,652	2,398	2,291	2,205	3,419	
Business acquisitions, divestments and purchase of financial assets	(161)	(3)	(4)	430	(588)	
Free cash flow	2,491	2,395	2,287	2,635	2,831	
<b>Key ratios</b>						
Revenue growth, DKK	%	1	3	(1)	0	(3)
Revenue growth, organic	%	2	4	4	(1)	0
R&D costs (% of revenue)	%	13.2	13.2	13.0	13.7	13.8
Gross margin	%	57.5	57.9	57.4	55.3	56.0
EBITDA margin	%	35.1	35.2	35.8	36.8	35.1

		2016	2017	2018	2019	2020
<b>Key ratios (continued)</b>						
EBIT margin	%	27.9	27.9	28.3	28.1	26.1
Effective tax rate	%	21.4	19.5	18.0	17.0	19.7
Equity ratio	%	62.9	61.3	58.1	56.2	54.8
NIBD/EBITDA	x	0.2	0.3	0.5	0.8	0.8
Return on equity	%	26.1	27.1	28.4	27.5	24.9
ROIC including goodwill	%	25.1	25.6	24.2	21.1	18.9
Earnings per share (EPS), diluted	DKK	10.06	10.49	11.03	11.01	10.02
Dividend per share (2020 proposed)	DKK	4.00	4.50	5.00	5.25	5.25

Key ratios have been prepared in accordance with The Danish Finance Society's "Recommendations & Financial Ratios 2015 Nordic Edition" while certain key figures for the Novozymes Group were prepared as described in the Glossary.

IFRS 16 was implemented using the modified retrospective approach, and comparative figures for 2016-2018 have not been restated.



## Environmental, social and governance data

		2016	2017	2018	2019	2020
Total number of employees	No.	6,441	6,245	6,427	6,125	6,185
Rate of employee turnover	%	10.4	11.9	8.8	12.7	8.7
Frequency of occupational injuries with absence per million working hours		2.2	1.6	2.4	0.9	1.3
Women in senior management	%	25	26	30	31	33



**Ester Baiget**  
CEO

**Message from the Chair and the CEO**

# Unlocking Novozymes' potential

**Novozymes delivered a resilient 2020 performance despite the COVID-19 pandemic. We have reorganized the company intending to move even closer to our customers and solidify our position as the leading provider of biotech solutions. Having laid the foundation for future growth, we believe Novozymes is in a strong position going into 2021.**

*Message from the Chair and  
the CEO continues on the next  
page*



**Jørgen Buhl Rasmussen**  
Chair



There has not been a year like 2020 in recent memory. And while we did not see the sales growth we wanted, we're extremely proud of the way our employees have handled these difficult circumstances. The advances we made during the year are a testament to Novozymes' strong purpose, culture and well-diversified business model.

The COVID-19 pandemic has proven to affect industries differently, and our diversified business helped us to withstand at least some of the effects of the pandemic. In 2020, Household Care delivered solid growth driven by the rollout of the Freshness platform, growth in emerging markets and COVID-19 induced changes to consumer behavior. In Food, Beverages & Human Health, food and human health grew while beverages declined. At the same time, organic sales declined in Bioenergy and Grain & Tech Processing as COVID-19 impacts severely affected ethanol and textile production.

Our organic sales growth came in at 0% for the year, and the reported EBIT margin was a solid 26.1% despite currency headwinds. We also achieved very strong cash generation with free cash flow at DKK 3.4 billion before acquisitions.

In 2020, the COVID-19 pandemic overshadowed many things, but at Novozymes we did not lose focus on creating the best possible foundation for a business that is here for the long term.

#### **Customer-focused and solutions-driven**

We reorganized Novozymes in September, refocusing the company around our customers and geographies. As we continue to build on

our strategy, Better business with biology, this new setup leads to reduced complexity, increased accountability, faster decision-making and empowers our employees to a greater degree.

We now organize around two new divisions, Consumer Biosolutions and Agriculture & Industrial Biosolutions, headed by Anders Lund and Tina Sejersgård Fanø respectively to better align with the very specific drivers and challenges influencing customers across the wide range of industries we serve.

For years, Novozymes has been associated mainly with the production of enzymes, but the reality is that we provide a range of solutions within the biotech space. What our customers need may be an enzyme, a microbe, a yeast or even a digital solution. For example, in Bioenergy, we not only supply customers with enzymes or yeast for bioethanol production, we also have the digital tools to ensure optimal conditions for applying our solutions during our customer's production process. We always take a holistic approach to market needs and provide our customers with the exact solution - or combination of solutions - that will help them succeed.

As part of the reorganization, we aligned our regional commercial set-up and created new roles, especially in emerging markets, to get closer to where our customers are. We have also ensured a stronger regional voice in core decision-making processes. As a global company, it is vital that employees in all regions are able to accelerate decisions and offer tailor-made solutions to customers.



**“When I look at Novozymes, I see a healthy and well-positioned company with a strong technology platform and impressive innovation capabilities. I also see a potential for more, and my goal is to fully unleash the true potential of the company.”**

**Ester Baiget**  
CEO

#### **Changes to the Executive Leadership Team composition**

We brought in new members to the Executive Leadership team. Claus Crone Fuglsang, Head of our Research & Development organization, and Graziela Chaluppe dos Santos Malucelli, Head of Operations, Supply & Quality, were both appointed executive vice president and joined the Executive Leadership Team this year, creating a stronger connection between the back and front ends of our company.

We also announced the appointment of Amy Byrick as Executive Vice President of Strategy & Business Transformation and of Morten Enggaard Rasmussen as Executive Vice President of People, Sustainability & Brand. They will join Novozymes in April 2021, and we look forward to seeing them make their mark on these very important areas for Novozymes' future. They will both succeed Thomas Videbæk, who will be leaving Novozymes in 2021. We are immensely grateful for everything Thomas has contributed to Novozymes during his many years with the company and we wish him well in the future.

#### **Embracing our responsibility**

At Novozymes, sustainability is at the root of our solutions. We use biotechnology to enable our customers to deliver more sustainable solutions to society. Every day, in over 30 industries and 130 countries, our enzymes and microbes help reduce energy, water, chemical and raw material consumption, help improve performance of customer products and give people healthier and more sustainable choices for living better lives. By laying the foundation for a sound business and future growth we are, by default, also ensuring a more sustainable future for the world.

In 2020, for example, we launched Taegro® in Europe and Latin America in collaboration with Syngenta, providing farmers with a chemical-free fungicide that protects fruit and vegetables from disease, thereby reducing waste in the food production cycle. We also launched Protana® Prime, a biological solution that enhances the umami flavor of plant-based products, thereby enabling producers to accommodate consumer demand for tasty, greener alternatives to meat-based foods. But our responsibility does not stop with delivering innovative, sustainable solutions to our customers. In our own production, we continue to do everything we can to reduce the negative impact of our production processes. We are proud to have ensured that, in 2020, 69% of our electricity globally came from renewable sources. We also partnered with WWF to assess and address water risks at our sites by setting up targets for the sustainable management of water in our production.

These achievements are steps on our journey towards becoming even more sustainable, and we need to keep up a determined pace to honor our commitments to our customers, consumers and the world.

### **Working together**

In 2020, the COVID-19 pandemic had a significant impact on many communities and, as a responsible corporate citizen, Novozymes stepped in where possible. We worked together with the Novo Nordisk Foundation to get the COVID-19 testing capacity up and running in Denmark. In other parts of the world, we made direct donations to NGOs, either monetary or in the form of essential equipment.



**”While the pandemic we are currently facing is an urgent and immediate crisis, we must not lose sight of the long-term needs of the world. Novozymes’ purpose is now more relevant than ever, and in 2020 we moved closer to unlocking the full potential of the company.”**

**Jørgen Buhl Rasmussen**  
Chair

Our primary focus during this uncertain year has been to keep our employees safe whether they were working in production, in labs or from home. Novozymes’ employees have shown so much care for each other, and we want to acknowledge what a fantastic job they have done. Through our Inspire program, our employees have also managed to reach out to their communities and help those in need, whether it be collecting funds for disadvantaged people or offering their skills to educate children virtually.

The promotion of equal opportunities for all people has been on Novozymes’ agenda for many years, but we can still do more. There are always new aspects or new groups of people and backgrounds to consider when prioritizing diversity. It is important to consider diversity and inclusion in all aspects of business. That also applies in times of change, so to strengthen the collective capabilities of our dedicated employees, we set diversity criteria for everyone involved in the formation of new roles and teams during our re-organization in September. We also collaborated with America’s Job Exchange to reach a more diverse pool of candidates with our job ads, and we set up focus groups with employees to discuss where we are, where we want to be, and how we intend to get there. A truly diverse workforce will contribute to driving change and building a thriving culture.

### **Thank You**

We want to thank all our stakeholders for what we were able to achieve together in a year unlike any we have ever seen before. In times of change, everything is magnified, whether it is your weaknesses or your strengths. This year has proven to us that Novozymes has

strong partnerships with customers, a resilient portfolio and committed employees who are able to adapt and be innovative in challenging times. That’s a great foundation from which to grow.

We expect that we will return to growth in 2021, supported by a more streamlined organization, stronger commercial presence, innovation, as well as a gradual recovery in those areas adversely affected by the pandemic. Based on this, we have set a sales growth expectation of between 2% to 6% in 2021, provided we do not see another extended global lockdown.

We look forward to working with our customers to find, develop and champion sustainable solutions to the challenges we all face.

**Jørgen Buhl Rasmussen** Chair

**Ester Baiget** CEO

# This is Novozymes

**New organization to strengthen customer focus and innovation process.**

**A**t Novozymes, we produce enzymes and microorganisms for a diverse range of industries. In fact, our biological solutions can be found everywhere, from the products that clean your clothes, to the food you eat, and the ethanol that powers your car.

So, it goes without saying that the industries we serve have very differing needs. Some industries are shaped by shifting trends and consumer demands, including the need for more sustainable solutions, while others focus on how to save resources, optimize performance and improve sustainability in their production processes.

In order to best meet customer needs and bring more customer-generated ideas into our innovation process, we created two new divisions in September 2020: **Consumer Biosolutions and Agriculture & Industrial Biosolutions.**



Read more about our business model at [Novozymes.com](https://www.novozymes.com)



## Consumer Biosolutions

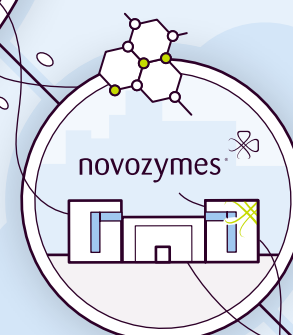
Consumer Biosolutions unites consumer-facing industries at the front of the value chain such as Household Care, Baking, Beverages, Food and Protein, with a focus on making consumer products better, healthier and higher performing, based on clear end-consumer needs.

We have a strong understanding of our customers and the consumer groups they serve. This understanding enables us to guide our customers on a journey towards the perfect biological solution for them by activating a combination of our existing products, new technology, marketing support and know-how that can help them differentiate their products, improve their sustainability profile and help grow their market share.

## Agriculture & Industrial Biosolutions

In Agriculture and Industrial Biosolutions, we focus on improved performance in agriculture and industrial processes, including higher yields, less waste and better health for plants and animals.

We strive to translate our customers' needs into solutions that improve their return on investment and increase sustainability benefits. We achieve this with the help of an improved understanding of our customers and the macro trends that influence their businesses. We meet customers' needs through a combination of a world class product portfolio, digital solutions and a comprehensive service package.



# Working with the SDGs

**Sustainability has been integral to Novozymes for decades. We are proud that our solutions contribute to one or more of the Sustainable Development Goals (SDGs), directly or indirectly. Every day, we strive to do our part to deliver on the SDGs, from the core of our business and right through our operations.**

**W**hen 193 UN member states created the SDGs in 2015, we immediately saw the SDGs as a common framework that could enable the world to work towards the sustainable future we all want. The SDGs have inspired our purpose, strategy and targets and, by the very nature of our business, we have made significant progress in delivering on the goals since then.

Novozymes produces a wide range of enzymes and microorganisms for many applications. Our solutions enable our customers to produce more from less, often reducing the use of energy and chemicals as well as CO<sub>2</sub> emissions. We live our purpose when we help our customers make their production processes and products better for the world, thereby contributing to the SDGs as well.

Through our strategy, Better business with biology, we are committed to developing

solutions that can contribute to solving three global challenges: Climate, Water and Production and Consumption. We are also committed to operating our business responsibly and investing to minimize our negative environmental footprint. We are investing in new strategic opportunity areas, including Human Oral & Gut Health and Specialty Alternative Proteins. These are opportunities that are inspired by the challenges embodied in the SDGs. They cater to a growing desire among consumers to live lives that are better for themselves and the environment.

Here are some examples of how our business and solutions contributed to the SDGs in 2020.

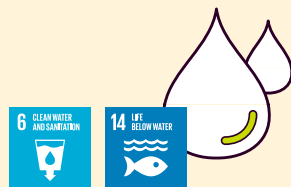


**See also “Novozymes and the global goals” for more details about how we contribute to the SDGs**

## Where we impact significantly



**Supporting sustainable food production and resilient agricultural practices**



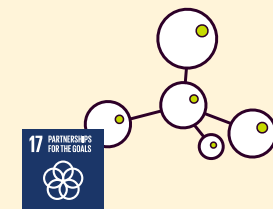
**Fewer chemicals, cleaner water**



**Enabling a low carbon future**



**Enabling our customers to produce more from less**



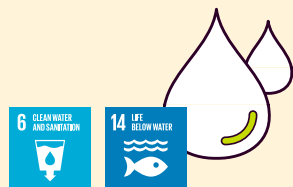
**Partnering for impact**



## Supporting sustainable food production and resilient agricultural practices

### Goal 2: Zero hunger

Our solutions enable our agriculture customers to improve performance across the value chain from farm to table. Microbial solutions for agriculture help farmers increase the efficiency of crop and livestock production, reduce environmental impacts and improve climate resilience. In 2020, we launched TAEGRO® - a biocontrol solution for fruit and vegetables which enables farmers to protect their yield while reducing the use of fossil-based chemical fertilizers.



## Fewer chemicals, cleaner water

### Goal 6: Clean water and sanitation

### Goal 14: Life below water

Our solutions help our customers reduce their consumption of water, reduce wastewater and reduce aquatic pollution by reducing the use of harsh chemicals that often end up in aquatic environments.

In 2020, we launched Microvia®, a bacterial bio-cleaning solution for hard surface cleaners which reduces the use of chemicals. Our launches in agriculture and food production also reduce the use of chemicals and the resulting nutrient pollution impact from our customers. We also partnered with WWF to help us develop programs for water management influenced by the local water challenges and current and future conditions of water – at all our sites.



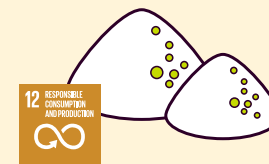
## Enabling a low carbon future

### Goal 7: Affordable and clean energy

### Goal 13: Climate action

Novozymes is committed to help the world limit global warming through our actions across the value chain. We are committed to playing our part to limit the increase in global warming to 1.5°C. and to making Novozymes carbon-neutral by 2050. Many of our solutions reduce the carbon intensity of the processes they are applied in.

Our solutions enable the development of low-carbon fuels for the transport sector, which represents a significant share of the global energy mix and related CO<sub>2</sub> emissions. In 2020, our bioenergy solutions helped save 49 million tons of CO<sub>2</sub>. We are also a member of the RE100, a global initiative working with companies that have committed to 100% renewable electricity.

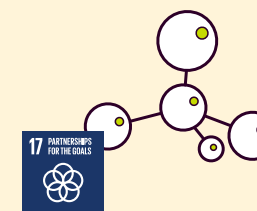


## Enabling our customers to produce more from less

### Goal 12: Responsible production and consumption

Our solutions enable our customers to produce more from less across many industries. In 2020, we launched Quara Boost® and Lphera® which help food processors produce more oils and starch from their feedstocks, while reducing their use of energy and processing chemicals.

We celebrated the 30th anniversary of our baking solution Novamy!® in 2020. Over the years, it has saved 80 billion loaves of bread from being thrown out, which - in addition to the reduced food waste – has also saved an estimated 45 million tons of CO<sub>2</sub>.



## Partnering for impact

### Goal 17: Partnership for the goals

Our most significant contributions to society are driven through collaborations with our customers, governments, suppliers and academia to learn, develop and deliver solutions to the most pressing needs of society.

In the EU, Novozymes has worked strategically with the EU Green Deal through various industry organizations and supported the EU Commission's action plan to address climate change and environmental degradation. In 2020, we joined the 'Climate Partnership for Life Science & Biotech' partnership, one of many climate partnerships put forward by the Danish government.

We also co-drive an open innovation platform, Hello Science, where we invite partners and innovators to solve the key challenges defined by the SDGs.

02

# Our business



# Strategy

**We believe the future is shaped by the promise of biology, and we work every day to make good on this promise for the benefit of our customers, our business and the world.**

**T**he year 2020 was unlike what anyone could have predicted. However, while it was a year characterized by uncertainty, at Novozymes we remain certain of one thing: the world needs sustainable solutions and our ambition for a more sustainable future remains intact.

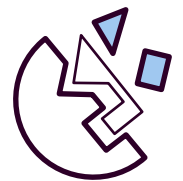
Our purpose – “Together we find biological answers for better lives in a growing world – Let’s rethink tomorrow” – serves as the guiding principle for the way we do business. By continually expanding the reach of our solutions, we can ensure we remain true to our purpose and to rethinking the world of tomorrow.

Our strategy, Better business with biology, guides clear priorities as well as growth and profitability targets for each of our business



areas. We strive to maximize value creation through the commercialization of our core business while investing in a more focused R&D pipeline and new strategic opportunity areas outside the core. In 2020, we prioritized enhancing a value-chain focused and customer-centric approach. This was the year of aligning more with the needs of customers, focusing on the most important innovations and advancing promising new business areas.

**Moving**  
even  
closer to  
customers



**I**n September, our organization was reshaped to better address customer needs across the full value chain. Our two divisions, Consumer Biosolutions and Agriculture & Industrial Biosolutions, allow for a more integrated approach towards end markets, defined by common characteristics and value drivers. Consumer Biosolutions caters to industries that supply sustainable solutions with clear consumer benefits and Agriculture & Industrial Biosolutions cover industries that supply sustainable solutions focused on maximizing yields and optimizing processes for our customers.

In Consumer Biosolutions, we announced a joint launch with Firmenich, the world's largest

privately-owned perfume and taste company, of a solution that brings unprecedented sugar-reduction in dairy products. The partnership is an example of how to bring new solutions to market faster while also tapping into a growing global consumer trend. We also entered into a research partnership with Givaudan, the world's largest flavor and fragrance developer, to work on the research and development of innovative sustainable solutions in Food & Beverages and Household Care.

In Agriculture & Industrial Biosolutions, we launched our Fiberex® platform, a new platform for enzymes and yeast strains that can convert corn fiber into ethanol. With Fiberex®, customers are able to expand the boundaries of corn-based ethanol by extracting more corn oil from kernels and converting the fiber into simple sugars that are easily converted into ethanol, unlocking new profit streams for ethanol producers.

We also forged a stronger connection between the back and front ends of our company by having the heads of our Research & Development organization as well as Operations, Supply & Quality join the Executive Leadership Team.

In the new divisional structure, we allocate more resources to our regions. Stronger geographical representation in our core decision processes will improve decision-making and bring more tailor-made solutions to our customers.

## Accelerating the digital agenda



**T**he COVID-19 pandemic has accelerated the need for digital communication in order to overcome lockdowns and travel restrictions, and this is a development we embrace. By enhancing and expanding the use of digital tools, we were able to improve collaboration within the organization, strengthen customer relationships and drive new leads without notable interruption.

Our webinar platform – a tool to help our employees conduct webinars for existing and potential customers – has proven effective in gaining leads that would previously have been hard to reach. The data and insights collected from webinars have been used to nurture new and existing customers along the customer decision journey.

In Brewing, we strived to reach out to more, smaller breweries using digital tools. On the website Brewing with enzymes, we share the benefits of introducing enzymes into the craft brewing process and potential customers can enter a live chat with experts.

COVID-19 is also on the minds of many of our customers, and we reached out to the American laundry market with articles and webinars about cleaning and buying habits and trends shaped by the pandemic. In China, we embraced new and effective ways of customer engagement by shifting online

amid the pandemic. We hosted livestreams on the Alibaba 1688 online platform which attracted thousands of unique visitors, and we will continue to strengthen the partnership between Novozymes and Alibaba. The launch of Microvia™, our bacterial bio-cleaning solution for hard surface cleaners, addresses an increased focus on safe, effective solutions for cleaning at home and at work during the pandemic and is a showcase for our capabilities in the relatively new space of probiotic cleaners.

Several of our bioethanol customers saw the demand for ethanol rise as the need for hand sanitizers and disinfectants increased dramatically during the pandemic. We supported customers who donated ethanol for the production of hand sanitizers and disinfectants by offering them free input products for the ethanol production.

Although 2020 was a unique year, there have been learnings we take with us to stay agile, efficient and responsive to customers.

## Maturing human health



**S**ince 2019, we have been investing in what we call strategic opportunity areas – or SOAs. Finding biological solutions for improved human oral and gut health is one such SOA and has been a key focus in 2020.

BioFresh® 4+ was launched in December under the Novozymes OneHealth brand. Novozymes established the Novozymes OneHealth brand to market solutions within human health under one umbrella, with consumer insights at the heart of product development. Studies show that up to 50% of consumers have been concerned about bad breath at some point in their life\*. BioFresh® 4+ is a tablet for oral use which helps reduce bad breath and is effective for up to 4 hours. The only enzymatic solution of its kind on the market, it addresses a growing gap between consumers' expectations of oral care products and the current offerings available on the market.

In June, Novozymes acquired PrecisionBiotics Group Limited. Based in Cork, Ireland, PrecisionBiotics Group holds a leading position within probiotics for human gut health and is well positioned with several clinically backed products already on the market.

In January 2021, we acquired Microbiome Labs, based in Illinois, US. With Microbiome Labs' comprehensive portfolio of proprietary probiotic and microbiome solutions, Novozymes gains a broader portfolio and a strong position in the North American probiotics market.

The combined capabilities and our innovation portfolio serve as a promising foundation for future growth.

\*Source: Novozymes OneHealth proprietary insights 2019 "In which situations are you most concerned about bad breath?"



# Risk management

**Novozymes is a global company operating in a range of industries and, as such, we face a diverse set of risks. We continuously strengthen our work on risk management to secure Novozymes' operations, stakeholders and our ability to generate value in the short, medium and long term.**

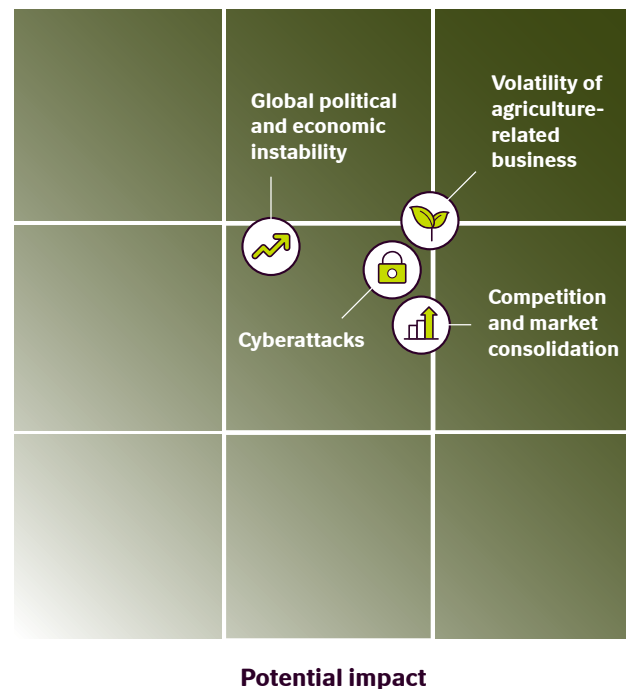
**N**ovozymes' risk management process is designed to ensure that we identify, assess and mitigate key business risks in a timely manner. We do this to ensure risks do not negatively affect our ability to achieve our targets and deliver value to our stakeholders. In addition to monitoring and addressing our risks, we also monitor longer-term threats and trends. The Board of Directors has the overall responsibility for overseeing risks and for maintaining a robust risk management and internal control system.

## Risk management framework

Novozymes operates an Enterprise Risk Management (ERM) process whereby the key risks facing the company are identified, assessed and mitigated at different levels of the organization. We monitor most risks by means of biannual reviews, although some risks may materialize within a short period of time and require more frequent updates, the COVID-19 pandemic in 2020 being a case in point.

The Risk Management & Controls department is responsible for identifying risks in collaboration

**Risk assessment heat map**



*Our four key risks for 2021 are unchanged from 2020: Competition and market consolidation; Volatility of agriculture-related business; Cyberattacks and Global political and economic instability.*

with the organization and for ensuring that senior management promotes risk awareness, engagement and ownership across the organization. Risks are assessed based on a two-dimensional heat map rating system that estimates the potential impact of a given risk on financials and reputation, and the likelihood of that risk materializing. Each key risk is assigned a risk owner from the Executive Leadership Team and a Risk Responsible, usually a Vice President, responsible for mitigating all risks relevant to their respective areas.

The most significant risks are reviewed and assessed by the Executive Leadership Team and the Board of Directors, who are also responsible for reviewing the effectiveness of the risk management and internal control processes throughout the year. In 2020, the Audit Committee, on behalf of the Board of Directors, made deep dives into selected risks and risk processes.

Although the COVID-19 pandemic had a significant impact on the world in 2020, a risk on 'worldwide pandemic disease' is not included as a key risk. In general, pandemic outbreaks are rare events and so have not rated highly on likelihood. The COVID-19 pandemic is currently affecting businesses and will continue to do so in 2021. The Executive Leadership Team will continue to monitor and address potential business risks arising from the COVID-19 situation, e.g., changed consumer behaviors, declining GDP growth, while our global and local crisis response teams safeguard our people and communities.



**See note 5.1 for information on financial risk factors and risk management**

# Key enterprise risks for 2021

## **Competition and market consolidation**

Novozymes is the market leader in the global enzyme market, which remains highly competitive. Our position in the market may be challenged by competition from both existing and potential new competitors, sometimes formed through consolidation. We continue to see a risk of competitors operating under less regulated market conditions.

## **Volatility of agriculture-related business**

Novozymes' agriculture-related business is affected by numerous elements, such as weather conditions, commodity prices, political mandates for ethanol blends, etc. In addition, ongoing geopolitical uncertainty adds to the overall volatility of the industry.

### **Potential impact**

We could face increased competition from other enzyme manufacturers offering new solutions or from new players with technology platforms that are broader than ours. With increased digitalization, competition could also relate to how solutions are implemented in customer production. Although consolidation can make the market more stable, it could also increase a competitor's financial strength and bargaining power.

### **Mitigating actions**

In 2020, we preserved our market-leading position by introducing new innovations, strengthening our commercial relationships – even during global lockdowns – and re-shaping our organization to be even more customer-centric and value chain focused. As part of our organizational changes in September 2020, we increased regional empowerment to ensure further agility in markets where we see strong potential for our solutions.

In 2021, we will continue to improve our go-to-market strategies, accelerate regional innovations to strengthen our position in certain markets, nurture partnerships and build on our strong relationships with key customers.

### **Potential impact**

In 2020, our bioenergy business in the US experienced a steep decline from a sharp drop in gasoline consumption due to COVID-19 restrictions. If global lockdowns, volatility of the agricultural-related markets, and poor global farm economics persist, it could challenge our ability to grow in the industry.

### **Mitigating actions**

In 2020, we worked to leverage our industry-leading enzyme portfolio in combination with yeast technologies to strengthen our position in the bioethanol industry. In September 2020, we launched Fiberex®, a platform solution specifically aimed at converting a low-value by-product – corn fiber – into high-value, cellulosic low-carbon fuel.

With the move in 2019 to a more flexible go-to-market approach in our agriculture business we find ourselves in a transition phase still. However, we are seeing good traction with partners as exemplified by the second quarter launch of the biocontrol product Taegro® in Europe and South America, in partnership with Syngenta.

In 2021, we remain focused on building strong relations with our customers in the agriculture-related business, while also increasing our internal commercial competences, including technical sales support.

## Cyberattacks

As for most major companies, the threat of cyberattacks to our business operations has grown significantly in recent years. The rapid digitalization of businesses and lack of regulations online drive this trend. Across the world, cybercrime can be seen to offer fast gains at low risk. Preserving business continuity and safeguarding sensitive business data and critical assets against this global threat is extremely important to Novozymes.

### Potential impact

As a technology-driven company, we rely on the integrity and availability of computers and networks, and the sharing of data. Cybercrime and hacker attacks may negatively impact Novozymes' productivity if systems are inaccessible for an extended period. Furthermore, fast digitalization continuously exposes Novozymes to cybersecurity threats. Business opportunities with customers could be adversely impacted if information about Novozymes' unique technologies or production strains is stolen.

We actively seek to learn from other companies' experiences and, upon reviewing incidents of cyberattacks and technology developments, we have reassessed and adjusted the potential impact of this risk.

### Mitigating actions

Our ability to identify, protect, detect and respond to cyberattacks has significantly improved in recent years. In 2020, we gained more quantitative insights into potential security threats and vulnerabilities at Novozymes, enabling us to prioritize efforts and further raise our level of security. Key focus areas have been to test and improve our IT emergency response, implement comprehensive and consistent information risk management and expand our detection capabilities and automation of cyber incident handling to mitigate the impact of cyberattacks.

While cyberattacks can be seen to raise the threat of global theft, our more than 6,500 granted or pending patents remain a strong defense of our solutions.

In 2021, we will continue to mitigate the risk of cyberattacks through an updated security roadmap, specifically Identity and Access Management (IAM), Network & Endpoint protection and data.

As our operations become even more dependent on digitization and data analytics, we will increase the focus on operational technologies in our production facilities to ensure they stay operational at all times.

## Global political and economic instability

There continues to be significant instability in the global economy and in the political landscape. Trade conditions are subject to uncertainty and shifts, making it more difficult to mitigate risk. Adding to this, the COVID-19 pandemic has a potential negative impact on global economic growth.

### Potential impact

As a global company, polarization and trade protectionism can have an adverse impact on Novozymes' ability to operate. Long-term decision-making is complicated, both for us and for our customers, if world leaders struggle to agree and to work together to strengthen global and regional institutions.

We have yet to see the full global economic impact of the COVID-19 pandemic, but we have already felt the effects of lower demand in some areas. We could ultimately see price sensitivity grow among customers and consumers. There is also a risk of exchange rate fluctuations and of customers, partners and suppliers risking or facing insolvency.

### Mitigating actions

In 2020, Novozymes closely monitored political and economic developments, such as the US-China trade negotiations. We emphasized considerations beyond financial analysis, e.g., handling bilateral relations and image/perception. In addition, we focused on customs handling to ensure fast response and optimizing of customs paid.

Pricing continues to be an area of focus in our commercial organization. We have strengthened our focus on generating profitable growth – which includes increased pricing transparency and governance. This effort will be further strengthened in 2021 with a cross divisional global focus on pricing.

We remain engaged in global forums on sustainability, aiming to champion the benefits of globalization and shared commitments, and we continuously promote the importance of working together globally for a sustainable future.

For 2021 and beyond, the global outlook remains uncertain, as the full impact of e.g. Brexit and COVID-19 remains unclear at the time of writing, and several conflicts need to be settled to ensure political stability and free trade. We will further seek to improve our data analysis and general monitoring for better predictability and speed of reaction.

# Emerging risks

**We closely monitor emerging risks across different categories including technology, finance and sustainability that have the potential to impact our business in the longterm.**

**E**merging risks are mainly assessed through our enterprise risk management process and integrated sustainability trendspotting exercise. We engage with relevant stakeholders in a timely manner to develop strategies and ensure that we are prepared to take adequate action and respond to those risks.

There is a renewed focus on the risk climate change poses to the world. Businesses face increased scrutiny on climate-related disclosures and actions, and this is an area of continued focus for Novozymes. Science has long proved that the impact of climate change is already being felt across the world, for example through wildfires, flooding, drought, etc. To tackle climate change, the world needs to limit the increase in global warming to 1.5°C. At Novozymes, we are committed to doing our part and to helping the world reach the goals of the Paris Agreement. We have also identified climate-related risks specifically relevant to our business and we disclose details on this in our annual response to the CDP Climate Change questionnaire.

Novozymes is also closely monitoring the ongoing dialogue on nature and biodiversity loss. Going forward, we will seek to understand the implications of this trend and understand the potential impact on our business. Additionally, the following continue to be our key emerging risks:

## **Concerns regarding new and emerging technologies**

There is growing consumer demand for natural products, low-carbon solutions and bio-based innovation. Industrial biotechnology is a key enabling technology for delivering these solutions. At the same time, we also see tighter regulatory control in the biotechnology and chemical sectors. Over the coming years, we expect to see more significant biotech innovation, including gene editing, and to face increasing government and NGO scrutiny, which can limit or slow the application of biotechnology.

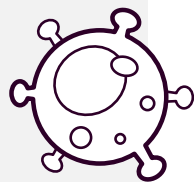


↑ *We see tighter regulatory control in the biotechnology and chemical sectors in the coming years*

## Risk management during a pandemic

The COVID-19 pandemic validated the effectiveness of our risk management and crisis responses. Though a pandemic risk was not top of mind going into 2020, we had considered the possibility of such an event. Our crisis response setup proved robust, with a global task force that outlines and coordinates Novozymes' global instructions, and local task forces that ensure actions and guidelines aligned with local authorities' and the local situation. This enabled us to respond quickly and effectively to protect our employees, business, and customers as well as support our communities, and to proactively prepare as the pandemic grew in intensity.

Overall, our production has not been disrupted by the pandemic. Our production setup is structured to minimize the risk of a shutdown and can be shifted to other sites, thereby allowing us to honor our commitment to our customers. Our employees have been working in a safe setting, either at home or at our sites, and have been given the flexibility to meet the personal and community challenges that have arisen due to COVID-19 restrictions and concerns. We have also emphasized Novozymes' contribution and role as a good corporate citizen and supported authorities' efforts in dealing with the pandemic.



Novozymes' research and business are based on bio-innovation and through these technologies, we find safe and sustainable answers to some of the planet's most pressing challenges. We are committed to sharing our knowledge about the potential of biology and industrial biotechnology with the public, as well as other stakeholders outside of Novozymes. Our **position statement on industrial biotechnology** describes how industrial biotechnology and gene technology can contribute to sustainable development.

We acknowledge the concerns related to the use of gene editing, so we apply and promote safe and sustainable use of gene editing technology. We support a science-based regulatory framework for products involving gene editing and operate in compliance with legislation. Novozymes is committed to using scientifically-sound tools in a way that is safe to humans, animals and the environment. We are open about what we do, and we engage in dialogue on any concerns raised.

As we explore the increased use of biotechnology, we will continue to engage in and push for open dialogue about its benefits, while also developing best practices together with stakeholders to mitigate the potential risks.

### **Water-constrained future**

Global freshwater resources have come under pressure due to climate change, industrialization, urbanization and a growing population. According to the World Economic Forum, water crises have for many years been among the top five global risks in terms of impact. Governments are responding with stricter regulations and the private sector

**“Global freshwater resources have come under pressure due to climate change, industrialization, urbanization and a growing population.”**

is driving action through various initiatives such as the CEO Water Mandate, World Wide Fund for Nature (WWF) and Science Based Targets Network (SBTN). Novozymes recognizes that effective water management needs a local approach that is informed by science, context and collective action from a number of stakeholders.

Water is material for Novozymes across our entire value chain. Many of the raw materials required in our operations are agriculture-based and thus water-intensive to produce. We have conducted site-specific water-risk assessments to identify water-stressed sites and regions and included analysis of upcoming regulation related to water to inform about our water stewardship strategy.

Besides the risk that water-related issues pose to our operations, increasing demand for clean water solutions also serves as an opportunity for our business as some of our solutions can contribute to solving several water-related issues. One such significant opportunity is how we enable our customers to reduce water consumption and improve wastewater quality by replacing chemicals with biological solutions.

# Targets

**The success of our strategy is measured using financial and nonfinancial targets. These targets reflect our focus on a sound business, engaged employees and our ability to enable our customers to be more sustainable while at the same time reducing our own environmental footprint.**

**A**t Novozymes, we measure progress towards our 2022 targets, which focus on the world, our business, our employees and our own operations.

## A sound business

To shape a future of better business for us, our customers and the world, we need to have

a sound, balanced and growing business. This will allow us to continue investing in our leadership position within biotechnology and capture new opportunities in the industries we serve.

By 2022, we aim to have an EBIT margin of 28% or higher, and ROIC including goodwill of

23% or higher. We strive to generate 5+% sales growth per year.

Looking ahead into 2021, we expect to grow sales by 2% to 6% organically. The guidance is wide and based on a gradual recovery from the pandemic impact in 2020 but would not cover a situation with another extended global lockdown. We also expect a solid reported EBIT margin of 25% to 26% in 2021 (2020: 26.1%), which includes a negative year-on-year impact from currency and M&A-related effects of close to 1 percentage point each.

ROIC, including goodwill, in 2021 is expected at around 19% (2020: 18.9%) which includes negative currency and M&A-related effects totaling roughly 2 percentage points.

## Mid-term targets, long-term commitments

Achieving our 2022 nonfinancial targets will put us on the path to accomplish our 2030

commitments. Our commitments and targets are focused on Climate, Water, Production & Consumption and Employees and are guided by the Sustainable Development Goals (SDGs).

Within each of these areas, we have set 2022 targets that reflect both the positive impact we believe our solutions have on the world, as well as the care we know we must show to ensure we minimize the environmental impact of our production processes and our operations in general.

In addition to the areas highlighted by the targets, we are committed to being a responsible corporate citizen and engage locally as well as globally for a better world with biology.

On the following pages, we elaborate on the progress towards our 2022 nonfinancial targets.

## Our focus areas



### Climate

We can have the most significant impact on mitigating climate change by enabling low-carbon fuels for the transport sector, as this sector accounts for about 25% of global energy-related CO<sub>2</sub> emissions.

Climate change is also considered in our own operations, as industrial production processes are energy-intensive. Therefore, we have set a verified science-based target for reducing our absolute CO<sub>2</sub> emissions in line with the most ambitious decarbonization pathway.



### Water

We will work to ensure clean and efficient water use by providing solutions that replace chemicals, particularly in laundry.

Water is also a fundamental resource for our production processes. We are committed to pioneering a context-based approach to water management across all sites and have therefore set a target to have all our sites manage water in balance with local conditions.



### Production & Consumption

While most of our solutions enable improved production efficiency, we are highlighting solutions that let us enable sustainable food production as part of our Production & Consumption target.

We also aim to drive our business towards more circularity. Therefore, all our key materials and waste will be managed in circular systems by 2030.



### Employees

We know we will only be able to achieve our financial and non-financial targets with the help of a healthy, diverse and engaged workforce, so we have also set 2022 employee targets.



**Go to [Novozymes.com](https://www.novozymes.com) for a full list of our 2030 commitments and nonfinancial targets**



# Climate

## Key figures

**World:** Save 60 million tons of CO<sub>2</sub> by enabling low-carbon fuels in the transport sector in 2022

**Operations:** By 2022, reduce absolute CO<sub>2</sub> emissions from operations by 40%

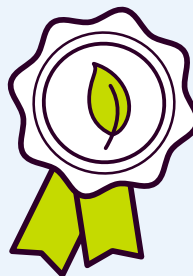
The scientific community agrees that the world is rapidly moving towards an unsustainable rise in temperature. To halt this development, we must reduce CO<sub>2</sub> emissions in the atmosphere. Novozymes' commitment to provide the world with biological solutions that can help limit global warming to 1.5°C has been validated by the Science Based Targets Initiative.

## 2020 highlights

- We saved 49 million tons of CO<sub>2</sub> by enabling low carbon fuels in the transport sector in 2020. The COVID-19 pandemic caused a slowdown in the use of liquid transportation fuels. Hence, the demand for ethanol and the resulting reduction of CO<sub>2</sub> emissions has declined this year.
- In 2020, our Franklinton site in North Carolina, USA purchased Green-e® certified renewable energy certificates (RECs) from two local solar farms. This purchase covers the full annual electricity

consumption of the site and supported renewables on the local grid in North Carolina. With this, we are now sourcing 69% of our electricity globally from renewables.

- At our Fuglebakken site in Denmark, a newly installed heat pump will be used to transfer excess heat from our operations to the district heating network, delivering heat to around 2,000 households.



# Water

## Key figures

**World:** Reach >4 billion people by providing laundry solutions in 2022 that replace chemicals

**Operations:** By 2022, develop context-based water management programs at 100% of our sites\*

Water is a scarce resource, and, in many regions, people suffer from lack of access to clean water. Water is also a fundamental component of our production processes, so we must manage our water use responsibly.

## 2020 highlights

- In 2020, we progressed towards our Reach target and managed to reach 3.98 billion people with our laundry solutions. This development was mainly driven by increased penetration of enzymatic detergents in Africa and Latin America.
- We developed context-based water management plans for two sites in China.
- In September, we partnered with WWF to assess water risks and develop contextual water targets and action plans for our sites globally.

- Novozymes now endorses the UN Global Compact's CEO Water Mandate which is the leading multi-stakeholder platform driving action on water stewardship. This endorsement reflects how we look at water very differently and with a greater focus today than we did in previous years.

\* The target does not include sites with activities not considered to have a significant environmental impact, e.g sales offices, R&D labs, etc.





# Production & Consumption

## Key figures

**World:** Gain 500,000 tons of food by improving efficiency from farm to table in 2022

**Operations:** By 2022, achieve 100% circular management of our biomass, develop plans for circular management of 100% of key packaging materials and develop programs to reach zero waste by 2030 at 100% of our sites\*

The world's resources are under pressure, not least due to unsustainable consumption patterns and the large amounts of waste this consumption leads to.

## 2020 highlights

- We estimate that 136,000 tons of food was gained in 2020 using our solutions. We will continue to deliver improved gains through our solutions but foresee that the prolonged impacts of COVID-19 will limit our contributions towards this target.
- In 2020, we secured a new contract to increase the amount of biomass to be recovered by local farmers for land applications.

- We developed specific zero waste plans for three of our sites in Denmark.
- We increased our capacity to process solid waste both in TEDA, China and in Kalundborg, Denmark, transforming enzyme waste into a form which can be used to generate biogas or be converted into fertilizer.

\* The target does not include sites with activities not considered to have a significant environmental impact, e.g sales offices, R&D labs, etc.



# Employees

## Key figures

**Enable learning:** Achieve a score of 80 on learning in our annual employee survey by 2022

**Nurture diversity:** Achieve a score of 86 on our diversity index by 2022

**Ensure safety and wellbeing:** Occupational injuries\* ≤ 1.5

**Inspire the world:** Pledge 1% of our time to local outreach activities by 2022

**Excite employees:** Achieve a score of 81 on our Zymer Spirit index by 2022

To continue to grow as a company and contribute to a better world, Novozymes must enable its employees to thrive, grow and perform. This will ensure that we have the skills needed to deliver on our purpose.

## 2020 highlights

- In our annual employee survey, we achieved a score of 78 on learning. Throughout the year we encouraged learning and development through a new online learning platform, through our leadership development programs and through webinars on learning culture.
- On our diversity index, which is based on gender and nationality, we achieved a score of 83.

- Occupational injuries were at 1.5, measured as a three-year rolling average of lost time injuries per million working hours.
- Our Inspire target focuses on helping our communities respond to local challenges, by pledging 1% of our time to local outreach. In 2020, the COVID-19 pandemic was the biggest global crisis, and employees in all regions contributed time, resources and creativity to help communities deal with the pandemic. See the following page for more details.
- We achieved a score of 81 on our Zymer Spirit index.

\* Defined as a three-year rolling average of lost time injuries per million working hours



# Collaborating with communities during COVID-19

**At Novozymes, we have always been active members of our communities - giving back when possible. This has now been formalized through our Inspire target of pledging 1% of our time to local outreach.**

**A**s the COVID-19 pandemic significantly affected societies all over the world in 2020, we focused our Inspire outreach efforts on the pandemic.

In India, employees participated in a virtual fitness challenge to raise money for daily-wage earners. Observing local rules and guidelines, our employees walked almost 2.3 million steps in a day, each step sparking a proportional contribution towards a donation totaling INR 1.7 million. The sum was donated to state funds and organizations in Mumbai and Bangalore engaged in disaster management and eradication of hunger.

In Brazil, we collaborated with Contagious Smiles (Contagiando Sorrisos), a project that works with local artists to design face masks to bring hope and positivity to the local community.

In North America, employees have developed teaching materials on STEM education, specifically

for at-home schooling for families enduring school closures. In North Carolina, Novozymes partnered with North Carolina State University's Biomanufacturing Training & Education Center (BTEC) to produce hand sanitizer, helping to keep students and faculty at NC State University healthy.

In Denmark, employees were encouraged to partake in a national COVID-19 antibody test, which could be done on Novozymes' premises. We also donated lab coats to healthcare assistants as well as essential equipment to a new testing facility at SSI, the national serum institute.

In China, we donated RMB 1 million via Red Cross to help build hospitals in Huoshenshan and Leishenshan, procure supplies, and provide support for frontline workers battling the pandemic.

# Outlook for 2021

## Sales outlook

Novozymes expects to grow sales by 2% to 6% organically in 2021. The outlook is based on a gradual recovery from the pandemic impact in 2020. An incremental pickup or a further slowdown of the expected gradual recovery,

especially in the areas most impacted by the pandemic in 2020, would imply a performance in the high- respectively low-end of the outlook range. However, the outlook range would not cover a situation with another extended global lockdown. Sales in reported DKK are expected to be ~1 percentage point less, net of currency and M&A-related effects, compared to the 2-6% organic sales growth outlook. Organic

sales in the first quarter is expected to decline by mid-single digits year-on-year following the relatively high comparator of the first quarter of last year, especially in Household Care, Bioenergy and in Food, Beverages & Human Health.

Food, Beverages & Human Health and Grain & Tech Processing are both expected to grow

organically by mid-single-digits while Bioenergy is expected to grow by mid-to-high single digits in 2021. The growth outlook for Household Care is in the low-single-digits following the better than expected performance in 2020. Agriculture, Animal Health & Nutrition is expected at flat to low-single-digit growth.



**Household Care** organic sales growth is expected to be driven by market penetration, focusing on emerging markets and a continued rollout of the Freshness technology, with a broad-market launch in the second half of the year. The broad-market launch is an important milestone, that is expected to become a significant growth contributor in future years. The 2021 outlook for Household Care builds on improving the underlying performance on top of a better than expected performance in 2020.



**Food, Beverages & Human Health** 2021 organic sales growth is expected to be broad-based. Innovation and emerging market penetration, supported by increasing consumer dietary-health-awareness, are the main drivers of growth in the food business. Beverages is expected to gradually recover following a 2020 severely affected by COVID-19 implications. The PrecisionBiotics Group and Microbiome Labs acquisitions are both estimated to contribute to growth in reported DKK and to grow organically by solid double-digits.



**Bioenergy** organic sales growth in 2021 is expected to be driven by a gradual recovery in the US ethanol industry, following the severe disruption caused by the COVID-19 pandemic. The mid-point of the Bioenergy organic sales range roughly corresponds to mid-single digit growth in the US ethanol production. The growth contribution from regions outside of the US is expected to be positive.



**Grain & Tech Processing** organic sales growth is expected to be broad-based, with both grain and tech contributing positively. The grain business is expected to outgrow a roughly flat underlying market, driven by innovation and increased local presence across key regions. Tech is expected to gradually recover after the significant disruption of the global textile industry in 2020.



**Agriculture, Animal Health & Nutrition** organic sales performance in 2021 will be driven by the continued expansion of the BioAg business across crops and regions, resulting in solid underlying double-digit organic sales growth when adjusted for the DKK ~60 million one-off in the second quarter of 2020. The outlook for Animal Health & Nutrition includes some uncertainty as to stocking levels in the value chain, further accentuated by the pandemic. A strong innovative product portfolio and partnership setup coupled with signs of improving farmer economics make us carefully optimistic about the years to come.

# Profit outlook

For 2021, Novozymes expects a solid reported EBIT margin of 25 - 26% (2020: 26.1%), which includes a negative year-on-year impact from currency and M&A-related effects of around 1 percentage point each. Hence, the implied underlying EBIT margin for 2021 of 27- 28% should be compared with the underlying 2020 EBIT margin of ~27%, and the underlying 2019 EBIT margin of ~26%. Supportive margin contributions from sales growth and productivity improvements are expected to be partly offset by slightly higher input costs and continued re-investment in the business.

Return on invested capital (ROIC), including goodwill, is expected at around 19% (2020: 18.9%; underlying ~20%) and includes negative currency and M&A-related effects totaling roughly 2 percentage points.

Free cash flow (FCF) before acquisitions is expected to be in the DKK 2.7-3.1 billion range (2020: DKK 3.4 billion), supported by higher sales and an improved operational cash flow. Cash flow is expected to be somewhat lower than in 2020 as higher net investments and the timing of working capital will lower the 2021 cash generation following a stronger than expected performance in 2020.

## For modeling purposes, the following is provided:

The effective tax rate is expected at around 20% for 2021 (2020: 19.7%).



Net financial costs are expected to be DKK ~50 million (2020: DKK 127 million), with roughly DKK 150 million relating to interest expenses, banking fees, leasing and financial costs related to acquisition earn-outs. This is offset by a positive effect from USD/DKK currency hedging.

Net investments in 2021 are expected to be DKK 1.0-1.2 billion (2020: DKK 0.9 billion). This reflects maintenance as well as expansion and optimization investments.

A stock buyback program of up to DKK 1.5 billion has been initiated for 2021.

## 2021 outlook

Sales growth, organic	%	2 to 6
EBIT margin	%	25 to 26
ROIC (including goodwill)	%	~19
Free cash flow before acquisitions, DKKbn	DKKbn	2.7 to 3.1

## For modelling purposes:

Effective tax rate	%	~20
Net financials, DKKm	DKKbn	~50
Net investments, DKKbn	DKKbn	1.0 to 1.2
Stock buyback program	DKKbn	up to 1.5

\* Assuming the exchange rates for the company's key currencies remain at the rates prevailing on February 1 for the rest of 2021.

# Sustainability outlook

↓ *In 2021, we will continue to invest in developing solutions that support better lives in a growing world and progress on our 2022 targets on:*



We will work to further expand the reach and benefits of our solutions, which we expect to deliver an even greater impact by replacing chemicals and enabling CO<sub>2</sub> reductions. We foresee that a prolonged impact of COVID-19 may limit our contributions towards our target to GAIN 500,000 tons of food by improving efficiencies from farm to table already in

2022, but we will continue to strive to deliver improved gains also in 2021. We will further develop our employee programs focused on learning, well-being and improving their engagement towards our sustainability commitment.

Key sustainability targets		2022 targets	Status
<b>World</b>	Save CO <sub>2</sub> emissions by enabling low carbon fuels in the transport sector	60 million tons of CO <sub>2</sub>	On track
	Reach people by providing laundry solutions that replace chemicals	>4 billion people	On track
	Gain food by improving efficiency from farm to table	500,000 tons of food	More to do
<b>Operations</b>	Reduce absolute CO <sub>2</sub> emissions from operations <sup>1</sup>	40%	On track
	Develop context-based water management programs	100% of sites <sup>2</sup>	On track
	Develop zero waste programs	100% of sites <sup>2</sup>	On track
	Manage biomass in circular systems	100%	On track
	Develop circular management plans for key packaging materials	100%	On track
<b>Employees</b>	Enable learning <sup>3</sup>	80	On track
	Nurture diversity <sup>4</sup>	86	On track
	Occupational injuries <sup>5</sup>	≤ 1.5	On track
	Pledge employee time to local outreach <sup>6</sup>	~ 1% of time	On track
	Excite employees <sup>3</sup>	81	On track

<sup>1</sup> Compared to 2018 baseline. <sup>2</sup> The target does not include sites with activities considered not to have a significant environmental impact, e.g sales offices, R&D labs, etc.

<sup>3</sup> Measured by score to relevant questions in annual survey. <sup>4</sup> Index calculated based on gender and national representation at various professional levels.

<sup>5</sup> Defined as the three-year rolling average of lost time injuries per million working hours. <sup>6</sup> Qualitative reporting only.

03

# Governance



# Corporate governance

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

## **B**oard 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 of these rule sets are available at [Novozymes.com](https://www.novozymes.com)

### **The Board of Directors' main responsibilities are to:**

- Ensure the right management and organizational structure
- Oversee financial, social and environmental performance, and the Executive Leadership Team's operational management of Novozymes
- Supervise the overall management and strategic development of Novozymes

Novozymes' Articles of Association require the Board of Directors to have from four to eight members elected at the Annual Shareholders' Meeting. The Board currently has seven members elected by the shareholders. Individuals are elected for terms of one year 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 also has 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 must therefore be such that the combined competencies of the Board enable it to inspire, guide and oversee Novozymes' development, and diligently address and resolve the issues and challenges facing Novozymes at any time.

The individual competencies of the members of the Board are shown in the presentation of



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## Targets

- ✓ **At least 50%** of the shareholder-elected board members must be independent as defined in the Danish Recommendations on Corporate Governance
- ✓ **At least 40%** of the shareholder-elected board members must have substantial international experience from the management of large corporations or institutions headquartered outside Denmark
- ✓ **At least 33%** of the shareholder-elected board members must be female, and at least 33% of the shareholder-elected board members shall be male

All three targets were met in 2020, and the composition of the Board of Directors meets the gender diversity requirements set out in Danish legislation. Further, reporting on gender diversity at other management levels can be found in Note 8.1 Labor practices & human rights in the Social and governance data section. The competencies and targets are defined in a **competency profile** that specifies the requirements for personal characteristics, skills and experience.

the Board of Directors. Novozymes' statutory report on diversity pursuant to section 107d of the Danish Financial Statements Act is available at <https://investors.novozymes.com/investors/corporate-governance/articles-of-association-and-reports-on-corporate-governance/default.aspx>.

### 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 Chair and the Vice Chair – who are responsible for assisting the Board in matters concerning the Executive Leadership Team's operational management and for reporting back to the Board. The Chairmanship is also responsible for planning and preparing the meetings of the Board. The Board of Directors has three committees: The Nomination and Remuneration Committee, the Audit Committee and the Innovation Committee. The Nomination and Remuneration Committee assists the Board in the nomination of candidates for the Board of Directors, Board committees and the Executive Management as well as in determining the remuneration of Board members, Board committee members and members of the Executive Management. The Audit Committee assists the Board in overseeing aspects relating to accounting, auditing, risks, internal controls and financial, environmental, social and governance data. The Innovation Committee was created in 2020 and assists the Board with the review of Novozymes' overall capabilities and strategic direction in matters of technology, science and innovation. The Innovation Committee held its inaugural meeting in 2020, where focus was on the corporate innovation pipeline and on the innovation strategy for the OneHealth Brand.

Further information about the three Board committees can be found at [Novozymes.com](https://www.novozymes.com)

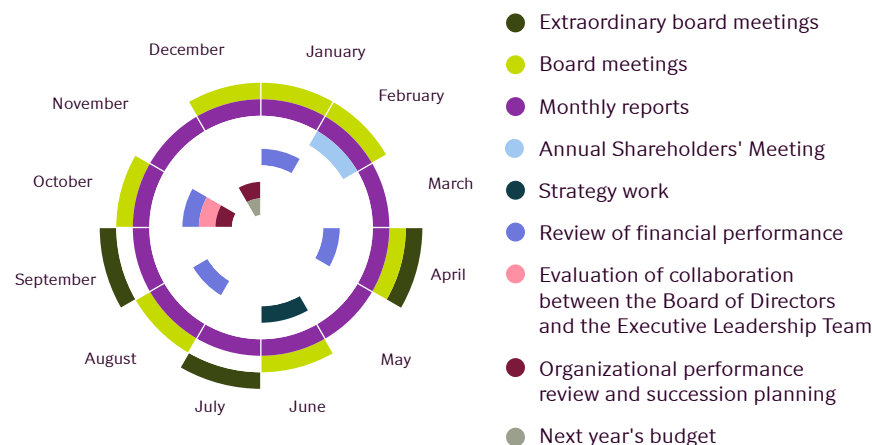
### Charters and recommendations

When laying down the management principles for Novozymes, the Board of Directors followed the Recommendations on Corporate Governance that form part of the disclosure requirements applicable to companies listed on Nasdaq Copenhagen. These recommendations are available at [corporategovernance.dk](https://corporategovernance.dk). A detailed review of Novozymes' position on each 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 prepared pursuant to section 107b of the Danish Financial Statements Act at <https://investors.novozymes.com/investors/corporate-governance/articles-of-association-and-reports-on-corporate-governance/default.aspx>. These recommendations require companies to explain any deviations. Novozymes follows 46 of the 47 recommendations, the exception being:

- 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)

Furthermore, under the Danish Financial Statements Act (sections 99a and 99b), it is mandatory for large companies to report on corporate social responsibility and equal opportunities as defined by the Act. Novozymes is committed to the ten principles of the UN Global Compact (UNGC) and as a

### 2020 with the Board of Directors



### Audit Committee meetings

Committee member	Meetings attended
Heine Dalsgaard <sup>1</sup>	● ● ●
Cees De Jong <sup>1</sup>	● ● ●
Agnete Raaschou-Nielsen <sup>2</sup>	●
Jørgen Buhl Rasmussen	● ● ● ●

### Nomination and Remuneration Committee meetings

Committee member	Meetings attended
Jørgen Buhl Rasmussen	● ● ● ● ● ● ●
Cees De Jong <sup>1</sup>	● ● ● ● ●
Kasim Kutay <sup>1</sup>	● ● ● ● ●
Agnete Raaschou-Nielsen <sup>2</sup>	● ●
Kim Stratton	● ● ● ● ● ● ●

1. New member as of February 26, 2020. 2. Resigned from the Board on February 26, 2020

**Nationality - board members elected by shareholders**

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



**Gender - board members elected by the shareholders**

- Men **71%**
- Women **29%**



**Tenure - board members elected by shareholders**

- 1-4 years **71%**
- +4 years **29%**

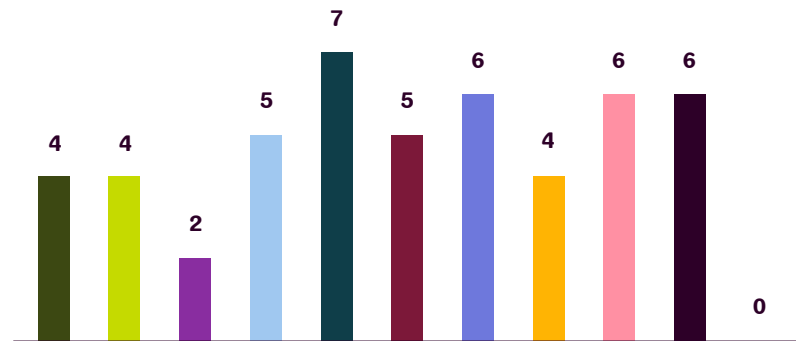


**Board governance structure (elected by the shareholders)**

- Independent boardmembers **57%**
- Non-independent boardmembers **43%**



**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 and industry marketing and sales
- Governance and 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 biotechnology or related industries (but not pharma). 2. From industrial biotechnology, pharma or related industries. 3. Within or outside industrial biotechnology.

continuing member of the UNGC we prepare a Communication on Progress (CoP). Our integrated annual report together with our Sustainability Report (<https://www.novozymes.com/en/about-us/sustainability/transparency-accountability>) serves as our CoP and meets the requirements of sections 99a and 99b of the Danish Financial Statements Act.

**Other Board-related information**

The Board of Directors held 10 meetings in

2020, with an overall attendance rate of 99%. Since March, all meetings have been held virtually due to restrictions brought on by the COVID-19 pandemic. This has worked well, but the Board looks forward to meeting up again when circumstances allow it.

Any amendments 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 a shareholders'

meeting, and that at least two-thirds of the votes, as well as two-thirds of the voting capital represented at the meeting, are cast in favor of the proposal to amend 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 A/S at the date of acquisition. This authorization applies until April 1, 2021. 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





# Board of Directors

Novozymes' Board of Directors currently has seven members who are elected at the Annual Shareholders' Meeting and three employee-elected members. The Board represents many years of international management experience, and the members' competencies combine to ensure expert management of the company.



## Jørgen Buhl Rasmussen

Born 1955. Chair of the Board since 2017. Adjunct Professor at Copenhagen Business School. Member of the Audit Committee and chair of the Nomination and Remuneration Committee. Member of the Board since 2011. Elected for a term of one year.

### Board positions

**Chair:** F. Uhrenholt Holding A/S and advisory Board of Blazar Capital

**Member:** Smurfit Kappa Group

### Special competencies

Extensive international business and management experience, specifically within sales, marketing, branding, acquisitions, and financial and accounting expertise across many businesses, sectors and geographies.



## Cees de Jong

Born 1961. Vice Chair of the Board since 2020. Member of the Audit Committee and the Nomination and Remuneration Committee. Member of the Board since 2020. Elected for a term of one year.

### Board positions

**Chair:** Mediq B.V., ForFarmers N.V. and A-Mansia Biotech S.A.

### Special competencies

Extensive international business and management experience from a range of industries, such as the food, food ingredient and industrial biotech industries, as well as financial and accounting expertise.



## Heine Dalsgaard\*

Born 1971. CFO, Carlsberg A/S. Chair of the Audit Committee. Member of the Board since 2020. Elected for a term of one year.

### Board positions

**Chair:** Carlsberg Ejendomme Holding A/S and Carlsberg Global Business Services A/S

**Member:** Carlsberg Breweries A/S, Carlsberg Byen Komplementar ApS and Carlsberg Byen P/S

### Special competencies

Broad financial background, M&A experience and accounting expertise, as well as extensive experience in driving strategic results for international businesses.

\*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



## Sharon James

Born 1961. Former Senior Vice President, Global R&D, Bayer Consumer Health. Chair of the Innovation Committee. Member of the Board since 2020. Elected for a term of one year.

### Board positions

**Member:** Mölnlycke Health Care

### Special competencies

Broad international experience in commercial research and innovation pipeline management in the consumer goods and consumer product sector.



## Kasim Kutay\*

Born 1965. CEO, Novo Holdings A/S. Member of the Nomination and Remuneration Committee. Member of the Board since 2017. Elected for a term of one year.

### Board positions

**Member:** Novo Nordisk A/S and Evotec SE

### Special competencies

Broad experience within biotechnology, strategy, business development, mergers and acquisitions, and financial and accounting expertise.

\*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

# Board of Directors



## Kim Stratton

Born 1962. Member of the Nomination and Remuneration Committee and the Innovation Committee. Member of the Board since 2017. Elected for a term of one year

### Board positions

**Member:** Vifor Pharma AG

### Special competencies

Broad global commercial experience, including emerging markets, innovation pipeline management and external affairs.



## Mathias Uhlén\*

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

### Board positions

**Chair:** Antibodypedia AB, ScandiBio Therapeutics AB and ScandiEdge Therapeutics

**Vice Chair:** Affibody Medical AB

**Member:** Atlas Antibodies AB

### Special Competencies

Broad experience in research and biotechnology. His research interests cover antibody engineering, proteomics and precision medicine.

\*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



## Lene Bech Holskov\*

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

\*In accordance with Danish law, the Board of Directors includes three employee-elected members, who serve four-year terms.



## Anders Hentze Knudsen\*

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

\*In accordance with Danish law, the Board of Directors includes three employee-elected members, who serve four-year terms.



## Lars Bo Køppler\*

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

\*In accordance with Danish law, the Board of Directors includes three employee-elected members, who serve four-year terms.

# Executive Leadership Team

Our seven-member Executive Leadership Team comprises broad and international management experience, comprehensive biotechnology expertise and in-depth knowledge of Novozymes' business.



## Ester Baiget

Born 1971. President and CEO

### Education

Holds a chemical engineering degree and an MBA from the Rovira i Virgili University, Spain.

### Special competencies

Novozymes' CEO since 2020. Ester Baiget is an experienced international leader with a strong business and technical background.

With more than 25 years of international experience as a technical and commercial business leader, Ester has driven transformational change and enhanced profitability across a diverse range of businesses. Her leadership develops a culture of inclusion, engagement and of delivering strong financial results.



## Tina Sejersgård Fanø

Born 1969. Executive Vice President, Agriculture & Industrial Biosolutions

### Education

Holds an M.Sc. in Chemical Engineering from the Technical University of Denmark (DTU) and a diploma degree in Innovation, Strategy and Marketing in Food & Beverage industry from SIMI (CBS executive, Copenhagen, Denmark).

### Board positions

**Chair:** Danish Innovation Fund

**Member:** DLF Seeds & Science

### Special competencies

Tina Sejersgård Fanø is responsible for application research, technical service, sales and marketing in Agriculture & Industrial Biosolutions.

Tina has significant experience in developing and managing global partnerships and has been instrumental in negotiating several major business deals for Novozymes over the years. She has gained strong biotech insights spanning from R&D, marketing and sales.



## Claus Crone Fuglsang

Born 1968. CSO and Executive Vice President, Research & Development

### Education

Holds an M.Sc. in Biochemistry from the University of Copenhagen and an MBA from Heriot-Watt University, Edinburgh Business School, Scotland.

### Board positions

**Member:** Microbiogen Ltd. Australia, Biobased Industries Consortium, EuropaBio, Erhvervspræsidiet for TekTanken and the Danish governmental panel on Bio-economy

### Special competencies

Claus Crone Fuglsang is responsible for Enzyme and Microbe Research, Product & Process Development, Regulatory Affairs and Product Safety, Intellectual Property & Licensing and R&D Portfolio & Projects.

Claus has strong leadership experience within R&D functions along with driving and leading partnership innovation programs. He also has significant international research and business experience from working in the US for several years.



## Lars Green

Born 1967. CFO and Executive Vice President

### Education

Holds an M.Sc. in Business Administration from Aarhus University, Denmark.

### Board positions

**Member:** Board of trustees of the LEO Foundation and LEO Holding A/S

### Special competencies

Lars Green is responsible for the Finance, IT & legal functions.

Lars has in-depth knowledge of the Novo Group's business, international experience from managing global biotechnology and biopharma companies, and leverages his financial expertise to drive business value across the company.

# Executive Leadership Team



## Anders Lund

Born 1973. Executive Vice President, Consumer Biosolutions

### Education

Holds an M.Sc. in Economics from Aarhus University, Denmark.

### Special competencies

Anders Lund is responsible for application research, technical service, sales and marketing in Consumer Biosolutions.

Anders has a strong commercial and strategic background and has played a significant role in shaping and executing Novozymes' strategies over the last two decades. He also has extensive experience in building customer relationships in several of Novozymes' business areas.



## Graziela Chaluppe dos Santos Malucelli

Born 1973. COO and Executive Vice President, Operations, Supply & Quality

### Education

Holds an M.Sc. in Food Engineering from Pontifical Catholic University of Paraná, Brazil.

### Special competencies

Graziela Chaluppe dos Santos Malucelli is globally responsible for production, supply chain and quality.

Graziela has extensive experience from international leadership roles in Brazil, Denmark and China and has been heading up Supply Operations since 2016. She has been driving continuous productivity at all levels in the production and customer focus in supply operations.



## Thomas Videbæk

Born 1960. Executive Vice President, Strategy & Business Transformation and Executive Vice President, People, Sustainability & Brand.

### Education

Holds a Ph.D. and an M.Sc. in Chemical Engineering from the Technical University of Denmark (DTU), as well as a B.Com. in International Business from Copenhagen Business School.

### Board positions

**Member:** The Danish Chamber of Commerce

### Special competencies

Thomas Videbæk is responsible for our people agenda, sustainability leadership and brand, as well as business building, strategy and digital transformation.

Thomas has extensive leadership experience and knowledge spanning both the commercial and operational side of the business. He has been responsible for developing a broad range of key functions within the organization, with a keen interest in new business development.

*In April 2021, Amy Byrick and Morten Enggaard Rasmussen will join Novozymes as Executive Vice President of Strategy & Business Transformation and Executive Vice President of People, Sustainability & Brand respectively.*



# Summary of the Remuneration report

**In 2020, Novozymes launched a new remuneration policy for the Board of Directors and the Executive Management and established a new long-term incentive program for the management and all other employees. Novozymes delivered resilient performance in 2020 despite the COVID-19 pandemic, All Zymers have worked diligently to handle these difficult circumstances, which is also reflected in the payout ratio of the short-term cash-based incentive program for the Executive Management.**

In 2020, Novozymes adopted a new policy for the remuneration of Novozymes' Board of Directors and Executive Management. In designing the policy, we collected external benchmarks and sought independent advice from external experts on executive remuneration in Denmark and Europe and consulted a representative group of shareholders for input. We believe the new remuneration policy ensures alignment with the best practice expectations of investors, creates a strong link between performance and remuneration and provides clarity and simplicity of the remuneration arrangements.

## **General remuneration policy**

Novozymes' remuneration policy for managers and other employees is designed to both encourage strong individual performance and support Novozymes' overall value creation. Remuneration consists of a base salary, pension contributions, a cash bonus and stock-based incentive programs. These components are linked to employees' individual performance and to the level of achievement of Novozymes' financial, social and environmental targets. The remuneration policy aims to provide managers and other employees with a competitive financial package, which we review regularly against external benchmarks.



### New remuneration report

In 2020, we have prepared the Novozymes Remuneration Report 2020, which is disclosed as a **separate report**. The content of the report has been prepared so as to meet the requirements of section 139b of the Danish Companies Act and holds information and details on the remuneration of the Board of Directors and the Executive Management. The Novozymes Remuneration Report 2020 will be presented for an advisory vote at the Annual General Meeting to be held in 2021. The following is a summary of the Novozymes Remuneration Report 2020.

### Remuneration of the Board of Directors

The remuneration of the Board of Directors comprises a fixed fee and is not incentive-based. This ensures that the Board of Directors safeguards the company's long-term interests without taking into consideration what this may mean in terms of the value of incentive-based remuneration. The Board of Directors' fee is set at a market-conformant level that reflects the competencies and efforts required of the role, given the complexity of the Novozymes Group, the scope of the work, and the number of Board meetings held.

The fixed base fee was DKK 500,000 in 2020, the same as it has been since 2015. The Chair receives a fee that is three times the base fee and the Vice Chair a fee that is two times the base fee.

For committee work on the Audit Committee and the Nomination and Remuneration Committee, the committee chair and other committee members receive a further base fee and half a base fee respectively. However, the Chair and the Vice Chair of the Board do not receive such additional fee if appointed to the Nomination and Remuneration Committee.

In August 2020, the Board of Directors decided to establish an Innovation Committee. The Board of Directors determined that the Chair of the Innovation Committee would receive a further base fee (for 2020 pro rata adjusted to the relevant part of the year) and that members of the Innovation Committee would each receive half a base fee (similarly adjusted).

During 2019, Patricia Malarkey and Lars Green resigned from the Board, and at the Annual General Meeting held in February 2020, Agnete Raaschou-Nielsen, resigned from the Board

as well. Cees de Jong, Sharon James and Heine Dalsgaard were elected as new board members. Cees de Jong was appointed Vice Chair.

The number of board members was thereby reestablished at seven member elected at the Annual General Meeting which, together with the newly established Innovation Committee, resulted in an increase of the total fees paid to the Board of Directors from DKK 7.0 million in 2019 to DKK 8.2 million in 2020.

The individual board members' fees and their shareholdings can be found in the Novozymes Remuneration Report 2020.

### Remuneration of the Executive Management

As per 31 December 2020, the Executive Management of Novozymes A/S consisted of:

- Ester Baiget, President & Chief Executive Officer (CEO)
- Lars Green, Executive Vice President & Chief Financial Officer (CFO)
- Thomas Videbæk, Executive Vice President

Ester Baiget replaced Peder Holk Nielsen as CEO on February 1, 2020.

Thomas Videbæk will transition his roles as Executive Vice President of People, Sustainability & Brand and Strategy & Business Transformation during the second quarter of 2021, after which he will leave Novozymes. We are immensely grateful for Thomas' contributions to Novozymes during his many years with the company.

The total remuneration to members of Executive Management comprises:

- A base salary plus pension, company car and certain other benefits
- A short-term incentive program (cash bonus) - STIP
- A long-term incentive program (stock-based program) - LTIP

In 2020, the members of the Executive Management received a 2.3% increase in their base salary. The increase was only given to executives with an employment start date prior to January 1, 2020.

Ester Baiget and Lars Green will in addition to their ordinary remuneration receive compensation for lost incentives from their previous employers. The compensation is

### Overview of Committee members

	Audit Committee	Nomination and Remuneration Committee	Innovation Committee
<b>Chair</b>	Heine Dalsgaard	Jørgen Buhl Rasmussen	Sharon James
<b>Members</b>	Jørgen Buhl Rasmussen Cees de Jong	Cees de Jong Kasim Kutay Kim Stratton	Kim Stratton Mathias Uhlén

subject to certain conditions. Over the period 2020-2023, Ester Baiget may receive up to a total of DKK 9.6 million in extraordinary sign-on compensation for lost incentives from her previous employer, of which DKK 4.2 million was paid out in 2020. Over the period 2020-2023, Lars Green may receive up to a total of DKK 14.5 million in extraordinary sign-on compensation for lost incentives from his previous employer, of which DKK 0.7 million was paid out in 2020.

Thomas Videbæk will leave Novozymes during 2021. His severance package, totaling DKK 35 million, was fully expensed in 2020. The severance package consists of salary, pension and bonuses during the notice period (12 months) as well as termination compensation

(24 months) and compensation for not being part of a stock-based program in 2020 and 2021. Severance pay of DKK 9 million was paid out in 2020, while the remaining DKK 26 million will be paid out in 2021. Furthermore, the remaining value of awarded stock and stock options, DKK 2 million, has been expensed.

Peder Holk Nielsen left Novozymes on January 31, 2020. The severance payment of DKK 32 million was made in 2020.

In 2020, executives were eligible for a defined contribution pension scheme of 11% of their base salary. In 2019, the pension scheme was between 25% and 27.6% of the base salary and short-term cash-based incentive.

The targets for the short-term incentive program (STIP) are set by the Board of Directors in connection with the review of the business plan for the year. Good performance will result in target payout (65%) while maximum payout is only achieved for delivering an extraordinary performance. Maximum payout equals 9.5 months' salary.

In 2020 the targets for the STIP were split on the financial performance of the company at 60% weight (EBIT 45% weight and cash flow 15% weight) and targets for the individual executives at 40% weight.

In 2020 the financial performance of Novozymes resulted in the EBIT target being met, while the cash flow target was exceeded.

The payout related to these targets was 65% and 100%, respectively.

The level of achievement of individual performance targets and thus the size of remuneration payment to the individual executive is determined by the Board of Directors based on recommendations from the Nomination and Remuneration Committee.

Based on its assessment, the Board determined that the pay-out based on individual targets would be 90% for Ester Baiget, 80% for Lars Green and 67% for Thomas Videbæk.

The total payout ratio on the STIP 2020 is shown on the next page.

## Remuneration paid to individual members of the Executive Management

DKK million	Fixed			Variable			2020 Total Remuneration	Compensation for lost incentives	Severance Package	2019 Total Remuneration	Severance Package*
	Salary	Contribution based pension	Other benefits	Cash bonus (STIP)	Incentive programs (LTIP)						
Ester Baiget (from 1/2-2020)	6.9	0.8	0.2	4.4	7.1	19.4	4.2	-	-	-	
Lars Green	5.9	0.6	0.2	3.6	5.9	16.2	0.7	-	5.5	-	
Thomas Videbæk	6.8	0.7	0.2	3.9	-	11.6	-	35.2	13.4	-	
<b>Former executives</b>											
Peder Holk Nielsen (to 31/1-2020)	0.7	0.2	-	-	-	0.9	-	-	19.1	31.9	
Prisca Havranec-Kosicek (to 30/8-2019)	-	-	-	-	-	-	-	-	4.7	16.2	
	20.3	2.3	0.6	11.9	13.0	48.1	4.9	35.2	42.7	48.1	

The difference in the total remuneration to the Executive Management in the above table compared to note 6.1 – Management Remuneration is related to long-term incentives. The disclosure in note 6.1 is based on IFRS recognition principles where the long-term incentive programs are expensed over the year of grant and the subsequent years of vesting. The long-term incentive included in the above table is the cost of the 2020 program measured at market value at the grant date.

\* Peder Holk Nielsen and Prisca Havranec-Kosicek's severance packages were fully expensed in 2019. The severance packages consisted of salary, pension and bonuses during the notice period as well as termination compensation and compensation for not being part of the stock-based incentive program in 2020.



The targets for the long-term incentive program covering the period 2017-2019 were partly met, and 61% of the program was awarded in January 2020. As a result, 38,857 shares associated with the program were released to the Executive Management in January 2020.

Going forward, the Board of Directors will issue annual long-term incentive program (LTIP) grants with overlapping three-year performance periods. This allows the Board of Directors to re-assess targets for each annual grant cycle to ensure they are both sufficiently demanding and aligned with the strategy.

In 2020, the new LTIP for the Executive Management began covering the performance period 2020-2022. The LTIP consists of 50% shares and 50% share options. Relative to the previous long-term incentive program (2017-2019), the new LTIP reflects an increased weight on organic sales growth (weight of 40% of LTIP), a lower but still prominent weight on economic profit generation (weight of 40% of LTIP), and an explicit weight on sustainability (weight of 20% of LTIP). The targets are aligned

with the updated strategy and the measures of business success for the period 2020-2022.

The stock was allocated in March 2020 and will be released in the beginning of 2023 in accordance with the level of target achievement, while the stock option program is a three-year incentive program with annual allocations. In 2020, 135,280 stock options were granted to the Executive Management. The allocations for 2020-2023 will be adjusted in the beginning of 2023 in relation to the level of target achievement.

The annual LTIP cannot exceed 19 months' base salary. Further, the program includes a maximum-value clause allowing the Board of Directors to choose to limit the total allocation of stock options and stock if the intrinsic value exceeds twice the annual conditional grant.

The members of the Executive Management have contracts of employment containing standard conditions for executive officers of Danish listed companies, including the periods of notice that both parties are required to give

and noncompetition clauses. If an executive officer's contract of employment is terminated by the company without any misconduct on the part of the executive officer, the executive officer has a notice period of 12 months. In addition to the notice period, the executive officer has a right to termination compensation of 12 months' base salary and pension contributions. However, as Thomas Videbæk was appointed before 2016 he was entitled to termination compensation of two years' base salary and pension contributions.

#### Remuneration of senior leadership

The remuneration of Novozymes' senior leadership (195 vice presidents and directors) is consistent with the general remuneration policy. Incentive programs for vice presidents and directors have been established for the 2020-2022 period. The programs follow the same mechanisms as the program for the Executive Management. Further information on the incentive programs for these employee groups can be found in Note 6.2 to the consolidated financial statements, which also includes an overview of outstanding stock options.

#### Short-term incentive program – Target achievement

Weight	Target	% / (index)	Ester Baiget	Lars Green	Thomas Videbæk
45%	EBIT	% of maximum / (index compared to target performance)	65 (100)	65 (100)	65 (100)
15%	Cash flow		100 (154)	100 (154)	100 (154)
40%	Individual targets		90 (138)	80 (123)	67 (103)
		Total, % of max	80% (123)	76% (117)	71% (109)
		Total, DKK million	<b>4.4</b>	<b>3.6</b>	<b>3.9</b>

# The Novozymes stock

**The total shareholder return in 2020 was 9% with the share price increasing 7% and DKK 1.5 billion being paid out as dividends. Novozymes repurchased shares worth DKK 1.5 billion thereby completing the 2020 stock buyback program. A dividend of DKK 5.25 per share has been proposed and a new stock buyback program of up to DKK 1.5 billion has will be initiated for 2021.**

## Stock performance

The Novozymes total market cap reached DKK 99.6 billion at the end of 2020 after the share price (NZYM B) increased by 7% from the closing price of DKK 326 at the end of 2019 to DKK 349.5 at the end of 2020.

The total shareholder return was 9% including the share price appreciation and dividend payments made during the year. Over the past five years, the stock has generated an average annual return (compounded) to shareholders of 6%.

The average daily trading volume of the stock was 557,617 shares or DKK 198 million, making it the 13th most actively traded company on Nasdaq Copenhagen, down one spot from 12th place in 2019.

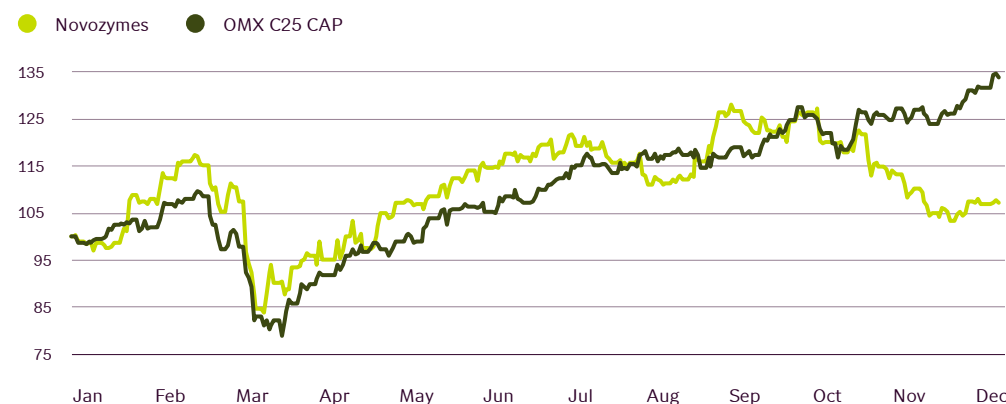
## Share and ownership structure

Novozymes' common stock consists of 285,000,000 shares divided into 53,743,600 A shares and 231,256,400 B shares. The A shares carry 20 votes each and B shares carry 2 votes each. Both A and B shares have a nominal value of DKK 2 per share.

At the end of 2020, Novozymes had more than 54,000 shareholders. Roughly 75% of the B shares were held outside Denmark mainly by institutional investors. Fifty institutional investors, including Novo Holdings A/S, held approximately 60% of the B shares. Novo Holdings A/S held 25.5% of the total common stock in Novozymes and controlled 72.4% of the votes. Novo Holdings A/S is wholly owned by the Novo Nordisk Foundation, an independent Danish foundation whose objectives are to provide a stable base for the companies within the Novo Group and to support scientific and humanitarian purposes.

	A stock	B stock	Total
Share capital (DKK)	107,487,200	462,512,800	570,000,000
Number of shares	53,743,600	231,256,400	285,000,000
Held by Novo Holdings A/S (%)	100.0%	8.2%	25.5%
Number of votes	1,074,872,000	426,512,800	1,537,384,800
Voting rights (%)	69.9%	30.1%	100.0%
Held by Novo Holdings A/S (%)	69.9%	2.5%	72.4%

## Share price development 2020



### Stock buyback programs

Novozymes repurchased 4,278,090 shares from February 10 to August 21, as part of the DKK 1.5 billion stock buyback program for 2020. The repurchased shares were added to the treasury stock. Novozymes held 5,674,598 treasury shares, or 2.0% of the total stock capital, at the end of 2020.

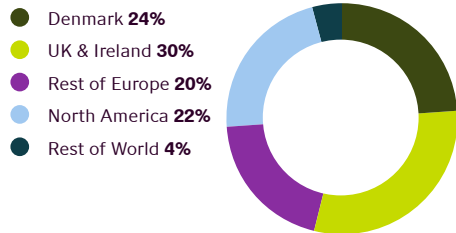
A new stock buyback program worth up to a total of DKK 1.5 billion or a maximum of 15 million shares will be initiated in 2021.

### Dividends

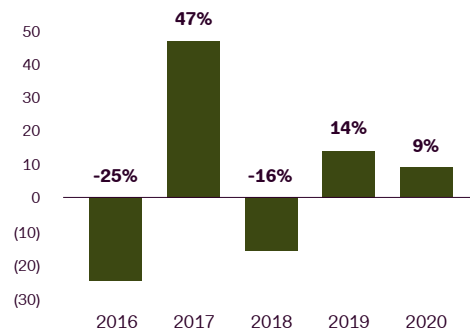
The Board of Directors proposes that the Annual Shareholders' Meeting approve a dividend of DKK 5.25 per share for a total payout of DKK 1,466 million for the 2020 financial year. The proposed dividend corresponds to a payout ratio of 51.9% which would be an increase from 46.8% in 2019. The proposal is in line with the previously stated plan to increase the payout ratio to ~50%.

If approved, the 2020 dividend will be disbursed on March 16, 2021, with March 11, 2021, as the last trading day cum dividend for 2020.

### Ownership by geography (B shares)

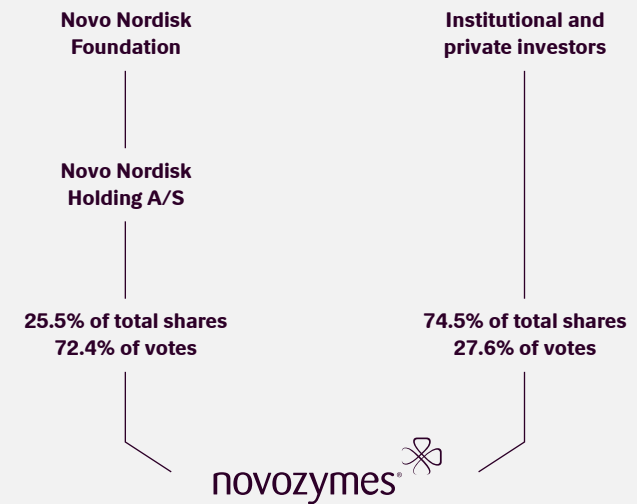


### Total shareholder return including for dividends %



## Ownership structure

The Novo Nordisk Foundation is an independent Danish foundation with corporate interests. The objective of the Novo Nordisk Foundation is twofold: to provide a stable base for the commercial and research activities conducted by the companies within the Novo Group and to support scientific and humanitarian purposes.



### Investor Relations

Novozymes' 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 [Investors.novozymes.com](https://investors.novozymes.com).

04

# Accounts and performance



# Sales and earnings

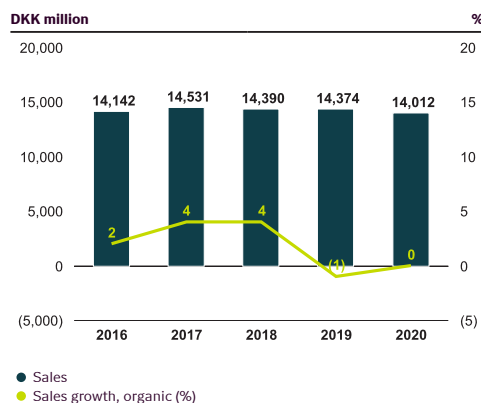
## Sales

Total sales in 2020 were DKK 14,012 million, flat organically and a decline of 3% in DKK compared with 2019.

## “Resilient 2020 performance despite the COVID-19 pandemic.”

The overall effect from COVID-19 on Novozymes’ sales performance was negative, however, with a dampened effect as a result of diversified end-market exposure. Solutions for Household Care benefitted from an increased demand for cleaning solutions, whereas solutions for Bioenergy and Textile production declined due to the COVID-19 pandemic induced drop in gasoline consumption, especially in the US, and lower demand and production of textiles.

### Sales and sales growth



## Gross profit and margin

Gross profit decreased by 1% to DKK 7,853 million from DKK 7,954 million in 2019, driven by lower sales. The gross margin was 56.0%, up from 55.3% in 2019. The increase was mainly due to lower input costs, improved production efficiency and a one-off settlement related to the former BioAg setup that was partly offset by adverse currency developments.

## Operating costs

Operating costs decreased by 4% to DKK 4,257 million. Operating costs as a percentage of sales were 30%.

- Sales and distribution costs decreased by 3%, accounting for 11.3% of sales
- Research and development costs decreased by 1%, accounting for 13.8% of sales
- Administrative costs decreased by 12%, accounting for 5.3% of sales

Operating costs were negatively impacted by reorganization costs, acquisition-related transaction costs and an impairment loss, and positively impacted by savings on employee and travel costs.

## Other operating income

Other operating income was DKK 56 million, compared with DKK 520 million in 2019. Other operating income in 2020 was positively impacted by DKK 42 million from the contingent income related to the divestment of the pharma-related royalty. 2019 was impacted by the termination of The BioAg Alliance and the divestment of the pharma-related royalty.

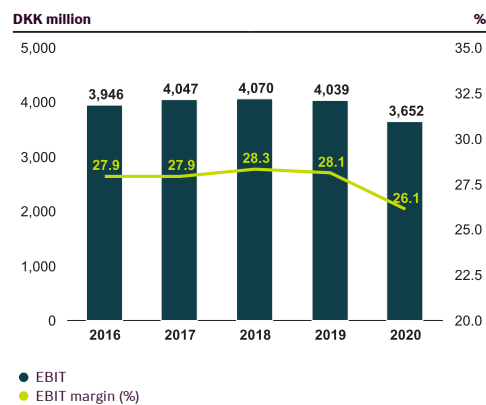
## EBITDA

EBITDA decreased by 7% to DKK 4,918 million, down from DKK 5,292 million in 2019. Depreciation, amortization and impairment losses were DKK 1,266 million in 2020, up 1% from DKK 1,253 million in 2019.

## EBIT and EBIT margin

EBIT decreased by 10% to DKK 3,652 million, down from DKK 4,039 million in 2019. The EBIT margin ended at 26.1%, down from 28.1% in 2019. Excluding the one-off settlement related to the former BioAg setup, reorganization costs, acquisition-related transaction costs and an impairment loss, the underlying EBIT margin was ~27% in 2020, which was ~1 percentage point higher than the underlying EBIT margin of ~26% in 2019.

### EBIT and EBIT margin



## Net finance

Net financial costs were DKK 127 million in 2020, compared with DKK 235 million in 2019. In 2020, Novozymes realized a DKK 35 million currency hedging/revaluation net loss, compared with a net loss of DKK 205 million in 2019.

## Tax

The effective tax rate was 19.7%, up from 17.0% in 2019. In 2019, Novozymes had a positive impact from reduced uncertain tax positions related to bilateral advance pricing agreements.

## Earnings per share (diluted)

Earnings per share (diluted) were DKK 10.02, compared with DKK 11.01 in 2019.

# Consolidated statements of income

## Income statement

DKK million	Note	2020	2019
Revenue	2.1, 2.2	14,012	14,374
Cost of goods sold	2.3, 3.1, 3.2, 4.1	(6,159)	(6,420)
<b>Gross profit</b>		<b>7,853</b>	<b>7,954</b>
Sales and distribution costs	2.3, 3.1, 3.2	(1,581)	(1,631)
Research and development costs	2.3, 2.4, 3.1, 3.2	(1,937)	(1,966)
Administrative costs	2.3, 3.1, 3.2	(739)	(838)
Other operating income, net	2.5	56	520
<b>Operating profit / EBIT</b>		<b>3,652</b>	<b>4,039</b>
Share of result in associates		(4)	(5)
Financial income	5.2	26	112
Financial costs	5.2	(153)	(347)
<b>Profit before tax</b>		<b>3,521</b>	<b>3,799</b>
Tax	2.6	(695)	(644)
<b>Net profit</b>		<b>2,826</b>	<b>3,155</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		2,825	3,154
Non-controlling interests		1	1
		2,826	3,155
Proposed dividend per share		DKK 5.25	DKK 5.25
Earnings per share	2.7	DKK 10.07	DKK 11.06
Earnings per share, diluted	2.7	DKK 10.02	DKK 11.01

## Statement of comprehensive income

DKK million	Note	2020	2019
<b>Net profit</b>		<b>2,826</b>	<b>3,155</b>
Items that may subsequently be reclassified to the income statement:			
<b>Currency translation adjustments</b>			
Subsidiaries and non-controlling interests		(786)	143
Tax on currency translation adjustments		1	(1)
<b>Currency translation adjustments</b>		<b>(785)</b>	<b>142</b>
<b>Cash flow hedges</b>			
Fair value adjustments		154	(107)
Tax on fair value adjustments		(34)	24
Cash flow hedges reclassified to financial costs	5.2	(15)	164
Tax on reclassified fair value adjustments		3	(36)
<b>Cash flow hedges</b>		<b>108</b>	<b>45</b>
<b>Other comprehensive income</b>		<b>(677)</b>	<b>187</b>
<b>Comprehensive income</b>		<b>2,149</b>	<b>3,342</b>
<b>Attributable to</b>			
Shareholders in Novozymes A/S		2,149	3,342
Non-controlling interests		-	-
		2,149	3,342

# Cash flow

## Cash flow from operating activities

The cash flow from operating activities was DKK 4,355 million, up from DKK 3,196 million in 2019, an increase of DKK 1,159 million. The improvement in operating cash flow was mainly due to higher cash conversion from better earnings quality, a settlement related to the former BioAg setup and positive changes and timing effects in working capital. The change in net working capital was caused by lower receivables and lower inventories, partly offset by lower other liabilities.

## Net investments

Net investments excluding acquisitions were DKK 936 million, down from DKK 991 million in 2019. Net investments in property, plant and equipment amounted to DKK 790 million, compared with DKK 856 million in 2019.

## Free cash flow

The free cash flow was DKK 2,831 million in 2020, compared with DKK 2,635 million in 2019. Free cash flow was negatively impacted by the acquisition of PrecisionBiotics Group.

## Cash position

Cash and cash equivalents at December 31, 2020, amounted to DKK 1,181 million, up from DKK 711 million at December 31, 2019. Undrawn committed credit facilities were DKK 5,344 million at December 31, 2020.

## Free cash flow before acquisitions and divestments

The free cash flow before acquisitions and divestments amounted to DKK 3,419 million, compared with DKK 2,205 million in 2019. The increase of 55% was mainly due to higher cash flows from operating activities.

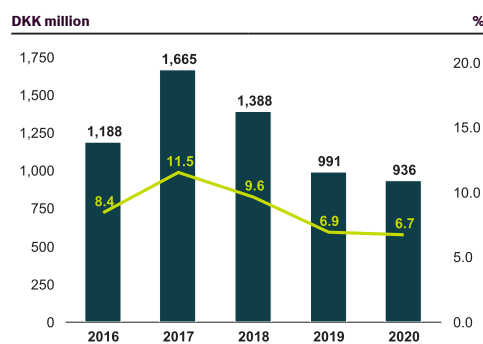
## Financing activities

The cash flow from financing activities was negative at DKK 2,314 million, compared with a negative cash flow of DKK 2,644 million in 2019. The negative cash flow from financing activities was mainly due to the 2020 stock buyback program (DKK 1,500 million) and dividend payments (DKK 1,483 million).

### Cash flow from operating activities

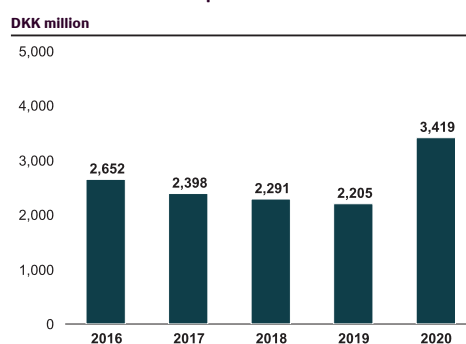


### Net investments



- Net investments
- Net investments (% of sales)

### Free cash flow before acquisitions



# Consolidated statement of cash flows

DKK million	Note	2020	2019	DKK million	Note	2020	2019
<b>Net profit</b>		<b>2,826</b>	<b>3,155</b>	<b>Financing</b>			
Reversal of non-cash items	6.6	2,220	1,321	Borrowings		999	1,915
Income tax paid	2.6	(951)	(1,116)	Repayment of borrowings		(434)	(1,028)
Interest received		10	64	Overdraft facilities, net		(293)	(59)
Interest paid		(62)	(88)	Repayment of lease liabilities		(111)	(108)
<b>Cash flow before change in working capital</b>		<b>4,043</b>	<b>3,336</b>	Shareholders:			
<b>Change in working capital</b>				Purchase of treasury stock		(1,500)	(2,000)
(Increase)/decrease in receivables		395	(238)	Sale of treasury stock		508	75
(Increase)/decrease in inventories		181	218	Dividend paid		(1,483)	(1,439)
Increase/(decrease) in payables, deferred income and contract liabilities		(265)	(124)	<b>Cash flow from financing activities</b>		<b>(2,314)</b>	<b>(2,644)</b>
Currency translation adjustments		1	4	<b>Net cash flow</b>		<b>517</b>	<b>(9)</b>
<b>Cash flow from operating activities</b>		<b>4,355</b>	<b>3,196</b>	Unrealized gain/(loss) on currencies and financial assets included in cash and cash equivalents		(47)	(3)
<b>Investments</b>				<b>Net change in cash and cash equivalents</b>		<b>470</b>	<b>(12)</b>
Purchase of intangible assets	6.6	(146)	(135)	Cash and cash equivalents at January 1		711	723
Purchase of property, plant and equipment	6.6	(794)	(862)	<b>Cash and cash equivalents at December 31</b>		<b>1,181</b>	<b>711</b>
Sale of property, plant and equipment		4	6				
Business acquisitions, divestments and purchase of financial assets	6.6	(588)	430				
<b>Cash flow from investing activities</b>		<b>(1,524)</b>	<b>(561)</b>				
<b>Free cash flow</b>		<b>2,831</b>	<b>2,635</b>				



# Balance sheet and financial position

## Total assets

Total assets increased from DKK 20,437 million at December 31, 2019, to DKK 20,510 million at December 31, 2020. The increase was mainly driven by net investments and the acquisition of PrecisionBiotics Group, partly offset by depreciations and amortizations, changes in currency and a decrease in net working capital.

## Invested capital

Invested capital decreased from DKK 15,507 million in 2019 to DKK 15,094 million in 2020. This was mainly a result of a decrease in net working capital.

## ROIC

Return on invested capital (ROIC), including goodwill, was 18.9%, down 2.2 percentage points from 21.1% in 2019. The decrease was mainly driven by lower net profit and higher average invested capital.

## Net working capital

Novozymes' net working capital decreased to DKK 2,901 million, down from DKK 3,478 million in 2019, due to lower trade receivables, lower inventories, partly offset by lower other payables.

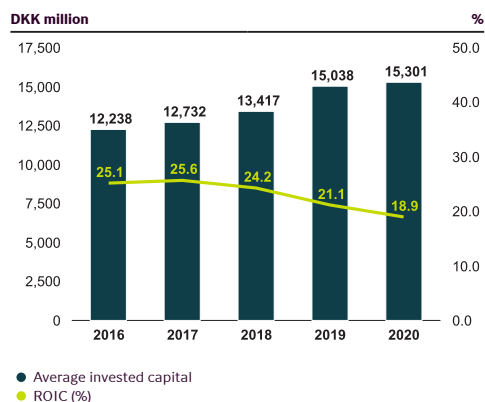
## Net interest-bearing debt

Novozymes had net interest-bearing debt of DKK 3,871 million at December 31, 2020, compared with DKK 4,049 million at December 31, 2019. Net interest-bearing debt was impacted by cash outflows from dividend payments of DKK 1,483 million, stock buybacks of DKK 1,500 million and the acquisition of PrecisionBiotics Group, which was more than offset by cash inflows from operating activities.

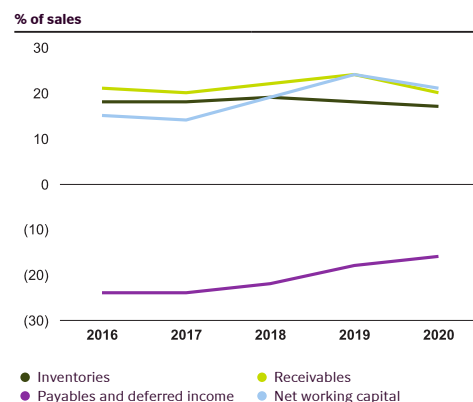
## Net interest-bearing debt-to-EBITDA

Net interest-bearing debt-to-EBITDA was 0.8x at December 31, 2020, on par with December 31, 2019.

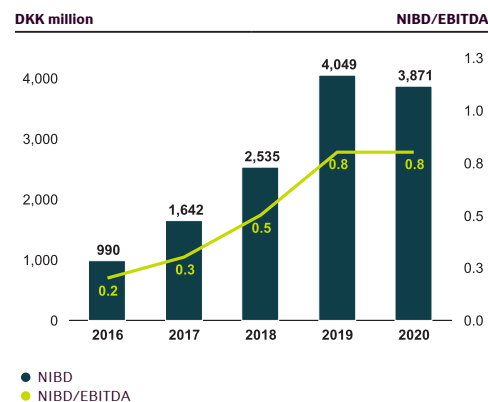
ROIC and average invested capital



Net working capital



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



# Consolidated balance sheet

## Assets

DKK million	Note	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	3.1	2,554	1,926
Land and buildings	3.2	3,853	4,056
Plant and machinery	3.2	4,136	4,501
Other equipment	3.2	941	993
Assets under construction and prepayments	3.2	682	662
Deferred tax assets	2.6	1,339	1,161
Other financial assets		21	22
Investments in associates		33	37
Other receivables	4.3	40	29
<b>Non-current assets</b>		<b>13,599</b>	<b>13,387</b>
Inventories	4.1	2,361	2,613
Trade receivables	4.2	2,549	2,864
Contract assets	4.2	6	243
Tax receivables	2.6	460	273
Other receivables	4.3	212	269
Other financial assets		119	15
Cash and cash equivalents		1,181	711
		<b>6,888</b>	<b>6,988</b>
Assets held for sale	4.5	23	62
<b>Current assets</b>		<b>6,911</b>	<b>7,050</b>
<b>Assets</b>		<b>20,510</b>	<b>20,437</b>

## Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2020	Dec. 31, 2019
Common stock	5.5	570	582
Currency translation adjustments		(727)	57
Cash flow hedges		127	19
Retained earnings		11,263	10,810
<b>Equity attributable to shareholders in Novozymes A/S</b>		<b>11,233</b>	<b>11,468</b>
Non-controlling interests		11	12
<b>Shareholders' equity</b>		<b>11,244</b>	<b>11,480</b>
Deferred tax liabilities	2.6	1,204	879
Provisions	3.4	115	115
Contingent consideration	3.5	146	-
Lease liabilities		386	453
Other financial liabilities	5.3	3,254	2,775
<b>Non-current liabilities</b>		<b>5,105</b>	<b>4,222</b>
Lease liabilities		136	163
Provisions	3.4	90	128
Other financial liabilities	5.3	1,309	1,411
Trade payables		1,100	1,117
Contract liabilities		67	74
Tax payables	2.6	336	431
Other liabilities	4.4	1,123	1,411
<b>Current liabilities</b>		<b>4,161</b>	<b>4,735</b>
<b>Liabilities</b>		<b>9,266</b>	<b>8,957</b>
<b>Liabilities and shareholders' equity</b>		<b>20,510</b>	<b>20,437</b>

# Equity and shareholder return

## Shareholders' equity

At December 31, 2020, shareholders' equity was DKK 11,244 million, down from DKK 11,480 million at December 31, 2019, as dividend payments and net stock buybacks more than offset comprehensive income in 2020.

## Equity ratio

Shareholders' equity accounted for 55% of the balance sheet total at December 31, 2020, down from 56% at December 31, 2019.

## Return on equity

Return on equity was 24.9%, down 2.6 percentage points from 27.5% in 2019. The decrease was a result of lower net profit.

## Treasury stock

At December 31, 2020, the holding of treasury stock was 5.7 million B shares, equivalent to 2.0% of the common stock.

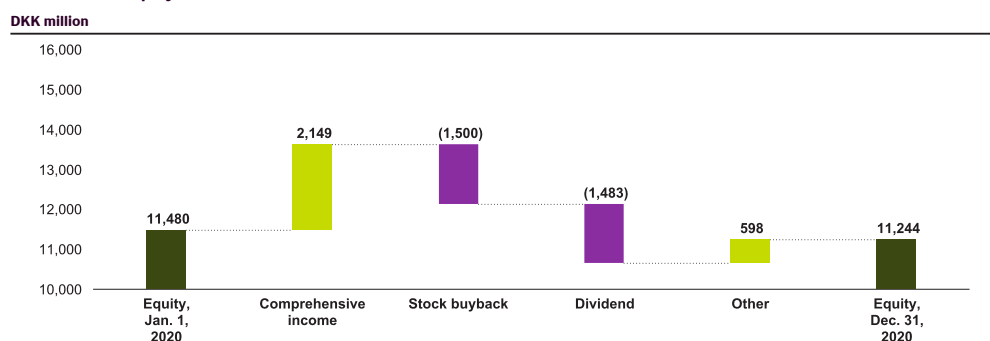
## Dividend

The Board of Directors proposes that the Annual Shareholders' Meeting approve a dividend of DKK 5.25 per share for the 2020 financial year, same as in 2019. This will result in an expected total dividend payment of approximately DKK 1,466 million, corresponding to a payout ratio of 51.9%.

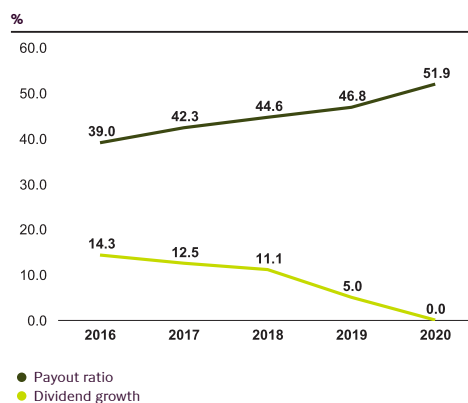
## Stock buyback program

In 2020, Novozymes bought back 4.3 million B shares at an aggregate transaction value of DKK 1,500 million under the stock buyback program initiated on February 10, 2020, and completed on August 24, 2020. The shares acquired under the program will be used to reduce the common stock and to meet obligations arising from employee stock-based incentive programs.

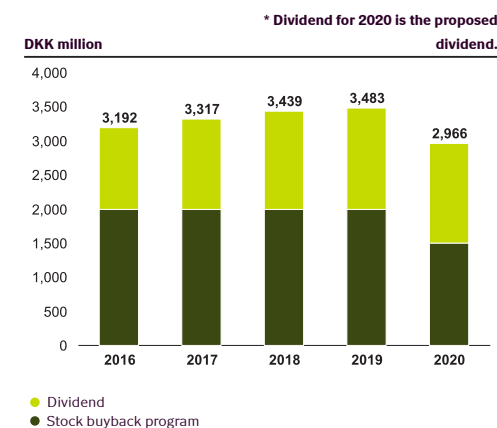
### Movements in equity 2020



### Payout ratio and dividend growth



### Shareholder return



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

# Consolidated statement of shareholders' equity

DKK million	Attributable to shareholders in Novozymes A/S					Non-controlling interests	Total equity
	Common stock	Currency translation adjustments	Cash flow hedges	Retained earnings	Total		
<b>Shareholders' equity at January 1, 2020</b>	<b>582</b>	<b>57</b>	<b>19</b>	<b>10,810</b>	<b>11,468</b>	<b>12</b>	<b>11,480</b>
Net profit for the year				2,825	2,825	1	2,826
Other comprehensive income for the year		(784)	108		(676)	(1)	(677)
<b>Total comprehensive income for the year</b>		<b>(784)</b>	<b>108</b>	<b>2,825</b>	<b>2,149</b>	<b>-</b>	<b>2,149</b>
Purchase of treasury stock				(1,500)	(1,500)		(1,500)
Sale of treasury stock				508	508		508
Write-down of common stock	(12)			12	-		-
Dividend				(1,482)	(1,482)	(1)	(1,483)
Stock-based payment				53	53		53
Tax related to equity items				37	37		37
<b>Changes in shareholders' equity</b>	<b>(12)</b>	<b>(784)</b>	<b>108</b>	<b>453</b>	<b>(235)</b>	<b>(1)</b>	<b>(236)</b>
<b>Shareholders' equity at December 31, 2020</b>	<b>570</b>	<b>(727)</b>	<b>127</b>	<b>11,263</b>	<b>11,233</b>	<b>11</b>	<b>11,244</b>
<b>Shareholders' equity at January 1, 2019</b>	<b>594</b>	<b>(86)</b>	<b>(26)</b>	<b>10,943</b>	<b>11,425</b>	<b>13</b>	<b>11,438</b>
Net profit for the year				3,154	3,154	1	3,155
Other comprehensive income for the year		143	45		188	(1)	187
<b>Total comprehensive income for the year</b>		<b>143</b>	<b>45</b>	<b>3,154</b>	<b>3,342</b>	<b>-</b>	<b>3,342</b>
Purchase of treasury stock				(2,000)	(2,000)		(2,000)
Sale of treasury stock				75	75		75
Write-down of common stock	(12)			12	-		-
Dividend				(1,438)	(1,438)	(1)	(1,439)
Stock-based payment				45	45		45
Tax related to equity items				19	19		19
<b>Changes in shareholders' equity</b>	<b>(12)</b>	<b>143</b>	<b>45</b>	<b>(133)</b>	<b>43</b>	<b>(1)</b>	<b>42</b>
<b>Shareholders' equity at December 31, 2019</b>	<b>582</b>	<b>57</b>	<b>19</b>	<b>10,810</b>	<b>11,468</b>	<b>12</b>	<b>11,480</b>

The proposed dividend of approximately DKK 1,466 million for 2020 is included in Retained earnings.

# Environmental performance

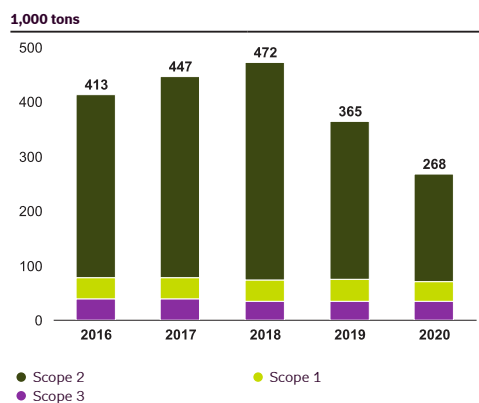
## Operational efficiency

Novozymes strives to decouple environmental impact from business growth, and we define targets and metrics that measure and drive our sustainability performance.

## Climate change

Novozymes' total CO<sub>2</sub> emissions were 268,000 tons in 2020, a decrease from 365,000 tons in 2019.

### Five-year operational emissions (CO<sub>2</sub>-eqv.)

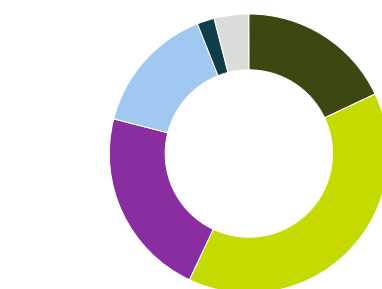


## Energy

In 2020, Novozymes' energy consumption was 4,475,000 GJ, a decrease of 2% compared with 2019.

Renewable sources accounted for 43% of the energy consumption in 2020, up from 30% in 2019. The main contributor is renewable electricity which has gone up from 49% in 2019 to 69% in 2020, as our production site in Franklinton, USA have started procuring renewable electricity in 2020. In addition, all electricity in Denmark, Brazil and Tianjin, China come from renewable sources e.g. offshore windfarms and hydropower.

### Energy by source 2020 (2019)



- Electricity - conventional **18%** (29%)
- Electricity - renewable **39%** (29%)
- Steam **22%** (21%)
- Fuels - conventional **15%** (15%)
- Heat - conventional **2%** (4%)
- Fuel and heat - renewable **4%** (2%)

## Water

In 2020, Novozymes' water consumption increased by 2% from 7,845,000 m<sup>3</sup> in 2019 to 7,998,000 m<sup>3</sup>. The increase is partly driven by extra cleaning at all sites due to product mix changes and a higher cleaning requirement related to food safety.

The total volume of wastewater generated in 2020 increased by 5%.

## Waste

In 2020, 97% of our biomass volume was handled in a circular set-up (recycled), on par with 2019.

For solid waste, the rate of recycling across our global production sites decreased to 48%, compared with 52% in 2019.

## Environmental compliance

The number of breaches of regulatory limits recorded worldwide increased to 20 in 2020 from 17 in 2019. Most of these breaches were related to wastewater treatment. Novozymes is addressing these incidents. In addition, we received ten neighbor complaints in 2020, compared with seven in 2019, mostly related to air pollution and waste management.

# Consolidated environmental data

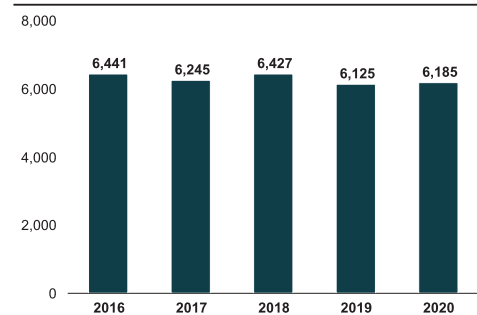
	Note		2020	2019
<b>Climate change</b>				
Greenhouse gas emissions	7.1	1,000 tons CO <sub>2</sub> -eqv.	268	365
<b>Energy</b>				
Energy consumption	7.2	1,000 GJ	4,475	4,574
Renewable energy	7.2	%	43	30
<b>Water</b>				
Water consumption	7.3	1,000 m <sup>3</sup>	7,998	7,845
Volume of wastewater	7.3	1,000 m <sup>3</sup>	6,471	6,147
<b>Waste</b>				
Solid waste	7.4	1,000 tons	15	13
Recycling rate for solid and hazardous waste	7.4	%	48	52
Biomass volume	7.4	1,000 tons	465	513
Biomass handled in circular set-up (recycled)	7.4	%	97	97
<b>Environmental compliance, etc.</b>				
Breaches of regulatory limits	7.5	No.	20	17
Neighbor complaints	7.5	No.	10	7
<b>References to notes without data</b>				
Bioethics & biodiversity	7.6		n.a.	n.a.
Product stewardship	7.7		n.a.	n.a.

# Social and governance performance

## Labor practices & human rights

At December 31, 2020, the total number of employees were 6,185, compared with 6,125 in 2019.

Number of employees



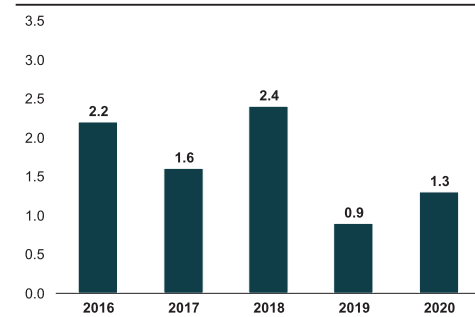
In 2020, the employee absence rate was 1.9% on par with 2019.

Novozymes promotes equal opportunities and strengthens diversity in the global workplace. At December 31, 2020, 33% of senior management (directors and higher) were women, up from 31% in 2019.

## Occupational health & safety

The frequency of occupational injuries increased to 1.3 per million working hours in 2020, compared with 0.9 per million working hours in 2019. The three-year rolling average is within the 2022 target of a frequency of 1.5 per million working or less.

Frequency of accidents (per million working hours)



## Innovation

Novozymes is committed to delivering bioinnovation and launched 12 new products in 2020.

In 2020, Novozymes had 963 active patent families, which comprise the number of inventions that have active patent applications or active patents. The number of active patent families has increased from 951 in 2019.

## Business ethics

In 2020, Novozymes reinforced our commitment to business integrity. During the year 99% of Novozymes' employees in scope completed business integrity training, on par with 2019.

As in 2019, there were no breaches of competition law in 2020.

## Community engagement

In 2020, Novozymes contributed to local communities responding to local challenges. In China, for example, we donated RMB 1 million to Red Cross to build hospitals and in Latin America we provided 100 PCs with internet access to unprivileged students.

## Customer engagement

Novozymes conducts an annual customer satisfaction survey and tracks progress on its Net Promoter Score (NPS), which is assessed on a scale from -100 to +100. In 2020, we received an NPS of +50, which confirms our solid relationships with our customers. The COVID-19 pandemic does not seem to have affected customers perceptions of Novozymes in 2020 compared to previous years.

# Consolidated social and governance data

	Note		2020	2019
<b>Labor practices &amp; human rights</b>				
Employees, total	2.3	No.	6,185	6,125
Women	2.3	%	37.8	37.6
Rate of absence	8.1	%	1.9	1.9
Women in senior management	8.1	%	33	31
<b>Occupational health &amp; safety</b>				
Fatalities		No.	-	-
Frequency of occupational injuries with absence	8.2	Per million working hours	1.3	0.9
Frequency of occupational diseases	8.2	Per million working hours	0.4	0.1
Three-year rolling average of occupational injuries with absence	8.2	Per million working hours	1.5	1.7
<b>Innovation</b>				
New products	2.4	No.	12	9
Active patent families	2.4	No.	963	951
<b>Business ethics</b>				
Completion of business integrity training for employees in scope	8.3	%	99	99
Breaches of competition law	8.3	No.	-	-
<b>Customer engagement</b>				
Customer satisfaction, Net Promoter Score (NPS)	8.4	No.	50	54
<b>Reference to notes without data</b>				
Community engagement	8.5		n.a.	n.a.
Responsible sourcing	8.6		n.a.	n.a.



## 1

### **Basis of reporting**

- 1.1 Significant changes and events
- 1.2 Basis of reporting

## 2

### **Net operating profit after tax**

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

## 3

### **Invested capital**

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

## 4

### **Net working capital**

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

## 5

### **Capital structure and financing**

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

## 6

### **Other financial notes**

- 6.1 Management remuneration
- 6.2 Stock-based payment
- 6.3 Commitments and contingencies
- 6.4 Related party transactions

- 6.5 Fees to statutory auditors

- 6.6 Cash flow

- 6.7 Events after the reporting date

- 6.8 Group companies

## 7

### **Environmental data**

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

## 8

### **Social and governance data**

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

## Basis of reporting

# 1.1 Significant changes and events



### Building the Novozymes OneHealth brand

On June 25, 2020, Novozymes acquired PrecisionBiotics Group Limited to advance Novozymes' activities in the area of biological solutions for oral and gut health. PrecisionBiotics Group holds a leading position within probiotics for human gut health and is well positioned with several clinically-backed products already on the market.

On January 7, 2021, Novozymes acquired Microbiome Labs adding a broad range of proprietary microbiome solutions to its human health activities and securing an attractive entry point into the North American probiotics market.

Both acquisitions are related to human health and are key steps in building the OneHealth brand, which also comprises the 2016 acquisition of Organobalance GmbH along with research and development activities based on Novozymes' existing technology.

Reference is made to Note 3.5 for a description of the two acquisitions and their impact on the consolidated financial statements.



### New organization

On February 1, 2020, Ester Baiget was appointed new President and CEO of Novozymes.

On September 1, 2020, Novozymes announced a new organizational structure directing the organization to a more value-chain focused and customer-centric approach to support and deliver on our Better business with biology strategy. This new structure allows for a stronger differentiation between sustainable solutions with clear consumer benefits, and sustainable solutions focusing on maximizing yields and optimizing processes for our customers.

As a part of the new organizational structure, changes were made to the Executive Leadership Team; see Note 6.1. The sales reporting has been updated to reflect the new organization; see Note 2.2.



### COVID-19 pandemic

Novozymes delivered a resilient 2020 performance despite the COVID-19 pandemic. See the section on sales and earnings for more details on COVID-19 impacts on 2020 sales.

Novozymes has only made use of unavoidable financial governmental relief packages, resulting in an negligible impact. All major postponed tax payments etc. were settled before the end of the year. The COVID-19 pandemic was not a triggering event for impairments in 2020.

The COVID-19 pandemic was a challenge for occupational health and safety in 2020. Task force teams were in place, focused on keeping employees safe and labs and production running; see Note 8.2 for more details.

Throughout the year, Novozymes maintained close communications with customers on measures taken within the organization to prevent impact on production and delivery. Novozymes also focused on exercising its responsibility as a corporate citizen to support authorities in mitigating the effects of the pandemic. Reference is made to Note 8.4 and Note 8.5.

# 1.2 Basis of reporting

This section provides an overview of Novozymes' principal accounting policies, the critical accounting estimates and judgments applied, a definition of materiality as well as the impact of new or amended IFRS standards and interpretations.

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

The accounting policies described below apply to the consolidated financial statements as a whole. Accounting policies and critical accounting estimates and judgments are described in the notes to which they relate to enhance understanding. The descriptions of accounting policies in the notes form part of the overall description of accounting policies.

### 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.

Consolidation of the environmental, social and governance data follows the same principles as the financial reporting.

#### Translation of foreign currencies

The consolidated financial statements are presented in Danish kroner (DKK).

Exchange rate differences arising between the exchange rate at the transaction date and the reporting date are recognized as Financial income or Financial costs.

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 DKK at the exchange rates prevailing at the reporting date for assets and liabilities, and at average exchange rates for income statement items.

The following exchange rate differences, arising from translation using the exchange rate prevailing at the reporting date, are recognized in Other comprehensive income:

- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates

#### Non-IFRS financial measures

Novozymes uses certain financial measures that are not defined in IFRS to describe the Group's financial performance, financial position and cash flows. These financial measures may therefore be defined and calculated differently from similar measures in other companies, and may thus not be comparable.

The non-IFRS financial measures presented in the annual report are:

- Organic sales growth
- Operating costs
- Economic profit
- ROIC
- Free cash flow before acquisitions

Definitions of non-IFRS financial measures are provided in the Glossary.

#### iXBRL reporting

From 2020, Novozymes is required to file the annual report in the new European Single Electronic Format ('ESEF') and the Annual report in 2020 is therefore prepared in the XHTML format that can be displayed in a standard browser. The primary statements in the consolidated financial statements are tagged using inline eXtensible Business Reporting Language (iXBRL). The iXBRL tags comply with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation. Where a financial statement

line item is not defined in the ESEF taxonomy, an extension to the taxonomy has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions which are subtotals.

The annual report submitted to the Danish Financial Supervisory Authority consists of the XHTML document together with certain technical files, all included in a file named NOVOZYMES-2020-12-31.zip.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements and the environmental, social and governance data requires Management to make estimates and assumptions that can have a significant effect on the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates may be necessary if there are changes in the circumstances on which the estimate was based, or if more detailed information becomes available. Such changes are recognized in the period in which the estimate in question is revised.

## Basis of reporting

# 1.2 Basis of reporting (continued)

The table below shows critical accounting estimates and judgments and their level of potential impact on the consolidated financial statements:

Note	Critical accounting estimates and judgments	Estimate/ judgment	Potential impact from estimates and judgments
2.2 Revenue	Profit-sharing in partnerships	Estimate	● ● ●
2.6 Tax	Group tax charge	Estimate	● ● ●
3.1 Intangible assets and impairment test of goodwill	Impairment of intangible assets and goodwill	Estimate	● ● ●
3.1 Intangible assets and impairment test of goodwill	Intangible assets recognized at fair value	Estimate	● ● ●
3.5 Business acquisitions	Fair value measurement	Estimate	● ● ●
4.1 Inventories	Cost of work in progress and finished goods	Estimate	● ● ●
4.2 Trade receivables and contract assets	Allowances for doubtful trade receivables	Estimate	● ● ●

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.

The critical accounting estimates and judgments could potentially have a significant impact on the consolidated financial statements.

### Basis of reporting

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act. 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, social and governance data have been prepared in accordance with principles that adhere to internationally recognized voluntary reporting standards and principles such as the UN Global Compact (UNGC). Novozymes is a signatory to the UNGC, a voluntary policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. We also take inspiration from the Task Force on Climate Related Financial Disclosures (TCFD) framework for climate-related disclosures.

Our reporting and materiality assessments have also been inspired by the GRI framework.

The principles are unchanged from last year.

### Defining materiality

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

If items are individually immaterial, they are aggregated with other items of a similar nature in the statements or in the notes. Novozymes provides the specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the readers of the annual report.











The disclosures on environmental, social and governance (ESG) issues include information on our management approach, targets, initiatives and related progress.

Various global movements and the COVID-19 pandemic has led to an increased focus on how companies manage ESG issues, specifically on social issues for eg. occupational health & safety and labor practices. As a responsible corporate citizen, Novozymes considers these issues to be highly material, and we continuously strive to strengthen our governance and management of these issues.

Novozymes' materiality assessment is a systematic and rigorous process that integrates input from external stakeholders, trend analyses and internal engagement with relevant departments including Investor Relations, Risk Management & Controls, Quality and Sustainability and leadership from our commercial divisions. This process results in a materiality matrix of financial and ESG issues and reflects the importance of those issues to our key stakeholders versus their impact on Novozymes. We use our materiality matrix to guide our strategy and reporting. During our assessment in 2020, no new issues were added to or deleted from our matrix. For more information, refer to [www.novozymes.com/en/about-us/sustainability/materiality](http://www.novozymes.com/en/about-us/sustainability/materiality).

In the following table, we highlight some of the material issues, for which, we have external targets/flagship initiatives and make a contribution to relevant SDG(s).

## 1.2 Basis of reporting (continued)

Material issues with external targets or flagship initiatives	External target(s)/flagship initiative	SDGs
<b>Innovation</b>	<ul style="list-style-type: none"> <li>HelloScience - open innovation platform</li> </ul>	
<b>Profitable growth</b>	<ul style="list-style-type: none"> <li>Organic sales growth 5+% per year</li> <li>EBIT margin 28% or above by 2022</li> <li>ROIC incl. goodwill 23% or above by 2022</li> </ul>	
<b>Climate change and energy</b>	<ul style="list-style-type: none"> <li>50% reduction in absolute emissions from operations by 2030</li> <li>100% renewable electricity by 2030</li> <li>15% reduction in absolute emissions from purchased goods and services by 2030</li> </ul>	 
<b>Water</b>	<ul style="list-style-type: none"> <li>100% of sites* manage water in balance with local conditions by 2030</li> </ul>	 
<b>Responsible sourcing</b>	<ul style="list-style-type: none"> <li>100% of key materials and waste managed in circular systems by 2030</li> </ul>	
<b>Community engagement and social investment</b>	<ul style="list-style-type: none"> <li>Pledge 1% of our time to local outreach activities by 2022</li> </ul>	
<b>Occupational health and safety</b>	<ul style="list-style-type: none"> <li>Occupational injuries = &lt; 1.5, defined as three-year rolling average of lost time injuries per million working hours.</li> </ul>	
<b>Labor practices and human rights</b>	<ul style="list-style-type: none"> <li>86 on our diversity index by 2022</li> <li>80 on learning in employee survey in 2022</li> </ul>	 
<b>Waste</b>	<ul style="list-style-type: none"> <li>Develop programs to reach zero waste by 2030 at 100% of sites*</li> </ul>	

\* The target does not include sites with activities considered not to have a significant environmental impact, e.g sales offices, R&D labs etc.

### Limited reporting scope

The environmental data cover those activities that could have a significant impact on the environment. Sites with activities considered not to have a significant environmental impact are not included. Such sites comprise sales offices, R&D labs, and sites with limited blending and storage of products. However, measures are taken to ensure that at least 97% of the total Novozymes quantity of the measured environmental parameter is included in the reported numbers.

### Impact of new accounting standards

Novozymes has adopted the following new or amended standards and interpretations from January 1, 2020:

- Amendments to IFRS 3 – Business Combinations, clarifies the definition of a business.
- Amendments to IAS 1 and IAS 8 – Definition of Material, clarifies the definition of material.
- Amendments to IFRS 9, IAS 39, and IFRS 7 – Interest Rate Benchmark Reform (IBOR), which modify specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform, and requires additional information to be provided about hedging relationships which are directly affected by these uncertainties.

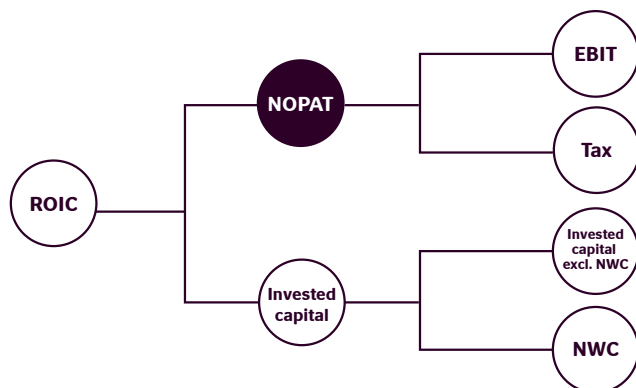
The adoption of the new and amended standards and interpretations has not had a significant impact on recognition, measurement or disclosures in the consolidated financial statements for 2020 and is not anticipated to have a significant impact on future periods.

### New standards and interpretations not yet adopted

IASB has issued new or amended accounting standards and interpretations that have not yet become effective and have consequently not been implemented in the consolidated financial statements for 2020. Novozymes expects to adopt the accounting standards and interpretations when they become mandatory. None of the new or amended standards or interpretations are expected to have a significant impact on the consolidated financial statements.

## Net operating profit after tax

# 2 Net operating profit after tax



DKK million	Note	2020	2019
Revenue	2.2	14,012	14,374
Cost of goods sold		(6,159)	(6,420)
<b>Gross profit</b>		<b>7,853</b>	<b>7,954</b>
Sales and distribution costs		(1,581)	(1,631)
Research and development costs	2.4	(1,937)	(1,966)
Administrative costs		(739)	(838)
Other operating income, net	2.5	56	520
<b>Operating profit (EBIT)</b>		<b>3,652</b>	<b>4,039</b>
Exchange gains/(losses)		(35)	(205)
Tax on adjusted operating profit		(714)	(650)
Share of loss in associates		(4)	(5)
<b>Adjusted operating profit (NOPAT)</b>		<b>2,899</b>	<b>3,179</b>
<b>Average invested capital (see Invested capital section)</b>		<b>15,301</b>	<b>15,038</b>
<b>ROIC</b>		<b>18.9%</b>	<b>21.1%</b>

Organic sales growth up from -1% in 2019 to

**0%**

Gross margin up from 55.3% in 2019 to

**56.0%**

EBIT margin down from 28.1% in 2019 to

**26.1%**

## Net operating profit after tax

# 2.1 Segment

### Segment reporting

The internal reporting framework used for reporting on revenue and expenses to the Executive Leadership Team and the Board of Directors has been established to reflect and report on the global functional responsibility setup at Novozymes. This setup consolidates functions by type, and Management reviews the results of the Group as a whole to assess performance. Thus, there is only one operating segment.

### Worldwide operations

The Group operates in four geographical regions: Europe, Middle East & Africa (including Denmark), North America, Asia Pacific and Latin America. From a revenue perspective, the US is the largest single market, contributing ~29% of the Group's revenue (2019: ~31%).

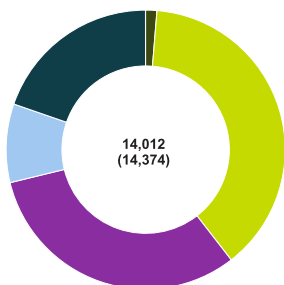
The geographical distribution of revenue is based on the country in which the goods are delivered. For a number of customers, central deliveries are made to specified locations and the final destination is unknown. The stated

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

Most of the Group's intangible assets and property, plant and equipment are located in Denmark, the US and China at ~48%, ~27% and ~13% respectively (2019: ~50%, ~30% and ~13%).

Revenue 2020 (2019)

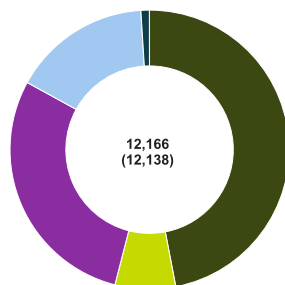
DKK million



- Denmark **175** (166)
- Rest of Europe, Middle East & Africa **5,361** (5,174)
- North America **4,441** (4,750)
- Latin America **1,280** (1,407)
- Asia Pacific **2,755** (2,877)

Intangible assets and property, plant and equipment 2020 (2019)

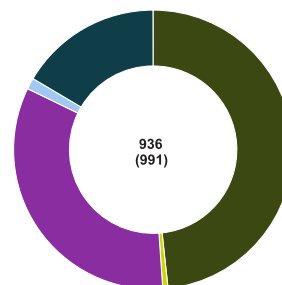
DKK million



- Denmark **5,790** (6,007)
- Rest of Europe, Middle East & Africa **833** (51)
- North America **3,498** (3,935)
- Latin America **101** (142)
- Asia Pacific **1,944** (2,003)

Net investments 2020 (2019)

DKK million



- Denmark **452** (495)
- Rest of Europe, Middle East & Africa **6** (13)
- North America **312** (271)
- Latin America **12** (21)
- Asia Pacific **154** (191)

## Net operating profit after tax

# 2.2 Revenue

DKK million	2020	2019
<b>Consumer Biosolutions</b>		
Household Care	4,882	4,758
Food, Beverages & Human Health	2,767	2,745
<b>Agriculture &amp; Industrial Biosolutions</b>		
Bioenergy	2,522	2,901
Grain & Tech Processing	2,007	2,089
Agriculture & Animal Health	1,834	1,881
<b>Revenue</b>	<b>14,012</b>	<b>14,374</b>
Emerging markets	4,711	4,938
Developed markets	9,301	9,436
<b>Revenue</b>	<b>14,012</b>	<b>14,374</b>
Revenue to the five largest customers as a percentage of revenue	27%	27%

The industry split of revenue has been updated to reflect the new structure in Novozymes, which was implemented in 2020. Comparative numbers has been restated.

The majority of Novozymes' revenue is derived from the sale of goods to customers, where revenue is recognized when goods are delivered. Less than 1% of Novozymes' total revenue arises from royalties.

In 2020, changes were made to the BioAg setup and the partnerships Novozymes has entered into within BioAg are no longer based on profit-split arrangements.

At January 1, 2020, contract liabilities amounted to DKK 74 million (2019: DKK 374 million), of which DKK 5 million was recognized as revenue in 2020 (2019: DKK 26 million).

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

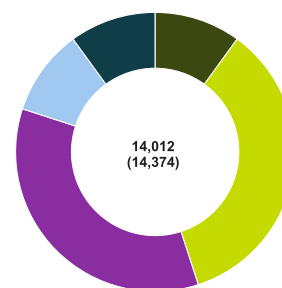
Novozymes has entered into partnerships where Novozymes manufactures and sells products to a partner, who undertakes the sales to end customers, and where the profit on products sold to end customers is shared between the partner and Novozymes based on predetermined profit-sharing mechanisms. Revenue related to this type of partnership comprises approximately 9%

of Novozymes' total annual revenue (2019: approximately 11%).

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

### Sales by currency 2020 (2019)

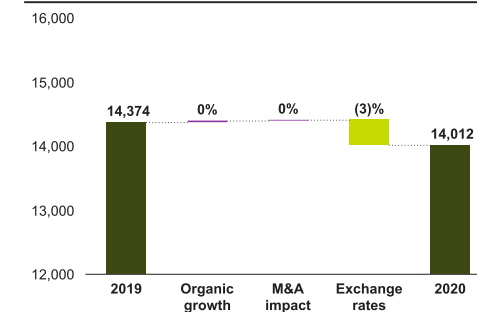
DKK million



- DKK ~10% (~10%)
- EUR ~35% (~35%)
- USD ~35% (~35%)
- CNY ~10% (~10%)
- Other ~10% (~10%)

### Sales growth 2020

DKK million





## 2.2 Revenue (continued)

### § ACCOUNTING POLICIES

Novozymes produces a wide range of industrial enzymes and microorganisms. Revenue includes the sale of goods and related services and royalties, and is recognized at an amount that reflects the consideration to which Novozymes expects to be entitled. Revenue from the straightforward sale of goods to customers is recognized when control of the goods is transferred to the customer, i.e. when goods are delivered. Variable considerations are included in revenue to the extent that they are not subject to significant uncertainty.

The performance obligations in the contracts are to deliver enzymes and microorganisms to customers, and each batch delivered is considered a separate performance obligation, as each batch is distinct.

#### Discounts

Enzymes and microorganisms are sometimes sold at a rebate. A rebate agreement can be set up in various ways, but common to all agreements is that revenue is recognized

based on the price specified in the contract, net of the estimated rebate. The rebates are estimated based on experience, as well as information related to expected orders 3-12 months in advance. The estimated rebates are reassessed at the end of each reporting period.

#### Returns

A few of Novozymes' partnerships are granted a right of return. No revenue is recognized for the goods expected to be returned, as a refund liability is recognized. Estimates of the expected level of returns are based on analysis of historical returns and knowledge of the relevant markets/products. These estimates are updated at the end of each reporting period. As the goods returned are usually scrapped, no inventory asset is recognized.

#### Profit split

Novozymes has entered into partnerships where Novozymes manufactures and sells products to a partner, who undertakes the sales to end customers. The profit on products sold to end customers is shared

between the partner and Novozymes based on predetermined profit-sharing mechanisms.

Revenue from these arrangements consists of sales of products to the partner and the shared profit, and is recognized in full when the goods are delivered to the other contracting party. This is done by calculating the expected profit based on insights, experience and other input factors. The calculated profit is recognized as a contract asset or contract liability until an invoice is issued. The realized profit is settled periodically.

#### Commission

Novozymes has entered into commission agreements where agents undertake sales to third parties in return for a commission on realized sales. Revenue from such agreements is recognized when the goods are delivered, as the nature of the performance obligation is to provide the specified goods.

#### Other

Revenue collected on behalf of third parties is not recognized as revenue.

Novozymes' obligation to provide a refund for products that are not of the agreed quality or according to agreed specifications under the standard warranty terms is recognized as contract liabilities.

A trade receivable is recognized when the customer obtains control of the goods and an invoice is issued, as this is the point in time when the consideration becomes unconditional and only the passage of time is required before payment is due. Typical payment terms are around 60 days.

Contract liabilities consist of advance payments, deferred revenue and liabilities for refund goods. The contract liabilities are recognized as revenue as the performance obligations under the contracts are fulfilled.

## Net operating profit after tax

# 2.3 Employees

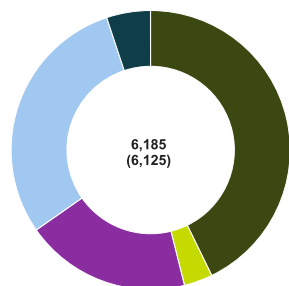
DKK million	2020	2019
Wages and salaries	3,047	3,195
Pensions – defined contribution plans	282	292
Other social security costs	234	284
Other employee costs	114	117
Stock-based payment	54	46
<b>Employee costs</b>	<b>3,731</b>	<b>3,934</b>
Recognized in the income statement under the following items:		
Cost of goods sold	1,469	1,447
Sales and distribution costs	792	869
Research and development costs	1,046	1,122
Administrative costs	458	504
	<b>3,765</b>	<b>3,942</b>
Change in employee costs recognized in Inventories	(34)	(8)
<b>Employee costs</b>	<b>3,731</b>	<b>3,934</b>

The employee costs in 2020 included severance costs of DKK 87 million related to organizational changes, of which DKK 65 million was related to the changes to the Executive Leadership Team announced in 2020.

The employee costs in 2019 included restructuring costs related to organizational changes of around DKK 200 million. The one-off impact in 2019 was partly offset by reduced employee costs during the remainder of the year. In addition, changes to the Executive Leadership Team during 2019 resulted in severance costs of DKK 58 million.

Number of employees end of year 2020 (2019)

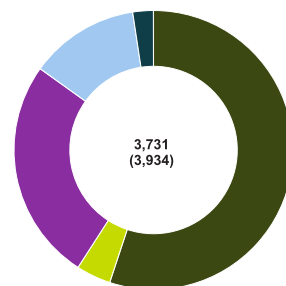
No. of employees



- Denmark **2,646** (2,640)
- Rest of Europe, Middle East & Africa **203** (171)
- North America **1,185** (1,195)
- Asia Pacific **1,833** (1,792)
- Latin America **318** (307)

Employee costs 2020 (2019)

DKK million



- Denmark **2,058** (2,084)
- Rest of Europe, Middle East & Africa **149** (171)
- North America **964** (1,065)
- Asia Pacific **472** (500)
- Latin America **88** (114)

## Net operating profit after tax

# 2.3 Employees (continued)

	2020	2019
Average number of employees in the Group	6,099	6,341
Average number of employees who work with R&D	1,411	1,522
Number of employees outside Denmark as a percentage of total number of employees	57%	57%
Part-time employees	282	292
Full-time employees	5,903	5,833
<b>Employees at December 31</b>	<b>6,185</b>	<b>6,125</b>
Senior management	198	189
Management	1,210	1,136
Professional	1,724	1,711
Administrative	605	579
Skilled workers, laboratory technicians and other technicians	1,249	1,294
Process operators	1,199	1,216
<b>Employees by category</b>	<b>6,185</b>	<b>6,125</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 more are counted 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 month.

Job categories are defined as follows: Senior management comprises the CEO, executive vice presidents, vice presidents and directors. Management comprises middle managers and specialists. Professional comprises employees with academic backgrounds as well as team leaders. Process operators comprises operators and unskilled workers.

Employee gender distribution 2020 (2019)



● Women **38%** (38%)  
● Men **62%** (62%)

Senior management gender distribution 2020 (2019)



● Women **33%** (31%)  
● Men **67%** (69%)

## 2.4 Research and development costs

DKK million	Note	2020	2019
Internal and external research and development costs		576	519
Employee costs	2.3	1,046	1,122
Amortization and impairment losses, intangible assets	3.1	154	170
Depreciation and impairment losses, property, plant and equipment	3.2	161	155
<b>Total research and development costs</b>	I/S	<b>1,937</b>	<b>1,966</b>
As a percentage of revenue		13.8%	13.7%

In 2020, Novozymes launched twelve new products (2019: nine new products). New products comprise products with new or improved characteristics.

In 2020, Novozymes had 963 active patent families (2019: 951). Active patent families comprise the number of inventions for which Novozymes has one or more active patent applications or active patents at December 31.



### ACCOUNTING POLICIES

Research and development costs primarily comprise employee costs, internal and external costs related to the development of new products and to the ongoing optimization of production processes for existing products, and amortization, depreciation and impairment losses related to intangible assets and property, plant and equipment used in the research and development activities.

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

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

## Net operating profit after tax

# 2.5 Other operating income, net

DKK million	2020	2019
Income and grants concerning research projects/ collaborations	9	11
Other secondary income, net	5	15
Net gain from divestment of the pharma-related royalty	42	194
Net gain from termination of The BioAg Alliance	-	300
<b>Other operating income, net</b>	<b>56</b>	<b>520</b>

In 2020, Other operating income was impacted by DKK 42 million from the contingent consideration relating to the divestment of the pharma-related royalty. Contingent consideration has been recognized, where entitlement has been obtained due to completion of patent registrations.

In 2019, a net gain of DKK 194 million related to the divestment of the pharma-related royalty was recognized. The net gain comprised the selling price less contingent consideration, transaction costs and the disposed goodwill.

Furthermore, other operating income was significantly impacted by the termination of The BioAg Alliance at a net gain of DKK 300 million. The net gain mainly comprised the release of the remaining deferred revenue of DKK 287 million originating from the formation of the Alliance. Furthermore, the net gain comprised the income related to assets recognized at fair value offset by impairment losses and transaction costs.

## § ACCOUNTING POLICIES

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

licenses, patents, etc., and other income of a secondary nature in relation to the main activities of the Group. This item also includes non-recurring income items in respect of damages, outlicensing, etc., and gains and losses on divestments.

## Net operating profit after tax

# 2.6 Tax

### Tax risks

Novozymes operates in many markets via sales companies and distributors, while production is located in a few countries. This leads to transactions between group companies. Novozymes follows the OECD principles in setting internal transfer prices for these transactions. This is a complicated area and entails a tax risk, because the transactions are subject to judgment in each country. The tax controversy risk for Novozymes is significantly reduced through the use of bilateral advance pricing agreements (APAs).

### Bilateral APAs

As stated in our tax policy, Novozymes proactively engages in bilateral APAs negotiated at competent authority level to increase predictability and to mitigate transfer pricing risks. Most of the intercompany transaction value within the Novozymes Group is covered by bilateral APAs.

An APA is an agreement between a taxpayer and a tax authority determining the transfer pricing methodology for pricing the taxpayer's international transactions for future years.

The methodology is applied for a certain period based on the fulfilment of certain terms and conditions (called critical assumptions). An APA can be unilateral or bilateral. Novozymes only enters into bilateral APAs, meaning that they are negotiated between the competent tax authorities of the two countries involved in the transaction. An APA provides assurance with respect to the tax outcome of our international transactions, by agreeing in advance the arm's length pricing and pricing methodology to be applied to the international transactions.

Novozymes has entered into bilateral APAs with the tax authorities in the countries

where internal transactions are most significant. Among APA covered transactions are group internal transactions between Denmark and the US, China and India, respectively.

### Joint taxation

Novozymes A/S and its Danish subsidiaries are jointly taxed with the Danish companies of the Novo Holdings A/S Group. Joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation liability. Any subsequent adjustments to income taxes and withholding taxes may increase the liability. Tax for the individual companies is allocated in full on the basis of the expected taxable income.

### Tax in the income statement

DKK million		2020	2019
Tax payable on net profit		(817)	(894)
Change in deferred tax		144	262
Prior-year adjustments - current tax		98	21
Prior-year adjustments - deferred tax		(120)	(33)
<b>Tax in the income statement</b>	I/S	<b>(695)</b>	<b>(644)</b>
Calculation of effective tax rate:			
Corporate tax rate in Denmark		(22.0)%	(22.0)%
Non-taxable income less non-deductible expenses		0.2%	0.6%
Difference in foreign tax rates		2.5%	2.6%
Other adjustments		(0.4)%	1.8%
<b>Effective tax rate</b>		<b>(19.7)%</b>	<b>(17.0)%</b>

### Tax in the income statement

Transfer of intellectual property from Switzerland to Denmark had a positive impact on the effective tax rate of 2.9% in 2020 (2019: 2.9%). This is recognized in Difference in foreign tax rates.

In 2019, Novozymes had a positive impact from uncertain tax positions related to APAs, recognized in Other adjustments.

## Net operating profit after tax

# 2.6 Tax (continued)

### Deferred tax

DKK million	Deferred tax assets		Deferred tax liabilities	
	2020	2019	2020	2019
Intangible assets and property, plant and equipment	1,091	947	(1,479)	(1,265)
Inventories	357	427	(179)	(197)
Tax loss carry-forwards	41	42	-	-
Stock options	82	109	-	-
Other	284	274	(62)	(55)
	<b>1,855</b>	<b>1,799</b>	<b>(1,720)</b>	<b>(1,517)</b>
Offsetting items	(516)	(638)	516	638
<b>Deferred tax at December 31</b>	<b>1,339</b>	<b>1,161</b>	<b>(1,204)</b>	<b>(879)</b>

The tax value of the unrecognized share of tax loss carry-forwards, tax credits, etc. that do not expire amounted to DKK 25 million (2019: DKK 20 million).

DKK million	2020	2019
Deferred tax at January 1	282	46
Currency translation adjustments	(35)	2
Effect of business acquisitions	(80)	-
Tax related to the income statement	24	229
Tax on shareholders' equity items	(56)	5
<b>Deferred tax at December 31</b>	<b>135</b>	<b>282</b>
Deferred tax assets	1,339	1,161
Deferred tax liabilities	(1,204)	(879)
<b>Deferred tax at December 31</b>	<b>135</b>	<b>282</b>



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there may be substantial differences between the tax charge in the consolidated income statement and actual tax payments.

## Net operating profit after tax

# 2.6 Tax (continued)

### Tax receivables and payables

DKK million		2020	2019
Tax payables, net, at January 1		(158)	(401)
Currency translation adjustments		(14)	(2)
Tax related to the income statement		(719)	(872)
Tax on shareholders' equity items		64	1
Tax paid for the current year, net		951	1,116
<b>Tax payables, net, at December 31</b>		<b>124</b>	<b>(158)</b>
Tax receivables	B/S	460	273
Tax payables	B/S	(336)	(431)
<b>Tax payables, net, at December 31</b>		<b>124</b>	<b>(158)</b>
Of which due within 12 months		25	(32)
Of which due after more than 12 months		99	(126)
<b>Tax payables, net, at December 31</b>		<b>124</b>	<b>(158)</b>
Corporate income taxes paid are specified as follows:			
Income taxes paid in Denmark		593	701
Income taxes paid outside Denmark		358	415
<b>Total income taxes paid</b>		<b>951</b>	<b>1,116</b>

### § ACCOUNTING POLICIES

Corporation tax, comprising the current tax liability, change in deferred tax for the year and possible adjustments relating to prior years, is recognized in the income statement, unless it relates to items recognized either in Other comprehensive income or directly in Shareholders' equity. Uncertain tax positions are assessed individually and recognized if it is probable that an amount will be paid or received. Deferred tax is measured using the balance sheet liability method and comprises all temporary differences between the carrying amount and the 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 temporary differences. Changes in deferred tax due to tax rate changes are recognized in the income statement, unless they relate to items recognized either in Other comprehensive income or directly in Shareholders' equity.



## Net operating profit after tax

# 2.7 Earnings per share

DKK million	2020	2019
Net profit for the year	2,826	3,155
Less net profit attributable to non-controlling interests	(1)	(1)
<b>Net profit attributable to the shareholders in Novozymes A/S</b>	<b>2,825</b>	<b>3,154</b>
<b>Average number of shares</b>		
Weighted average number of shares in circulation	280,427,908	285,110,290
Average dilutive effect of outstanding stock options and stock awards	1,595,499	1,441,008
<b>Average number of diluted shares</b>	<b>282,023,407</b>	<b>286,551,298</b>
Earnings per share	DKK 10.07	DKK 11.06
Earnings per share, diluted	DKK 10.02	DKK 11.01



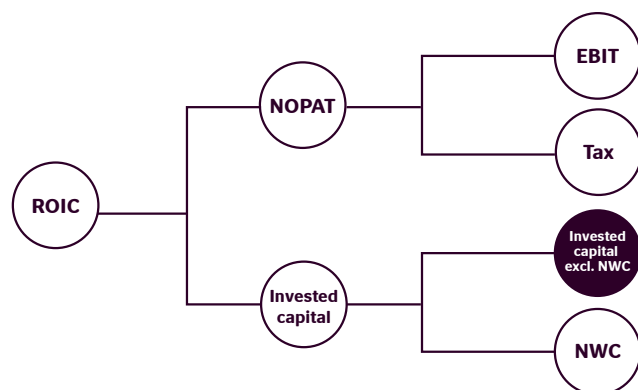
### ACCOUNTING POLICIES

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

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

## Invested capital

# 3 Invested capital



DKK million	Note	2020	2019
Intangible assets	3.1	2,554	1,926
Property, plant and equipment	3.2	9,612	10,212
Investments in associates		33	37
Net working capital (see Net working capital section)		2,901	3,478
Financial assets, non-interest-bearing		119	15
Provisions	3.4	(205)	(243)
Contingent consideration	3.5	(146)	-
Derivatives		(33)	(42)
Tax, net		259	124
<b>Invested capital</b>		<b>15,094</b>	<b>15,507</b>
<b>Average invested capital</b>		<b>15,301</b>	<b>15,038</b>

ROIC down from 21.1% in 2019 to

# 18.9%

Increase in average invested capital of DKK million

# 263

Net investments excl. acquisitions down from DKK 991 million in 2019 to DKK million

# 936

## 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, 2020	965	2,648	664	29	4,306
Currency translation adjustments	(25)	(26)	(1)	-	(52)
Additions from business acquisitions	158	639	-	-	797
Additions during the year	-	2	30	114	146
Disposals during the year	-	(28)	(7)	-	(35)
Transfers to/(from) other items	-	-	59	(59)	-
<b>Cost at December 31, 2020</b>	<b>1,098</b>	<b>3,235</b>	<b>745</b>	<b>84</b>	<b>5,162</b>
Amortization and impairment losses at January 1, 2020		(1,905)	(475)		(2,380)
Currency translation adjustments		20	1		21
Amortization during the year		(179)	(73)		(252)
Impairment losses		(32)	-		(32)
Disposals during the year		28	7		35
<b>Amortization and impairment losses at December 31, 2020</b>		<b>(2,068)</b>	<b>(540)</b>		<b>(2,608)</b>
<b>Carrying amount at December 31, 2020</b>	<b>1,098</b>	<b>1,167</b>	<b>205</b>	<b>84</b>	<b>2,554</b>

### Impairment

In 2020, an impairment loss of DKK 32 million on patents was recognized and included in Research and development cost. The impaired asset was part of a project that has been terminated, and the asset has been fully written off.

### Impairment test of goodwill

Novozymes has one cash-generating unit (CGU). Since 2016, Management had identified two CGUs: Novozymes' main activities and the Biopharma CGU. With the divestment of

the pharma-related royalty, and thereby the remaining activity within the Biopharma CGU in April 2019, only one CGU remained.

As the market value of Novozymes is significantly higher than its equity, no further key assumptions are used to determine whether impairment of goodwill exists (2019: no impairment).

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

If there is any indication of impairment, value in use is estimated and compared with the carrying amount. The calculation of value in use is based on the discounted cash flow method using estimates of future cash flows from the continuing use. The key parameters are the expected revenue streams and the rate used to discount the cash flows.

As a consequence of the termination of The BioAg Alliance in 2019, intellectual property from The BioAg Alliance was recognized at fair value. Measuring the fair value of these assets required Management's assessment of business plans for the individual assets. The key parameters were expected cash flows and the WACC used to discount the cash flows.

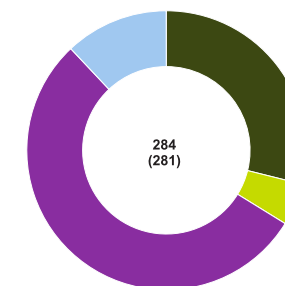
## Invested capital

# 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, 2019	1,086	2,942	533	59	4,620
Currency translation adjustments	2	2	-	-	4
Additions during the year	-	129	47	54	230
Disposals during the year	(123)	(425)	-	-	(548)
Transfers to/(from) other items	-	-	84	(84)	-
<b>Cost at December 31, 2019</b>	<b>965</b>	<b>2,648</b>	<b>664</b>	<b>29</b>	<b>4,306</b>
Amortization and impairment losses at January 1, 2019		(2,062)	(428)		(2,490)
Currency translation adjustments		(1)	-		(1)
Amortization during the year		(163)	(47)		(210)
Impairment losses		(71)	-		(71)
Disposals during the year		392	-		392
<b>Amortization and impairment losses at December 31, 2019</b>		<b>(1,905)</b>	<b>(475)</b>		<b>(2,380)</b>
<b>Carrying amount at December 31, 2019</b>	<b>965</b>	<b>743</b>	<b>189</b>	<b>29</b>	<b>1,926</b>

Recognition of amortization and impairment losses by function 2020 (2019)

DKK million



- Cost of goods sold **82** (82)
- Sales and distribution **14** (3)
- Research and development **154** (170)
- Administration **34** (26)

Due to the termination of The BioAg Alliance, intellectual property from The BioAg Alliance has been transferred to Novozymes free of charge. These assets have been recognized at fair value amounting to DKK 95 million and the corresponding income is recognized in Other operating income.

The goodwill disposal is related to the divestment of the pharma-related royalty.

### Impairment

In 2019, impairment losses of DKK 71 million were recognized on two specific assets. As these are related to the termination of The BioAg Alliance, the impairment losses are recognized and included in Other operating income.

The impairment losses were the result of impairment tests performed on assets where the termination of The BioAg Alliance has resulted in reduced sales projections for the

assets in question. The cash flow used to test one of the assets for impairment was based on business plans for the period 2019-2025, and the terminal value used was based on the expected lifetime and cash flow over that period. For the other impaired asset, the cash flow ceased in 2019 with the termination of The BioAg Alliance.

A pre-tax WACC of 7% was used to calculate the discounted cash flows.

## 3.1 Intangible assets and impairment test of goodwill (continued)

### § ACCOUNTING POLICIES

Intangible assets other than goodwill are measured at cost less accumulated amortization and impairment losses. Goodwill and IT development projects in progress are not subject to amortization.

Costs associated with large IT projects for the development of software for internal use are capitalized if 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 their useful lives. IT development assets are amortized over a period of 3-5 years
- Acquired patents, trademarks, licenses and know-how are amortized over their useful lives. The useful lives of patents and trademarks are normally identical to the patent period. Licenses are amortized over the agreement period. Recognized patents, trademarks, licenses and know-how are amortized over a period of 7-15 years

Expected useful lives are reassessed regularly.

The Group regularly reviews the carrying amounts of its finite-lived intangible assets to determine whether there is an indication of an impairment loss. An impairment loss is recognized to the extent that the asset's carrying amount exceeds its estimated recoverable amount. Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.

Goodwill is tested for impairment annually or whenever there is an indication that the asset may be impaired.

## Invested capital

# 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, 2020	7,046	11,176	2,380	662	21,264
Currency translation adjustments	(279)	(447)	(98)	(29)	(853)
Additions from business acquisitions	-	-	1	-	1
Additions during the year	146	148	131	427	852
Disposals during the year	(32)	(55)	(128)	-	(215)
Transfers to/(from) other items	105	195	78	(378)	-
<b>Cost at December 31, 2020</b>	<b>6,986</b>	<b>11,017</b>	<b>2,364</b>	<b>682</b>	<b>21,049</b>
Depreciation and impairment losses at January 1, 2020	(2,990)	(6,675)	(1,387)	-	(11,052)
Currency translation adjustments	113	239	58	-	410
Depreciation for the year	(280)	(492)	(210)	-	(982)
Disposals during the year	24	46	117	-	187
Transfers to/(from) other items	-	1	(1)	-	-
<b>Depreciation and impairment losses at December 31, 2020</b>	<b>(3,133)</b>	<b>(6,881)</b>	<b>(1,423)</b>	<b>-</b>	<b>(11,437)</b>
<b>Carrying amount at December 31, 2020</b>	<b>3,853</b>	<b>4,136</b>	<b>941</b>	<b>682</b>	<b>9,612</b>

### Capitalized interest and pledges

Interest of DKK 1 million (2019: DKK 2 million) was capitalized under Additions during the year and included as Investing activities in the statement of cash flows. Capitalization rate: 0.53% (2019: 0.9%).

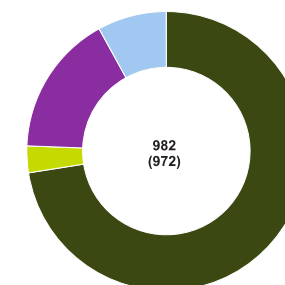
Land and buildings with a carrying amount of DKK 1,516 million (2019: DKK 1,526 million) were pledged as security to credit institutions. The mortgage loans expire in 2029 and 2039.

### Impairment

No impairment losses on property, plant and equipment were recognized in 2020.

Recognition of depreciation and impairment losses by function 2020 (2019)

DKK million



- Cost of goods sold **712** (713)
- Sales and distribution **30** (39)
- Research and development **161** (155)
- Administration **79** (65)

## Invested capital

# 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, 2019	5,694	10,645	1,846	1,848	20,033
Lease assets at January 1, 2019	412	12	192	-	616
Currency translation adjustments	59	99	19	8	185
Additions during the year	127	184	215	383	909
Disposals during the year	(41)	(71)	(61)	(33)	(206)
Transfer to assets held for sale	(273)	-	-	-	(273)
Transfers to/(from) other items	1,068	307	169	(1,544)	-
<b>Cost at December 31, 2019</b>	<b>7,046</b>	<b>11,176</b>	<b>2,380</b>	<b>662</b>	<b>21,264</b>
Depreciation and impairment losses at January 1, 2019	(2,915)	(6,193)	(1,227)	-	(10,335)
Currency translation adjustments	(22)	(44)	(9)	-	(75)
Depreciation for the year	(264)	(504)	(189)	-	(957)
Impairment losses	(15)	-	-	-	(15)
Disposals during year	15	64	40	-	119
Transfer to assets held for sale	211	-	-	-	211
Transfers to/(from) other items	-	2	(2)	-	-
<b>Depreciation and impairment losses at December 31, 2019</b>	<b>(2,990)</b>	<b>(6,675)</b>	<b>(1,387)</b>	<b>-</b>	<b>(11,052)</b>
<b>Carrying amount at December 31, 2019</b>	<b>4,056</b>	<b>4,501</b>	<b>993</b>	<b>662</b>	<b>10,212</b>

The implementation of IFRS 16 as of January 1, 2019, resulted in an increase in Property, plant and equipment of DKK 616 million. Refer to Note 3.3 for additional disclosures relating to leases.

Depreciation relating to leases in 2019 amounted to DKK 124 million.

### Impairment

An ongoing production-related construction project was abandoned in 2019. This led to an expense of DKK 33 million, which was recognized in Cost of goods sold.

Buildings expected to be sold within 12 months were written down to the expected selling price less transaction costs before being transferred

to Assets held for sale. Buildings amounting to DKK 62 million were transferred to Assets held for sale. An impairment loss of DKK 15 million was recognized in Sales and distribution costs and Administrative costs at DKK 4 million and DKK 11 million respectively.



### 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 residual values and useful lives of the assets 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 of impairment in those assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. If the recoverable amount of an asset is estimated to be lower than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation.

## Invested capital

# 3.3 Leases

DKK million	2020	2019
Land and buildings	332	397
Plant and machinery	98	102
Other equipment	114	155
<b>Carrying amount of lease assets</b>	<b>544</b>	<b>654</b>

Additions to the lease assets during 2020 amounted to DKK 58 million (2019: DKK 47 million).

DKK million	2020	2019
<b>Lease liabilities</b>		
Less than 1 year	142	165
Between 1 and 5 years	299	307
More than 5 years	180	238
<b>Undiscounted lease liabilities at December 31</b>	<b>621</b>	<b>710</b>

DKK million	2020	2019
<b>Amounts recognized in the income statement</b>		
Interest on lease liabilities	24	28

### Depreciation of lease assets per asset class

DKK million	2020	2019
Land and buildings	67	68
Plant and machinery	5	5
Other equipment	53	51
<b>Depreciation of lease assets</b>	<b>125</b>	<b>124</b>

### Amounts recognized in the statement of cash flows

DKK million	2020	2019
Total cash outflow for leases	135	136

## § ACCOUNTING POLICIES

### Lease assets

Lease assets are 'right-of-use assets' from lease agreements. If, at inception, it is assessed that a contract contains a lease, a lease asset is recognized. Lease assets are initially measured at the present value of future lease payments, plus the cost of obligations to refurbish the asset. Payments include fixed payments, variable lease payments depending on an index or a rate and the exercise price of purchase options that are reasonably certain to be exercised.

The lease assets are depreciated using the straight-line method over the shorter of the expected lease term and the useful life of the underlying asset. The lease assets are tested for impairment whenever there is an indication that the assets may be impaired.

Lease assets are depreciated as follows:

- Buildings: 1-12 years
- Land: 10-90 years
- Plant and machinery: 1-10 years
- Equipment and company cars: 1-10 years

Short-term leases and leases of low value are recognized as expenses in the income statement on a straight-line basis over the lease term.

Novozymes' portfolio of leases covers leases of land, buildings and other equipment such

as cars and transportation containers.

### Lease liabilities

Lease liabilities are initially recognized at the present value of future lease payments including payments from extension or purchase options that are considered reasonably certain to be exercised.

The lease liability is measured using the implicit borrowing rate in the contracts or, where this is not available, the marginal borrowing rate in the countries in which Novozymes operates. Novozymes applies a single discount rate to portfolios of leases in the countries in which Novozymes operates based on contract currency and loan periods.

If a lease contract is modified, the lease liability is remeasured. For building leases, lease terms are estimated taking the size of the building and its strategic importance into consideration. Novozymes has entered into several open-ended building leases and building leases with extension options. Lease terms of such agreements are estimated based on the strategic importance of the buildings and the estimated time frame necessary to vacate the premises. The estimated lease term is reassessed at each reporting date. The estimated lease terms for such contracts do not exceed 12 years.



## 3.4 Provisions

DKK million	2020			2019		
	Dismantling and restoration	Legal and other obligations	Total	Dismantling and restoration	Legal and other obligations	Total
Provisions at January 1	83	160	243	82	147	229
Currency translation adjustments	(4)	(8)	(12)	1	1	2
Additions during the year	-	43	43	-	168	168
Reversals during the year	(15)	(48)	(63)	-	(19)	(19)
Utilization during the year	-	(6)	(6)	-	(137)	(137)
<b>Provisions at December 31</b>	<b>64</b>	<b>141</b>	<b>205</b>	<b>83</b>	<b>160</b>	<b>243</b>
Recognized in the balance sheet as follows:						
Non-current	B/S 37	78	115	25	90	115
Current	B/S 27	63	90	58	70	128
<b>Provisions at December 31</b>	<b>64</b>	<b>141</b>	<b>205</b>	<b>83</b>	<b>160</b>	<b>243</b>

### Dismantling and restoration

Dismantling and restoration relates to estimated future costs of environmental restoration. Novozymes aims for its production sites not to have a negative environmental impact. These liabilities relate to established circumstances, and the costs are expected to be incurred either when concrete measures are implemented or when a site is vacated. The expected costs and timing are inherently uncertain.

### Legal and other obligations

Novozymes is involved in a number of ongoing legal disputes, and provisions are made for the estimated costs of these based on a current evaluation of the outcomes. The ongoing cases are expected to be finalized in 2021-2022. In Management's opinion, the outcomes of these cases are not expected to give rise to any significant losses beyond the amounts provided for at December 31, 2020.

In 2019, Novozymes settled a long-standing patent dispute, and as a result Novozymes paid DKK 65 million to the counterpart, of which DKK 31 million was provided for in previous years.

Other obligations include other long-term employee benefits and other contractual obligations.

Other obligations mainly relates to the divestment of the pharma-related royalty, for which part of the selling price received must be repaid if certain patent registrations are not obtained by 2021. A number of registrations were obtained in 2020. The amount potentially to be repaid has been reduced by DKK 42 million.

### § ACCOUNTING POLICIES

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events and it is probable that 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.

Other long-term employee benefits account for only a minor amount, as the majority of Novozymes' pension plans are defined contribution plans, covering approximately 99% of employees. These obligations are mainly expected to be incurred over a relatively long period of time.

In 2019, DKK 40 million in other obligations was utilized as a consequence of the termination of The BioAg Alliance.

## Invested capital

# 3.5 Business acquisitions

### Acquisition in 2020

DKK million	PrecisionBiotics Group
The assumed fair value of acquired assets and liabilities is as follows:	
Intangible assets excluding goodwill	639
Property, plant and equipment	1
Inventories	5
Trade and other receivables	37
Cash	64
Deferred tax liabilities	(80)
Financial and other liabilities	(26)
<b>Acquired net assets</b>	<b>640</b>
Purchase price:	
Cash	652
Contingent consideration	146
<b>Total purchase price</b>	<b>798</b>
<b>Goodwill</b>	<b>158</b>
Cash flow for acquisition:	
Cash payment	652
Less cash and cash equivalents in acquired business	(64)
<b>Cash outflow for acquisition</b>	<b>588</b>

The following valuation techniques have been applied in the fair value assessment of significant assets acquired:

- Technology; The Multi-period Excess Earnings Method (MEEM) has been applied

- Brands; The Relief from Royalty (RfR) method has been applied
- Customer relationships; An allowed margin approach has been applied

On June 25, 2020, Novozymes acquired all voting shares in PrecisionBiotics Group Limited.

PrecisionBiotics Group holds a leading position within probiotics for human gut health and is well positioned with several clinically-backed products already on the market. PrecisionBiotics Group has strong expertise within clinical development, upscaling and commercialization and is well situated in Cork, Ireland, home to a leading academic society within human gut health.

The acquisition of PrecisionBiotics Group will advance Novozymes' activities in the area of biological solutions for human oral and gut health - one of the growth pillars in the strategy; Better business with biology.

Goodwill of DKK 158 million is attributable to expected synergies with Novozymes' existing business operations and technologies within probiotics and enzymes

for human health. The goodwill is not tax deductible.

The purchase agreement includes a contingent consideration of up to DKK 298 million. The consideration is contingent on the achievement of sales and EBITDA estimates for 2023 and is recognized at the anticipated fair value of DKK 146 million at the acquisition date. Fair value is assessed by using the earn-out from the most probable sales and EBITDA estimates in 2023 discounted at a 7% discount rate.

Net revenue and profit contributed from PrecisionBiotics Group to the consolidated income statement are immaterial for the reporting period. This would also have been the case if the acquisition had been completed on January 1, 2020.

The transaction costs amounted to DKK 20 million and are included in Sales and distribution costs.

### § ACCOUNTING POLICIES

On acquisition of companies, the identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized at their fair values at the acquisition date. The consideration transferred includes the fair value at the acquisition date of any contingent consideration arrangement.

Goodwill may subsequently be adjusted for changes in the fair value of the consideration transferred and/or changes in the fair value of the identifiable net assets acquired until 12 months after the acquisition date, to the extent such changes relate to facts and circumstances present at the acquisition date. Acquired companies are consolidated from the date of acquisition. Acquisition-related costs are expensed as incurred.

## 3.5 Business acquisitions (continued)

### Acquisition after December 31, 2020

DKK million	Microbiome Labs
The assumed fair value of acquired assets and liabilities is as follows:	
Intangible assets excluding goodwill	718
Property, plant and equipment	8
Inventories	19
Trade and other receivables	14
Cash	13
Financial and other liabilities	(46)
<b>Acquired net assets</b>	<b>726</b>
Purchase price:	
Cash	757
Contingent consideration	338
<b>Total purchase price</b>	<b>1,095</b>
<b>Goodwill</b>	<b>369</b>

The fair value and allocation of acquired assets and liabilities and contingent consideration are provisional, pending receipt of the final valuations.

The following valuation techniques have been applied in the fair value assessment of significant assets acquired:

- Customer relationships; The Multi-period Excess Earnings Method (MEEM) has been applied
- Technology; The Relief from Royalty (RfR) method has been applied
- Brands; The Relief from Royalty (RfR) method has been applied

On January 7, 2021, Novozymes acquired all voting shares in Microbiome Labs. Microbiome Labs offers a comprehensive suite of proprietary probiotic and microbiome solutions targeting gastrointestinal, immune, metabolic and cognitive health. The solutions are marketed under both the company's own supplement brands and in private label products. The branded products are sold exclusively through the company's access to an extensive network of healthcare practitioners predominately consisting of medical doctors, nutritionists and naturopaths.

By acquiring Microbiome Labs, Novozymes adds a broad range of proprietary microbiome solutions to its human health activities. The acquisition also creates an attractive entry point into the North American probiotics market accessed through the company's network of healthcare practitioners. Goodwill of DKK 369 million is attributable to expected synergies with Novozymes' existing business operations and technologies within

probiotics and enzymes for human health. The goodwill is tax deductible.

The purchase agreement includes a contingent consideration of up to DKK 825 million. The consideration is contingent on the achievement of sales targets for 2022 and is recognized at the anticipated fair value of DKK 338 million at the acquisition date. Fair value is assessed by using the earn-out from the most probable sales estimates in 2022 discounted at a discount rate of 8 %.

Revenue and profit contributed from Microbiome Labs are not included in the consolidated income statement for 2020. On a pro forma basis, if the acquisition had been effective from January 1, 2020 Microbiome Labs would have contributed DKK ~250 million to revenue and an EBIT margin slightly lower than Novozymes' EBIT margin.

Transaction costs incurred in 2020 amounted to DKK 29 million and are included in Sales and distribution costs.



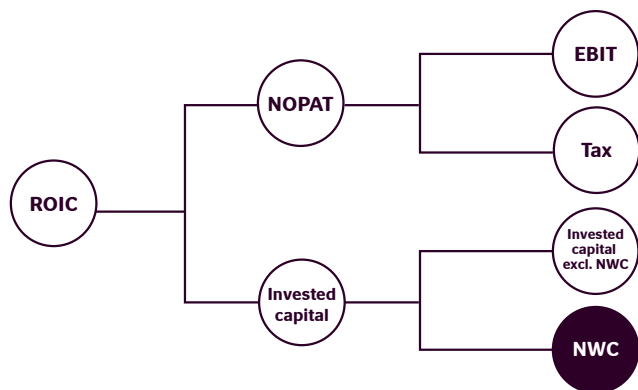
#### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Fair value measurement of the acquired assets and liabilities as well as a contingent consideration requires Management to

make estimates and use assumptions, as observable market prices are not available. The determined fair values are associated with uncertainty and may be subject to subsequent adjustments.

## Net working capital

# 4 Net working capital



DKK million	Note	2020	2019
Inventories	4.1	2,361	2,613
Trade receivables	4.2	2,549	2,864
Contract assets	4.2	6	243
Other receivables	4.3	252	298
Assets held for sale	4.5	23	62
Trade payables		(1,100)	(1,117)
Contract liabilities		(67)	(74)
Other liabilities	4.4	(1,123)	(1,411)
<b>Net working capital</b>		<b>2,901</b>	<b>3,478</b>
<b>Average net working capital</b>		<b>3,190</b>	<b>3,123</b>

Average net working capital in DKK million

# 3,190

Net working capital as % of sales

# 20.7%

Inventories reduced from DKK 2,613 million in 2019 to DKK million

# 2,361

## 4.1 Inventories

DKK million		2020	2019
Raw materials and consumables		353	365
Work in progress		720	821
Finished goods		1,288	1,427
<b>Inventories at December 31</b>	B/S	<b>2,361</b>	<b>2,613</b>
Cost of materials, included under Cost of goods sold		3,248	3,510
Write-downs expensed during the year		109	110
Reversal of write-downs during the year*		48	63

\*Part of the reversal of write-downs is attributable to written-down inventory being reused in production.



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Work in progress and Finished goods are measured at cost, including indirect production costs. Indirect production costs capitalized under inventories amounted to DKK 811 million at December 31, 2020

(2019: DKK 907 million). Indirect production costs are assessed on an ongoing basis to ensure reliable measurement of employee costs, capacity utilization, cost drivers and other relevant factors. Changes in these parameters may have an impact on the gross margin and the overall valuation of Work in progress and Finished goods.



### ACCOUNTING POLICIES

Inventories are measured at the lower of cost determined on a first-in first-out basis and net realizable value.

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

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

Novozymes has entered into a few agreements where Novozymes supplies goods to a customer's premises but retains title to the inventory until the goods are consumed in the customer's production. Such goods are derecognized from inventories in the period when they are consumed in the customer's production.

## 4.2 Trade receivables and contract assets

DKK million	2020	2019
Trade receivables, gross	2,712	3,022
Allowances	(163)	(158)
<b>Trade receivables at December 31</b>	<b>2,549</b>	<b>2,864</b>
Aging of trade receivables, gross:		
Up to 30 days	2,516	2,807
Between 30 and 90 days	42	43
More than 90 days	154	172
<b>Trade receivables, gross, at December 31</b>	<b>2,712</b>	<b>3,022</b>
Changes in allowances for trade receivables:		
At January 1	158	162
Allowances during the year	19	15
Write-offs during the year	(3)	(4)
Reversed allowances	(11)	(15)
<b>Allowances at December 31</b>	<b>163</b>	<b>158</b>

### Trade receivables

Novozymes has collateral of DKK 5 million (2019: DKK 32 million) held as security for trade receivables in selected countries.

### Contract assets

Contract assets amounted to DKK 6 million at December 31, 2020 (2019: DKK 243 million), and mainly related to the estimated profit split arising from partnerships that Novozymes has entered into.

In 2020, changes were made to the BioAg setup and the partnerships Novozymes has entered into within BioAg are no longer based

on profit-split agreements. Contract assets related to BioAg at December 31, 2019 was DKK 209 million.

The contract assets are initially recognized as revenue when goods are delivered to the other contracting party. When the realized profit split is invoiced, the contract assets are reclassified to trade receivables.

No allowance for expected credit losses had been made for contract assets at December 31, 2020 (2019: no allowance).



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The allowance for expected credit losses for trade receivables and contract assets is based on historical credit loss experience combined with forward-looking information on macroeconomic factors affecting the credit risk. The expected loss rates are updated at each reporting date.



### ACCOUNTING POLICIES

Trade receivables and contract assets are measured at amortized cost less allowance for lifetime expected credit losses.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due. Furthermore, an allowance for lifetime expected credit losses for trade receivables is recognized on initial recognition.

As the contract assets relate to the partnerships, the credit risk is based on an individual assessment.

Trade receivables and contract assets are written off when all possible options have been exhausted and there is no reasonable expectation of recovery.

The cost of allowances for expected credit losses and write-offs for trade receivables and contract assets are recognized in Sales and distribution costs.

## Net working capital

### 4.3 Other receivables

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Deposits	29	26
Prepaid expenses	107	102
Other	116	170
<b>Other receivables at December 31</b>	<b>252</b>	<b>298</b>
Recognized in the balance sheet as follows:		
Non-current	B/S 40	29
Current	B/S 212	269
<b>Other receivables at December 31</b>	<b>252</b>	<b>298</b>

### 4.4 Other liabilities

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Employee costs payable	568	732
Stock-based payment settled in cash	15	16
Deferred income	22	30
Other payables	518	633
<b>Other liabilities at December 31</b>	<b>1,123</b>	<b>1,411</b>
Recognized in the balance sheet as follows:		
Current	B/S 1,123	1,411
<b>Other liabilities at December 31</b>	<b>1,123</b>	<b>1,411</b>

## 4.5 Assets held for sale

DKK million	2020	2019
Carrying amount of non-current assets held for sale:		
Land and buildings	23	62
<b>Total</b>	<b>23</b>	<b>62</b>

Assets held for sale comprises buildings that are expected to be sold within the next 12 months. One building was sold in 2020, and an agreement to sell another building in 2021 was signed.



### ACCOUNTING POLICIES

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

Such assets are stated at the lower of the carrying amount and fair value less costs to sell.



# 5 Capital structure and financing

## Net interest-bearing debt

DKK million	Note	2020	2019
Cash and cash equivalents		(1,181)	(711)
Credit institutions	5.3	4,350	4,086
Transitional holiday accrual	5.3	180	58
Non-current lease liabilities		386	453
Current lease liabilities		136	163
<b>Net interest-bearing debt (NIBD) at December 31</b>		<b>3,871</b>	<b>4,049</b>

NIBD/EBITDA unchanged at

**0.8x**

Return on equity down from 27.5% to

**24.9%**

Novozymes bought back 4.3 million B shares under the stock buyback program at an aggregate transaction value of DKK million

**1,500**

## 5.1 Financial risk factors and risk management

Due to the international nature of Novozymes' operations, our earnings and financial position are exposed to a number of financial risk factors. Financial risks are managed centrally for the entire Group. The Treasury Policy is approved by the Board of Directors, and sets the limits for the various financial risks and the derivatives used to hedge risk. The Treasury Policy is adjusted on an ongoing basis to adapt to the market situation, and contains rules on which derivatives can be used for hedging, which counterparties can be used, and the risk profile that is to be applied.

### Currency risk

Currency risk arises due to imbalances between income and costs in each individual currency and because Novozymes has more assets than liabilities in foreign currencies in connection with global operations.

Hedging of currency risk is carried out in the currencies in which Novozymes has the largest exposure. Hedging is managed by entering into derivatives such as forward contracts, currency options and swaps. Loans and deposits in foreign currencies are also utilized for hedging purposes. Hedge effectiveness is assessed on a regular basis by comparing changes in the timing and value of the expected exposure in the relevant currencies with the timing and value changes for the designated cash flow hedging transaction.

Where deemed appropriate, currency risk related to net investments in foreign subsidiaries is hedged by taking out loans and entering into swaps. Currently, there are no open transactions used to hedge equity investments.

### Foreign exchange sensitivity – 2020

The sensitivity analysis below shows the impact on net profit and other comprehensive income of a 5% change in DKK versus the key currencies to which Novozymes was exposed at December 31, 2020. For other comprehensive income, the analysis shows the impact on currency translation of net investments and does not include the impact of cash flow hedges, as these relate to future commercial transactions.

The sensitivity analysis reflects the transaction and translation risk, and assumes that the exchange rates change on December 31, 2020, while all other variables remain constant. The table shows the effect of an increase in exchange rates. A decrease in the exchange rates would have the opposite effect.

### Foreign exchange sensitivity – 2021 estimate

Operating profit (EBIT) is exposed to exchange rate developments, as the effect of hedges is included in financial income/costs. EBIT is mainly exposed to USD and EUR. A movement of 5% in the USD/DKK exchange rate would result in a change in the expected EBIT for 2021 of around DKK 130-160 million (2020: DKK 130-160 million). A 5% movement in the EUR/DKK exchange rate would result in a change in expected EBIT for 2021 of around DKK 200 million (2020: DKK 200 million).

Of the expected USD cash flows for 2021, 88% have been hedged by forward contracts at an average rate of DKK 6.41 at the end of 2020. As a result, the impact on net profit from changes in the USD/DKK exchange rate has been reduced significantly compared with the impact on EBIT.

### Foreign exchange analysis

DKK million	Increase in exchange rates	2020		2019	
		Change in net profit	Change in other comprehensive income	Change in net profit	Change in other comprehensive income
CHF	5.0%	-	49	-	54
CNY	5.0%	(3)	113	(4)	112
USD	5.0%	(2)	227	(1)	250
Other	5.0%	-	68	7	70
<b>Total</b>		<b>(5)</b>	<b>457</b>	<b>2</b>	<b>486</b>

## 5.1 Financial risk factors and risk management (continued)

### Interest rate risk

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

With the current hedging of interest rate risk, an increase of one percentage point in the average interest rate on Novozymes' net interest-bearing debt would have a negative effect on net profit of DKK 2 million (2019: negative effect of DKK 10 million). At December 31, 2020, 69% (2019: 59%) of the loan portfolio carried fixed interest rates.

No loans, credit facilities or other financial instruments held by Novozymes are impacted by the IBOR reform.

### Credit risk

Credit risk arises especially for cash and cash equivalents, derivatives, trade receivables and contract assets. The credit risk on trade receivables and contract assets is countered by thorough, regular analysis based on customer type, country and specific conditions. The credit risk on cash and cash equivalents as well as on derivatives is mitigated by the Treasury Policy, which limits exposure solely to counterparties that have an investment-grade credit rating. Credit risk is calculated on the basis of net market values and is governed by the Treasury Policy. Novozymes has entered into netting agreements (ISDA or similar) with all the banks used for trading in financial instruments, which means that Novozymes' credit risk is limited to net assets.

At December 31, 2020, the Group considered its maximum credit risk to be DKK 4,021 million (2019: DKK 4,051 million), which is the total

of the Group's financial assets. At December 31, 2020, the maximum credit risk related to a single counterparty was DKK 399 million (2019: DKK 279 million).

### Liquidity risk

In connection with the Group's ongoing financing of operations, including refinancing, efforts are made to ensure adequate and flexible liquidity. This is guaranteed by using committed credit facilities and placing free funds in deposits, government bonds or ultra-liquid mortgage bonds in accordance with the Treasury Policy.

At December 31, 2020, Novozymes' financial resources amounted to DKK 6,522 million (2019: DKK 4,174 million), consisting of net cash and cash equivalents, overdraft facilities and undrawn committed credit facilities of DKK 5,344 million, which expire in 2021-2025.

With the exception of debt to credit institutions, the maturity dates are primarily within 12 months.

### Capital structure

Novozymes favors a conservative balance which is reflected by a target for net interest-bearing debt of around 1x EBITDA. At December 31, 2020, the ratio was 0.8x and thus the capital structure is in line with the target. The capital structure is mainly managed using two instruments: 1) Dividend payments where Novozymes aims for a payout ratio of around 50%. For 2020, the payout ratio is expected to be 51.9% which is in line with the communicated target. 2) Stock buybacks, where a program of DKK 1,500 million was executed in 2020. A new program of up to DKK 1,500 million is planned for 2021.

## 5.2 Financial income and Financial costs

DKK million	2020	2019
Interest income	10	90
Gains on cash flow hedges	15	-
Gains on fair value hedges	1	22
<b>Financial income</b>	<b>26</b>	<b>112</b>
Interest costs	(39)	(58)
Interest on lease liabilities	(24)	(28)
Losses on cash flow hedges	-	(164)
Other financial costs	(31)	(29)
Other foreign exchange losses, net	(51)	(63)
Fair value adjustments of cash-settled stock options	(8)	(5)
<b>Financial costs</b>	<b>(153)</b>	<b>(347)</b>
<b>Financial income/(costs), net</b>	<b>(127)</b>	<b>(235)</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 and fair value adjustments of Other financial assets.

Total interest income and costs is measured at amortized cost for financial assets and 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.

## Capital structure and financing

# 5.3 Other financial liabilities

DKK million		2020	2019
Credit institutions		4,350	4,086
Derivatives		33	42
Transitional holiday accrual		180	58
<b>Other financial liabilities at December 31</b>		<b>4,563</b>	<b>4,186</b>
Recognized in the balance sheet as follows:			
Non-current	B/S	3,254	2,775
Current	B/S	1,309	1,411
<b>Other financial liabilities at December 31</b>		<b>4,563</b>	<b>4,186</b>

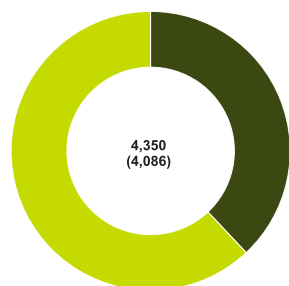
### Liabilities arising from financing activities

DKK million	2020			2019		
	Credit institutions	Lease liabilities	Total	Credit institutions	Lease liabilities	Total
Liabilities from financing activities at January 1	4,086	616	4,702	3,258	708	3,966
Financing cash flows	272	(111)	161	828	(108)	720
Foreign exchange adjustments	(8)	(30)	(38)	-	9	9
Other changes*	-	47	47	-	7	7
<b>Total liabilities from financing activities at December 31</b>	<b>4,350</b>	<b>522</b>	<b>4,872</b>	<b>4,086</b>	<b>616</b>	<b>4,702</b>

\* Other changes include changes in lease liabilities from new or terminated leases and accrued interest expenses which will be presented as operating cash flows in the statement of cash flows when paid.

#### Credit institutions – currency 2020 (2019)

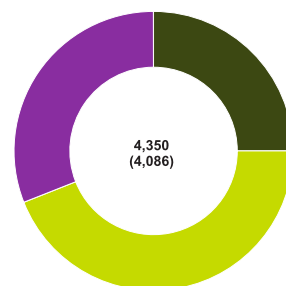
DKK million



● EUR **1,658** (1,719)  
● Other **2,692** (2,367)

#### Credit institutions – time to maturity 2020 (2019)

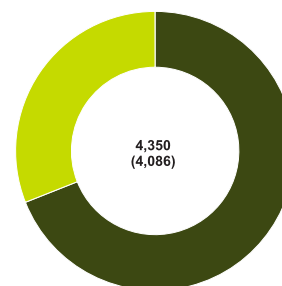
DKK million



● Less than 1 year **1,106** (1,380)  
● Between 1 and 5 years **1,912** (1,477)  
● More than 5 years **1,332** (1,229)

#### Loan portfolio – fixed or floating interest rate 2020 (2019)

DKK million



● Fixed interest rate **2,995** (2,396)  
● Floating interest rate **1,355** (1,690)

## 5.4 Derivatives – hedge accounting

### Fair value hedges

The table below shows the derivatives the Group has contracted in order to hedge currency exposure on financial assets and liabilities that give rise to currency adjustments in the income statement.

DKK million	2020		2019	
	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	(57)	-	(25)	-
CHF	(1,071)	(9)	(1,153)	9
USD	(649)	(13)	(333)	-
INR	364	4	371	-
Other	(3)	(2)	(21)	(2)
<b>Fair value hedges at December 31</b>	<b>(1,416)</b>	<b>(20)</b>	<b>(1,161)</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 January 2021 to July 2021 (2019: January 2020 to June 2020).

The fair value hedges were 100% effective, as the gain on forward exchange contracts was DKK 1 million (2019: gain of DKK 22 million),

compared with a loss on hedged items of DKK 1 million (2019: loss of DKK 22 million).



### ACCOUNTING POLICIES

Hedge accounting consists of positive and negative fair values of derivatives, which are recognized in the balance sheet under Other financial assets and Other financial liabilities respectively.

Derivatives used for fair value hedges are measured at fair value on the reporting date, and value adjustments are recognized as Financial income or Financial costs.

Derivatives used for cash flow hedges and hedges of net investments in subsidiaries are measured at fair value at the reporting date, and value adjustments are recognized in Other comprehensive income.

Income and costs relating to cash flow hedges and hedges of net investments in subsidiaries are transferred from Other comprehensive income on realization of the hedged item and are recognized as Financial income or Financial costs.

Derivatives are recognized at the transaction date.

## 5.4 Derivatives – hedge accounting (continued)

### Cash flow hedges

The table below shows the derivatives that the Group has contracted to hedge currency and interest rate exposure in future cash flows.

DKK million	2020		2019	
	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	2,020	114	1,764	(24)
	<b>2,020</b>	<b>114</b>	<b>1,764</b>	<b>(24)</b>
<b>Interest rate swaps</b>				
DKK/DKK – pays fixed rate of (0.1075%) / earns variable rate of (0.22%) (2019: (0.3933%))	400	1	400	1
DKK/DKK – pays fixed rate of 0.595% / earns variable rate of (0.13%) (2019: (0.27%))	382	(9)	451	(11)
	<b>782</b>	<b>(8)</b>	<b>851</b>	<b>(10)</b>
<b>Cash flow hedges at December 31</b>	<b>2,802</b>	<b>106</b>	<b>2,615</b>	<b>(34)</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 2021 to December 2021 (2019: January 2020 to December 2020), and the swaps fall due in May 2026 and December 2026 (2019: May 2026 and December 2026).

At the end of 2020, the Group had hedged 88% of expected future cash flows in USD for 2021 at an average rate of DKK 6.41 (2019: 75% of expected future cash flows in USD for 2020 at an average rate of DKK 6.53).

## 5.5 Common stock and treasury stock

	2020		2019	
	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)	231,256,400	463	237,256,400	475
<b>Common stock at December 31</b>	<b>285,000,000</b>	<b>570</b>	<b>291,000,000</b>	<b>582</b>
	B/S			
<b>Treasury stock - B stock</b>				
Treasury stock at January 1	9,663,317	19	9,405,806	19
Additions during the year	4,278,090	9	6,591,413	13
Disposals during the year	(2,266,809)	(5)	(333,902)	(1)
Cancellation of common stock	(6,000,000)	(12)	(6,000,000)	(12)
<b>Treasury stock at December 31</b>	<b>5,674,598</b>	<b>11</b>	<b>9,663,317</b>	<b>19</b>

No.	2020	2019
<b>Shares of common stock in circulation</b>		
Shares of stock at January 1	281,336,683	287,594,194
Purchase of treasury stock	(4,278,090)	(6,591,413)
Sale of treasury stock	2,266,809	333,902
<b>Shares of common stock in circulation at December 31</b>	<b>279,325,402</b>	<b>281,336,683</b>

Each A share entitles the holder to 20 votes, while each B share entitles the holder to two votes.

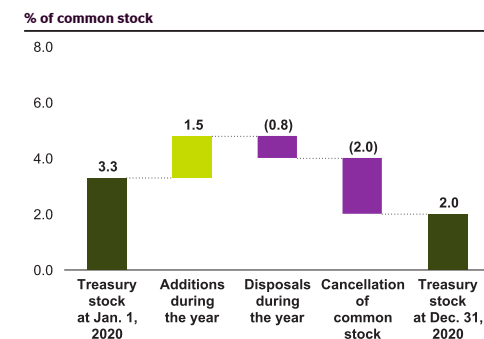
Each year, the Board of Directors assesses whether the ownership structure with A and B common stock is optimal. The Board of Directors maintains that this is the best way to

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

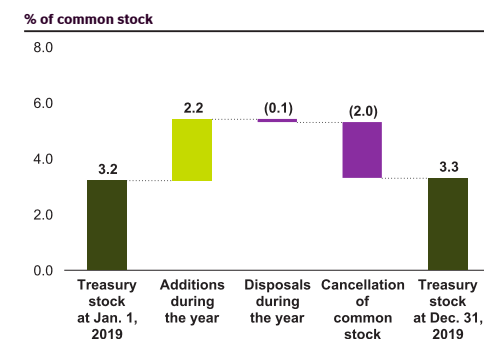
Treasury stock is used to reduce the common stock and to hedge employees' exercise of granted stock awards and stock options.

In 2020, Novozymes canceled 6 million treasury shares, reducing the common stock to 285 million shares.

Treasury stock 2020



Treasury stock 2019





## 5.6 Financial assets and liabilities by category

The table below shows the Group's financial assets and financial liabilities at December 31 by category.

DKK million	Note	2020	2019
Trade receivables	4.2	2,549	2,864
Contract assets	4.2	6	243
Other receivables, excl. prepaid expenses	4.3	145	196
Cash and cash equivalents		1,181	711
<b>Financial assets at amortized cost</b>		<b>3,881</b>	<b>4,014</b>
Other financial assets		21	22
<b>Fair value through profit and loss</b>		<b>21</b>	<b>22</b>
Derivatives		119	15
<b>Fair value through other comprehensive income</b>		<b>119</b>	<b>15</b>
<b>Financial assets</b>		<b>4,021</b>	<b>4,051</b>
Lease liabilities	5.3	(522)	(616)
Credit institutions	5.3	(4,350)	(4,086)
Trade payables		(1,100)	(1,117)
Transitional holiday accrual	5.3	(180)	(58)
Other payables	4.4	(518)	(633)
<b>Financial liabilities at amortized cost</b>		<b>(6,670)</b>	<b>(6,510)</b>
Contingent consideration	3.5	(146)	-
<b>Fair value through profit and loss</b>		<b>(146)</b>	<b>-</b>
Derivatives	5.3	(33)	(42)
<b>Fair value through other comprehensive income</b>		<b>(33)</b>	<b>(42)</b>
<b>Financial liabilities</b>		<b>(6,849)</b>	<b>(6,552)</b>

### Measurement and fair value hierarchy

All financial assets and liabilities, except for derivatives and other financial assets, are measured at amortized cost. The carrying amounts for these approximate fair value. Derivatives are measured at fair value based on observable data (level 2 input) according to the fair value hierarchy. The derivatives are not traded on an active market based on quoted prices, but are individual contracts. The fair value of these assets is determined using valuation techniques that utilize market-based data such as exchange rates, interest rates, credit risk and volatilities. Other financial assets and contingent considerations are measured at fair value based on non-observable data (level 3 input). There are no financial instruments measured at fair value on the basis of quoted prices (level 1 input).

# 6 Other financial notes

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

Grant date fair value of options granted in 2020 in DKK million

**83**

Realized Group audit fee ratio during 2020

**1.0**

No. of Danish and foreign subsidiaries in the Group following the acquisition of PrecisionBiotics Group

**46**

## 6.1 Management remuneration

DKK million	2020				2019			
	Executive Leadership Team				Executive Leadership Team			
	Board of Directors	Registered	Non-registered	Total	Board of Directors	Registered	Non-registered	Total
Salaries and other short-term benefits	8	21	18	47	7	20	14	41
Defined contribution plans	-	2	2	4	-	5	3	8
Cash bonus	-	12	7	19	-	2	1	3
Expensed stock-based incentive programs	-	6	9	15	-	7	4	11
<b>Total remuneration</b>	<b>8</b>	<b>41</b>	<b>36</b>	<b>85</b>	<b>7</b>	<b>34</b>	<b>22</b>	<b>63</b>
Compensation for lost incentives		5	-	5		-	-	-
Severance cost		37	28	65		58	-	58
<b>Additional payments</b>		<b>42</b>	<b>28</b>	<b>70</b>		<b>58</b>	<b>-</b>	<b>58</b>
No. of members at December 31	10	3	4		8	3	3	

General guidelines for the remuneration of the Board of Directors and the Executive Leadership Team of Novozymes A/S, as assessed by the Board of Directors in accordance with the recommendations of the Nomination and Remuneration Committee, are approved at the Annual Shareholders' Meeting. A summary of the Management remuneration can be found in the Governance section of the annual report.

### Executive Leadership Team

Remuneration of the Executive Leadership Team comprises a base salary, pension contribution, a cash bonus (short-term incentive program), stock-based incentive programs (long-term incentive programs) and other benefits (car, telephone, etc.). The variable components of the total remuneration (cash bonus and stock-based incentive programs) are relatively high compared with the base salary and is subject

to the achievement of individual targets and Novozymes' targets for financial, social and environmental performance. The annual cash bonus cannot exceed 9.5 months' fixed base salary, of which 65% is expected to be payable at target performance. The stock-based incentive programs are described in Note 6.2.

Members of the Executive Leadership Team have contracts of employment containing standard conditions for executive officers of Danish listed companies, including the periods of notice that both parties are required to give and noncompetition clauses. If an executive officer's contract of employment is terminated by the company without any misconduct on the part of the executive officer, the executive officer has a notice period of 12 months. In addition to the notice period, the executive officer has a right to termination compensation of 12 months' base salary and pension contributions. However, executive

officers appointed before 2016 had a right to compensation of up to two years' base salary and pension contributions.

### Board of Directors

The remuneration of the Board of Directors comprises a fixed fee and is not based on incentives.

### Changes to the Executive Leadership Team

On February 1, 2020, Ester Baiget joined Novozymes as new Chief Executive Officer. Ester Baiget replaced CEO Peder Holk Nielsen, who left Novozymes at the end of January 2020. Peder Holk Nielsen's severance package was fully expensed in 2019.

In September 2020, Novozymes announced a change to the organizational structure. As part of the re-organization, Graziela Chaluppe dos Santos Malucelli and Claus Crone Fuglsang joined the Executive Leadership Team,

while Andrew Fordyce, former Executive Vice President, Food & Beverages left Novozymes, and Thomas Videbæk, Executive Vice President and COO, will leave the company during 2021. Thomas Videbæk will act as interim EVP for People & Organization, Sustainability and Branding, as well as EVP Strategy & Business Transformation.

The severance packages of Andrew Fordyce and Thomas Videbæk, totaling DKK 61 million, were fully expensed in 2020. The severance packages consist of salary and bonuses during the notice period (12 months) as well as termination compensation (18 and 24 months respectively), and compensation for not being part of a stock-based incentive program in 2020-21. Furthermore, the remaining value of awarded stock and stock options (DKK 4 million) has been expensed.

## 6.2 Stock-based payment

Novozymes has established stock-based incentive programs for the Executive Leadership Team, vice presidents, directors, and other employees. The purpose of these programs is to ensure an alignment of interests of the Management, employees and shareholders. Allocation of programs has been, and remains, dependent on profit, value-creation and, in some cases, sustainability targets being achieved. The exercise price and the share price of a stock option are identical at the date of grant.

A new incentive program for the Executive Leadership Team was established in 2020, covering the performance period 2020-2022. The program is a combination of stock options and stock, with half of the incentive program allocated in stock options and half in stock. The total number of stock options and stock achievable is divided into two categories: 'target stock options and target stock' and 'extra stock options and extra stock'. The target stock options, and target stock correspond to 65% of the maximum stock options and stock, and extra stock options and extra stock correspond to 35% of the maximum stock options and stock. Compared to previous programs the targets reflect an increased weight on organic sales growth (40%), an explicit and increased weight on sustainability targets (20%) and a reduced but still prominent weight on Economic Profit (40%). The targets are aligned with the updated strategy and the business measures for the period 2020-2022.

- If Novozymes reaches the mid-term targets for 2020-2022 for sales growth and economic profit and on all four measures for the sustainability targets, then the target stock options and the target stock will be granted. Extra stock options and extra stocks will not be granted.
- If Novozymes manages to outperform compared to the mid-term targets, some or all of the extra stock options and extra stock may be granted.
- If Novozymes does not meet the mid-term targets for 2020-2022, then none or only part of the target stock options and target stock will be granted.

The program contains a maximum-value clause, allowing the Board of Directors to choose to limit the total allocation of stock options and stock if the intrinsic value of the program exceeds twice the annual conditional grant.

The total target-level fair value of the program at the date of grant was approximately DKK 40 million. The value of the stock will be expensed over the three-year qualifying period (2020-2022) and will be released in 2023. 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 the four-year vesting period.

Furthermore, a new program was established in 2020 for vice presidents and directors covering the performance period 2020-2022 (195 vice presidents and directors). The total target level fair value at grant date was DKK 55 million and based on the same requirements and targets as for the Executive Leadership Team. The program is a combination of stock options and stock, with half of the incentive program allocated in stock and half in stock options. The stock options have a four-year vesting period, while the stock will be released in 2023.

The program contains a maximum-value clause, allowing the Executive Leadership Team to choose to limit the total allocation of stock and stock options if the intrinsic value of the program exceeds twice the annual conditional grant.

For other employees, a new stock option-based incentive program was established in 2020 covering the performance period 2020-2022. The employee program follows the same requirements and targets as the program for the Executive Leadership Team and the program for vice presidents and directors.

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, approximately 5,700 employees will be covered by the program. The awarded stock options have a vesting period of four years, after which there is an exercise period of five years. The target level value of the program is approximately DKK 40 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 based on each individual employee's base salary and the 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 three to four years, followed by an exercise period of five years. In order to exercise the options, the employee must still be employed at the exercise date. This does not apply to persons who have retired, taken voluntary early retirement or been given notice.

## Other financial notes

# 6.2 Stock-based payment (continued)

### Stock options

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

	Number of options				DKK		DKK million
	Executive Leadership Team	Vice presidents and directors	Other employees	Total	Avg. exercise price per option	Grant date fair value per option	Grant date fair value total
Outstanding at January 1, 2020	1,882,907	3,902,302	1,756,819	7,542,028	267		
Change in Management	(874,904)	874,904	-	-			
Granted <sup>1</sup>	269,942	553,482	877,336	1,700,760	351	49	83
Exercised <sup>2</sup>	(280,434)	(1,218,182)	(568,307)	(2,066,923)	260		
Forfeited	-	(21,400)	(1,948)	(23,348)	276		
Expired	-	-	(9,246)	(9,246)	279		
<b>Outstanding at December 31, 2020</b>	<b>997,511</b>	<b>4,091,106</b>	<b>2,054,654</b>	<b>7,143,271</b>	<b>289</b>		
Outstanding at January 1, 2019	1,934,249	4,165,211	1,871,253	7,970,713	266		
Granted	(62,626)	62,626	-	-			
Allocation adjustment	602,535	1,102,730	-	1,705,265	275	40	69
Exercised	(591,251)	(1,131,136)	-	(1,722,387)	275		
Forfeited	-	(269,842)	(78,703)	(348,545)	227		
Expired	-	(27,287)	(35,731)	(63,018)	277		
<b>Outstanding at December 31, 2019</b>	<b>1,882,907</b>	<b>3,902,302</b>	<b>1,756,819</b>	<b>7,542,028</b>	<b>267</b>		
Number of exercisable options at December 31, 2020				2,936,359	266		
Number of exercisable options at December 31, 2019				3,215,513	258		

1. The allocation of stock options for 2020-2022 will be adjusted in January 2023 based on the cumulative level of target achievement for the period.

2. The weighted average share price for stock options exercised during 2020 was DKK 369 (2019: DKK 316).

		2020			2019		
		Remaining term to maturity of up to five years	Remaining term to maturity of over five years	Total	Remaining term to maturity of up to five years	Remaining term to maturity of over five years	Total
Stock options outstanding	No.	3,727,217	3,416,054	7,143,271	5,015,210	2,526,818	7,542,028
Weighted average term to maturity	Years	3	7	5	4	7	5
Range of exercise prices	DKK	178-317	275-351	178-351	160-317	249-335	160-335
Average exercise price	DKK	263	318	289	264	275	267

## 6.2 Stock-based payment (continued)

During 2020, DKK 54 million arising from stock-based payment was recognized in the income statement (2019: DKK 46 million), DKK 53 million of which was from equity-settled programs (2019: DKK 45 million) and DKK 1 million was from cash-settled programs (2019: DKK 1 million).

Most programs are equity settled, and no liability is recognized for these. If allocations under the programs are made in countries where ownership of foreign stock is not permitted, the value of stock options is settled in cash instead, and a liability of DKK 15 million was recognized for this in 2020 (2019: DKK 16 million). The intrinsic value of exercisable cash-settled programs in 2020 was DKK 13 million (2019: DKK 14 million).

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

		2020	2019
Expected future dividends per share	DKK	39.6	37.4
Volatility	%	22.1	23.2
Annual risk-free interest rate	%	(0.6)	0.0
Weighted average share price at grant date	DKK	351	275

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

### Stock awards

The stock allocated under the three-year programs is stock awards. The majority of the stocks was allocated in 2017. In 2020, 108,242 stock awards with a fair value of DKK 38 million were granted to new employees enrolled in the programs (2019: DKK 3 million).

The total number of outstanding stock awards at December 31, 2020 was 108,242 (2019: 307,262). The fair value of these at December 31, 2020 was DKK 38 million (2019: DKK 100 million), which will be expensed over the three-year period (2020-2022).



### ACCOUNTING POLICIES

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

The fair value of the employee services received in exchange for the grant of stock options and stock awards is measured with reference to the fair value of the stock options and stock awards granted. The fair value is measured using the Black-Scholes option-pricing model.

The fair value of stock-based payment at the grant date is recognized as an employee cost over the period in which the stock options vest. In measuring the fair value, account is taken of the number of employees expected to gain entitlement to the options as well as the number of options the employees are expected to gain. This estimate is adjusted at the end of each reporting 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 reporting period, and the subsequent adjustment is recognized in the income statement under Financial income or Financial costs.

## 6.3 Commitments and contingencies

DKK million	2020	2019
<b>Other commitments</b>		
Contractual obligations to third parties relating to property, plant and equipment	272	200
<b>Other guarantees</b>		
Other guarantees and commitments to related companies	21	27
Other guarantees and commitments	293	242

### Pending litigation and arbitration

Novozymes is engaged in certain legal cases. The Board of Directors and Management believe that settlement or continuation of these cases will not have a significant effect on the Group's financial position. A liability is recognized under Provisions where the risk of a loss on a legal case is considered more likely than not.

### Contract conditions

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

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

## Other financial notes

# 6.4 Related party transactions

Novozymes A/S is controlled by Novo Holdings A/S, domiciled in Hellerup, Denmark, which holds 72.4% 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).

Related parties are considered to be Novo Holdings A/S and the Novo Nordisk Foundation, and the Board of Directors and Executive Management of these entities together with their immediate families. Other related parties are considered to be the Novo Nordisk Foundation's subsidiaries and associates, such as the Novo Nordisk

Group, the NNIT Group and the Chr. Hansen Group, associates of Novozymes A/S, such as Microbiogen Pty. Ltd., as well as 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 had the following transactions with related parties:

DKK million	2020	2019
<b>Novo Holdings A/S</b>		
Sale of services	1	-
<b>The Novo Nordisk Group</b>		
Sale of goods and materials	-	26
Sale of services	72	77
Purchase of goods and materials	(79)	(64)
Purchase of services	(35)	(68)
<b>The NNIT Group</b>		
Purchase of services	(43)	(27)
<b>The Chr. Hansen Group</b>		
Sale of goods and materials	69	53
Purchase of services	(3)	(9)
<b>Microbiogen Pty. Ltd.</b>		
Purchase of services	(30)	(15)

In 2020, Novozymes purchased from Novo Holding 1,530,000 of its own B shares with the approval of the Board of Directors, at a price

of DKK 537 million (2019: 1,530,000 B shares at a price of DKK 475 million). The transactions were based on the market price.

DKK million	2020	2019
<b>Novo Holdings A/S</b>		
Receivables	-	-
<b>The Novo Nordisk Group</b>		
Receivables	8	9
Payables	(85)	(98)
<b>The NNIT Group</b>		
Payables	(14)	(7)
<b>The Chr. Hansen Group</b>		
Receivables	-	11
<b>Microbiogen Pty. Ltd.</b>		
Payables	(7)	(4)

There were no transactions with related parties other than the transactions described and normal remuneration of the Board of Directors and Executive Leadership Team, which is presented in Note 6.1.

Rental commitments to related parties at December 31, 2020 amounted to DKK 13 million, compared with DKK 14 million at December 31, 2019.



## 6.5 Fees to statutory auditors

DKK million	2020	2019
Statutory audit	9	8
Other assurance engagements	-	-
Tax assurance services	6	4
Other services	3	1
<b>Fees to statutory auditors</b>	<b>18</b>	<b>13</b>
Group audit fee ratio	1.0	0.6

### Audit fee policy

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

No such approvals were given in 2020 or 2019.

Implementation of the EU audit reform has led to restrictions on the nonaudit services that the auditors elected at the Annual Shareholders' Meeting may perform. The fee for nonaudit services performed for Novozymes by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab is DKK 3 million

(2019: DKK 2 million) and does not exceed the 70% CAP. The services comprise audit of project accounts, tax advisory services concerning transfer pricing, M&A support and other general financial reporting and tax consultancy. An insignificant service were performed in relation to local reporting assistance in a subsidiary.

## Other financial notes

# 6.6 Cash flow

DKK million	Note	2020	2019
<b>Non-cash items</b>			
Accrued interest income and interest costs		53	(3)
(Gain)/loss on financial assets, etc., net		9	5
Depreciation, amortization and impairment losses	3.1, 3.2	1,266	1,182
Realized loss and allowances for doubtful trade receivables		20	(1)
Financial (gain)/loss on sale and disposal of assets		-	50
Unrealized foreign exchange (gain)/loss		31	10
Tax	2.6	695	644
Stock-based payment	6.2	54	46
Change in provisions		8	(88)
Termination of The BioAg Alliance		-	(335)
Divestment of the pharma-related royalty		(42)	(194)
Transitional holiday accrual		122	-
Profit/loss in associates		4	5
<b>Non-cash items</b>		<b>2,220</b>	<b>1,321</b>
<b>Business acquisitions, divestments and purchases of financial assets</b>			
Acquisition of PrecisionBiotics Group	3.5	(588)	-
Divestment of the pharma-related royalty		-	430
<b>Cash flow from acquisitions, net</b>		<b>(588)</b>	<b>430</b>
<b>Intangible assets</b>			
Additions of intangible assets	3.1	146	230
Intellectual property transferred from The BioAg Alliance	3.1	-	(95)
<b>Purchase of intangible assets</b>		<b>146</b>	<b>135</b>
<b>Property, plant and equipment</b>			
Additions of property, plant and equipment	3.2	852	909
Less additions to lease assets	3.3	(58)	(47)
<b>Purchase of property, plant and equipment</b>		<b>794</b>	<b>862</b>

Undrawn committed credit facilities were DKK 5,344 million at December 31, 2020 (2019: DKK 3,758 million), all of which expire in 2021-2025.

## § 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, repayment of lease liabilities, payment of dividends, proceeds from stock issues, and the sale of treasury stock and other securities.

Cash and cash equivalents comprises cash at bank and in hand less current bank loans due on demand.

## Other financial notes

# 6.7 Events after the reporting date

On January 7, 2021, Novozymes acquired all voting shares in Microbiome Labs. Reference is made to Note 3.5 for more details.

No other events have occurred after the reporting date of importance to the consolidated financial statements.

# 6.8 Group companies

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

- Production
- Sales and marketing
- Research and development
- Holding companies, etc.



	Activity	Percentage of shares owned
<b>Parent Company</b>		
Novozymes A/S, Denmark	■ □ ● ◆	
<b>Subsidiaries</b>		
Novozymes BioAg S.A., Argentina	■ □ ● ◆	100
Novozymes Australia Pty. Ltd.*, Australia	●	100
Novozymes Belgium BV*, Belgium	●	100
Novozymes Latin America Ltda.*, Brazil	■ □ ● ◆	100
Novozymes BioAg Productos Para Agricultura Ltda., Brazil	■ □ ●	100

	Activity	Percentage of shares owned
Novozymes Deutschland GmbH*, Germany	●	100
Novozymes Hong Kong Ltd., Hong Kong	○	100
Novozymes South Asia Pvt. Ltd., India	■ □ ● ◆	100
PrecisionBiotics Group Ltd.*, Ireland	○	100
PrecisionBiotics Ltd., Ireland	● ◆	100
Novozymes Italia S.r.l.*, Italy	●	100
Novozymes Japan Ltd.*, Japan	● ◆	100
Novozymes Kenya Ltd.*, Kenya	●	100
Novozymes Malaysia Sdn. Bhd.*, Malaysia	●	100

## Other financial notes

# 6.8 Group companies (continued)

	Activity	Percentage of shares owned		Activity	Percentage of shares owned
Novozymes BioAg Limited, Canada	■ □ ● ◆	100	Novozymes Mexicana, S.A. de C.V.*, Mexico	●	100
Novozymes Canada Limited, Canada	■ □ ●	100	Novozymes Mexico, S.A. de C.V., Mexico	●	100
Novozymes (China) Biotechnology Co. Ltd., China	■ □ ●	100	Novozymes Nederland B.V.*, Netherlands	●	100
Novozymes (China) Investment Co. Ltd., China	● ◆	100	Novozymes RUS LLC*, Russia	●	100
Novozymes (Shenyang) Biologicals Co. Ltd., China	■ □ ●	100	Novozymes Singapore Pte. Ltd.*, Singapore	○	100
Suzhou Hongda Enzyme Co. Ltd., China	■ □ ●	96	Novozymes South Africa (Pty) Ltd.*, South Africa	●	100
Novozymes Bioindustrial A/S*, Denmark		100	Novozymes Korea Limited*, South Korea	●	100
Novozymes Bioindustrial China A/S*, Denmark		100	Novozymes Spain S.A.*, Spain	●	100
Novozymes Biopharma DK A/S*, Denmark		100	Novozymes Sweden AB*, Sweden	●	100
Novozymes BioAg A/S*, Denmark		100	Novozymes Switzerland AG, Switzerland	●	100
Novozymes France S.A.S.*, France	●	100	Novozymes Switzerland Holding AG*, Switzerland	○	100
Novozymes Berlin GmbH, Germany	● ◆	100	Novozymes (Thailand) Ltd.*, Thailand	●	100
Novozymes Enzim Dis Ticaret Ltd. Sirketi*, Turkey	●	100			
Novozymes UK Ltd.**, UK	● ◆	100	<b>Joint operations/associates</b>		
Novozymes BioAg, Inc., USA	■ □ ●	100	Grundejerforeningen Smørmosen*, Denmark		
Novozymes Biologicals, Inc., USA	■ □ ● ◆	100	Grundejerforeningen Hallas Park*, Denmark		
Novozymes Blair, Inc., USA	■ □	100	Microbiogen PTY Ltd.*, Australia		23.10
Novozymes, Inc., USA		100	Tecnol s.r.l. in liquidazione (formerly Beta Renewables S.p.A.)*, Italy		9.95
Novozymes North America, Inc., USA	■ □ ● ◆	100	MagnaBioAnalytics LLC, USA		19.35
Novozymes US, Inc.*, USA		100			

\* Owned directly by Novozymes A/S.

\*\* Novozymes A/S has guaranteed the liabilities of Novozymes UK Limited (company number: 1328873) in order that it qualify for the exemption from preparing individual financial statements under Section 479A of the Companies Act 2006 in respect of the year ended December 31, 2020.

# 7 Environmental data

We measure our performance in areas where we believe we have significant impact on the environment. Monitoring our environmental data is key to measuring progress against the ambitious goals we have adopted. We have a high focus on reducing CO<sub>2</sub> emissions from our own operations and on being more circular in the use of natural resources by reducing our footprint in other environmental areas like water, energy, waste and biodiversity.

Renewable energy share of total energy consumption

**43%**

m<sup>3</sup> of water saved due to water efficiency projects

**45,000**

Percentage of biomass waste handled in a circular set-up

**97%**

## 7.1 Climate change

Novozymes' solutions enable our customers and end users to reduce their CO<sub>2</sub> emissions through the application of our products, and climate action is an integral part of our business strategy. Climate change also impacts Novozymes' supply chain as well as operations, and it is important we address related risks through appropriate measures.

### Our approach

Novozymes has established an ambitious climate strategy that drives our approach to addressing climate-change-related impacts across our value chain. The Operations, Supply & Quality function and the Global Sustainability department are responsible for driving the climate change action agenda both within and outside Novozymes.

Climate change poses multiple risks, transitional as well as physical, to our business and we have set up an internal process to manage key climate-related risks.

In addition to our full disclosure to CDP climate change, we strongly support the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) and are in the process of its implementation.

Novozymes' approach to making its operations less carbon intensive is based on two levers: implementing various energy efficiency projects and increasing the share of renewable energy consumption. Our efforts to reduce operational CO<sub>2</sub> emissions are driven by our science-based targets. We have committed to reduce our absolute Scope 1 & 2 CO<sub>2</sub> emissions by 50% by 2030 (relative to 2018) on our way to becoming carbon neutral by 2050. We have also committed to reduce absolute Scope 3 CO<sub>2</sub> emissions from the purchased goods and services category by 15% by 2030 (relative to 2018). To drive performance towards these commitments, we have set mid-term targets (2020-2022) for reducing absolute CO<sub>2</sub> emissions from operations by 40% by 2022 (relative to 2018). We have also defined annual internal targets to guide implementation.

Many Novozymes solutions enable our customers to reduce CO<sub>2</sub> emissions from their products. Novozymes has committed to help the world limit global warming increase to 1.5° C by saving 60 million tons of CO<sub>2</sub> by enabling low-carbon fuels in the transport sector in 2022.

Novozymes conducts peer-reviewed cradle-to-grave life cycle assessment (LCA) studies to document the environmental impact of our solutions. These studies are used to keep our stakeholders informed and to demonstrate to our customers ways to reduce their CO<sub>2</sub> emissions and leverage the positive impact on climate change made possible by Novozymes' solutions. To learn more, please find our approach to LCA at [Novozymes.com](https://www.novozymes.com).

Also, Novozymes continues to support global climate action, including through responsible public advocacy and partnerships. In many geographies, Novozymes actively supports policies to promote the use of sustainable, low-carbon fuels.

See our position paper on climate change at [Novozymes.com](https://www.novozymes.com)



### ACCOUNTING POLICIES

Reported CO<sub>2</sub> emissions comprise scope 1, scope 2 and emissions from outbound transport of products.

CO<sub>2</sub> from internally generated energy (scope 1) is calculated based on the amount of fuel consumed, using local emission factors.

CO<sub>2</sub> from externally generated energy (scope 2) is reported in accordance with both the market-based and the location-based methods, as defined by the Greenhouse Gas (GHG) Protocol. The location-based method assumes zero CO<sub>2</sub> emissions from sourced renewable energy and uses CO<sub>2</sub> factors from International Energy Agency (IEA) for non-renewable energy. The market-based method uses CO<sub>2</sub> factors from IEA.

Transport-related CO<sub>2</sub> emissions (scope 3) are calculated based on principles described in the GHG Protocol. Reported quantities comprise CO<sub>2</sub> emissions related to transport from all primary enzyme production sites to customers 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. Emissions data are calculated based on distance and emission factors from the GHG Protocol.

The environmental impact potentials for global warming and ozone layer depletion are calculated on the basis of data published by the US Environmental Protection Agency (EPA) and the Montreal Protocol published by the United Nations Environment Programme (UNEP).

# 7.1 Climate change (continued)

## 2020 highlights

In 2020, CO<sub>2</sub> emissions (scope 1 + 2 only) from our operations decreased by 29% to 234,000 tons from 330,000 tons in 2019.

We also achieved a 46% reduction of our absolute emissions (scope 1 + 2) compared to our 2018 baseline, allowing us to achieve our 2022 target well in advance. Apart from the

transition to renewable electricity and green steam at some of our sites, this reduction was also influenced by lower capacity utilization of our high impact sites in China and North America, as a result of the COVID-19 pandemic. We have decided not to revise our 2022 target yet as we expect production levels to normalize.

invest in energy efficiency and waste-to-energy opportunities.

## CO<sub>2</sub>-equivalent emissions

1,000 tons	2020	2019
Natural gas	33	35
Gas oil, light fuel oil and diesel oil	4	4
HCFCs	0	1
<b>Scope 1</b>	<b>37</b>	<b>40</b>
District heat	2	11
Electricity	148	203
Steam	47	76
<b>Scope 2 (market-based)</b>	<b>197</b>	<b>290</b>
<b>Scope 1 and 2, Total</b>	<b>234</b>	<b>330</b>
Ship	4	6
Truck	20	17
Air freight	10	12
<b>Scope 3</b>	<b>34</b>	<b>35</b>
<b>Emissions, total</b>	<b>268</b>	<b>365</b>

## Market-based vs. location-based scope 2 emissions

1,000 tons	2020	2019
Scope 2 CO <sub>2</sub> emissions (market-based)	197	290
Scope 2 CO <sub>2</sub> emissions (location-based)	445	415

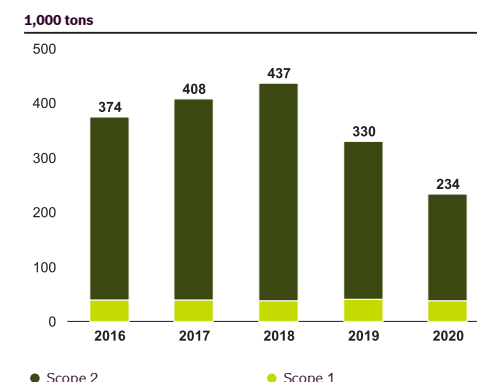
A breakdown of the operational emissions is provided in the table.

We began to implement our scope 3 target to reduce our absolute CO<sub>2</sub> emissions from purchased goods and services. We are exploring multiple levers to achieve our target such as substitution to less CO<sub>2</sub> intensive materials, and engaging with our suppliers to drive emission reduction. In 2020, we developed an accounting methodology for our scope 3 target, and have also begun to engage with key suppliers on this.

Novozymes solutions in bioenergy helped the transport sector save 49 million tons of CO<sub>2</sub> in 2020 by enabling the production of low carbon fuels.

Going forward, we will continue to explore renewable energy opportunities for our larger sites in North America and China. We will also work on our scope 3 target by driving supplier engagement and developing emission reduction plans. Finally, we will continue to

Five-year operational emissions (CO<sub>2</sub>-eqv)



## Environmental data

# 7.2 Energy

Energy is material to Novozymes across the value chain, as our operations depend on steam and electricity, while many of our biosolutions enable downstream users to save energy in certain applications (e.g. in laundry and dishwashing detergents and textile applications) compared with conventional methods.

Furthermore, our bioenergy solutions enable the development of low-carbon fuels for transportation, which represents a significant share of the global energy mix.

### Our approach

We manage energy in our operations through a two-pronged approach: reducing energy use in production by implementing optimization or energy-saving projects and increasing the sourcing of renewable energy. Relevant targets drive our performance in these areas.

Novozymes' Supply Operations and Sourcing departments manage and monitor all energy efficiency and renewable energy-sourcing efforts, and through the RE100 initiative have committed to source 100% renewable electricity by 2030.

We also have internal annual targets that guide our progress towards our 2030 target.

### 2020 highlights

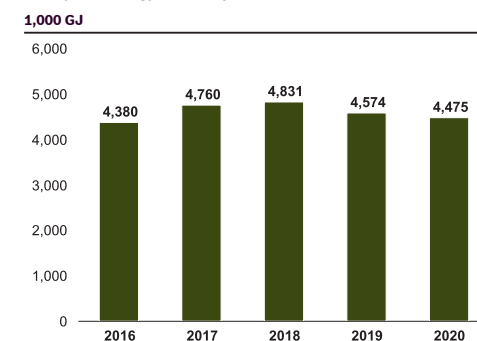
In 2020, projects driving process optimization and energy efficiency undertaken at our sites throughout the year resulted in energy savings of 33,000 GJ. The savings originated from many projects, including the replacement of pumps, optimization of ventilation, improved monitoring enabling optimization of energy consumption, etc.

On top of the internal energy savings, Novozymes also has a strategy to produce energy from waste to local communities.

In 2020, we installed a large heat pump at our Fuglebakken site in Denmark that will generate 80,000 GJ annually from excess heat from our production and to be distributed as district heating to the city of Copenhagen. This corresponds to the annual consumption of more than 2,000 Danish households.

The table provides details of energy consumed by primary source.

### Five-year energy consumption



### Energy consumption by primary source

1,000 GJ	2020	2019
Natural gas	644	656
Biogas	63	70
Gas oil, light fuel oil and diesel oil	39	46
<b>Internally generated energy, total</b>	<b>746</b>	<b>772</b>
Electricity – conventional	806	1,347
Electricity – renewable	1,758	1,315
District heat - conventional	89	187
District heat - renewable	112	-
Steam	964	953
<b>Externally purchased energy, total</b>	<b>3,729</b>	<b>3,802</b>
<b>Energy consumption, total</b> <span style="background-color: #d9ead3; padding: 2px;">ESG</span>	<b>4,475</b>	<b>4,574</b>
Energy production from waste	89	86



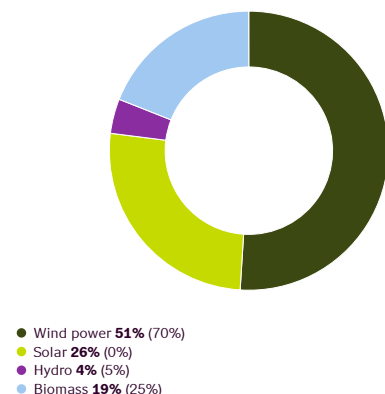
## 7.2 Energy (continued)

This year, we sourced 69% of our electricity from renewable sources, making progress towards our 2030 goal. We recognize that in order to meet our 2050 ambition of becoming carbon neutral, we will need to also explore renewable options for energy sources other than electricity.

In 2020, the share of renewables in our energy mix increased to 43% from 30% in 2019. This was possible because we started procuring renewable electricity at our site in Franklinton as well as district heat from renewable sources at our site in Kalundborg.

Going forward, Novozymes will continue to seek renewable energy opportunities for all sites in order to reduce its operational CO<sub>2</sub> footprint and deliver on the 100% renewable electricity commitment. Novozymes will also continue to explore energy saving opportunities at all sites and has allocated specific budgets for energy efficiency and waste-to-energy initiatives.

Renewable energy sources 2020 (2019)



### § ACCOUNTING POLICIES

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 based on the lower combustion value and weight by volume, except in the US, 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 fuel used to produce electricity, heat and steam on site and converted to energy using factors supplied by utility providers or local authorities. Fuel for transportation is not included.

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

Energy produced from waste or wastewater is renewable and corresponds to the total energy (heat, electricity or steam) produced by an internal or external utility provider. An example is energy produced from biomass waste or biogas.

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

The renewable energy percentage is calculated by dividing renewable energy consumed by total energy consumption. Renewable energy used at Novozymes sites comprises energy generated from natural processes and continuously replenished. Sources include solar, wind and hydropower-based electricity and energy from biogas and biomass.

District heat - renewable is based on biomass.

## Environmental data

# 7.3 Water

The production of Novozymes' solutions are based on the use of freshwater, at dilution and recovery stages, for example, and results in wastewater generation. Many of the raw materials required in our operations are agriculture-based and need water for production. At the same time, some of Novozymes' existing solutions, specifically in textile and laundry, enable our customers to reduce water consumption compared with conventional methods, and improve wastewater quality by replacing chemicals. Further, our solutions improve processes in the wastewater treatment industry. Therefore, water remains one of our priority focus areas as it presents both risks and opportunities across our value chain.

### Our approach

Novozymes is committed to ensure water use that is clean, efficient and respects the capacity of the planet thereby contributing to long-term water security for all. Our 2030 ambition on water is to manage water in balance with local conditions. We have a short-term target to develop contextual water management programs for all our key sites by 2022, which will help us focus our efforts in the

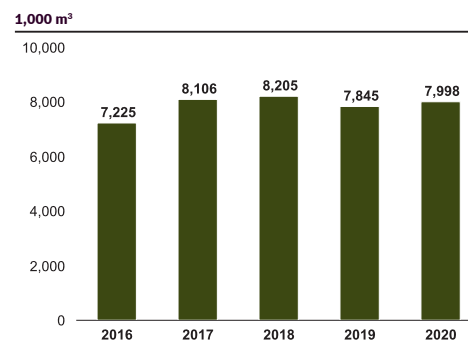
regions where it is needed the most and where we can make the maximum impact. We also recognize that internal water-related risks are often a result of water challenges that exist in the local water basin and it requires collective action and efforts beyond our own boundary to address them effectively. Read more about our water stewardship approach in our position paper on water.

In our operations, we focus on improving water efficiency and ensuring compliance with wastewater discharge regulations at all our sites to reduce our freshwater consumption and improve the quality of water that leaves our boundary.

The wastewater and biomass treatment at our production sites are given high priority and our wastewater is treated internally or externally in biological wastewater treatment systems before being discharged to a final destination point or used in agriculture for irrigation. All water efficiency and wastewater management efforts are managed by Novozymes' Operations, Supply and Quality function.

The table provides a breakdown of total water consumed.

**Five-year water consumption**



### Water by primary source

1,000 m³	2020	2019
Drinking water	5,473	5,288
Industrial water	2,177	2,214
Steam	348	343
<b>Water, total</b>	<b>7,998</b>	<b>7,845</b>



### ACCOUNTING POLICIES

Water includes drinking water, industrial water and externally supplied steam. Drinking water is water of drinking-water quality. Industrial water is not of drinking-water quality, but is suitable for certain industrial processes, for example for use in cooling towers. Industrial water may come from lakes or wells.

The reported quantities are stated based on the metered intake of water to Novozymes and include quantities consumed both in the production process and in other areas. The reported quantities of steam are converted to volumes of running water and are therefore subject to calculation.

Wastewater is measured as the volume discharged by Novozymes or calculated based on water consumption.

## 7.3 Water (continued)

### 2020 highlights

In 2020, we established strong internal and external engagement to secure successful results from our long-term water strategy. We became a proud signatory to the UN Global Compact’s CEO Water Mandate and established a partnership with the World Wide Fund for Nature (WWF). WWF will help us to develop contextual water programs for our key sites that will ensure our efforts are focused on addressing the priority operational and basin water challenges. This year, we developed contextual water management programs for two of our sites in China and have identified water targets that will help us address water challenges in and around these sites.

Novozymes has also joined the Science Based Targets Network’s (SBTN) Freshwater Hub working group driving the development of methodology for science-based targets for water.

The table provides a breakdown of total wastewater generated in 2020.

### Wastewater treatment

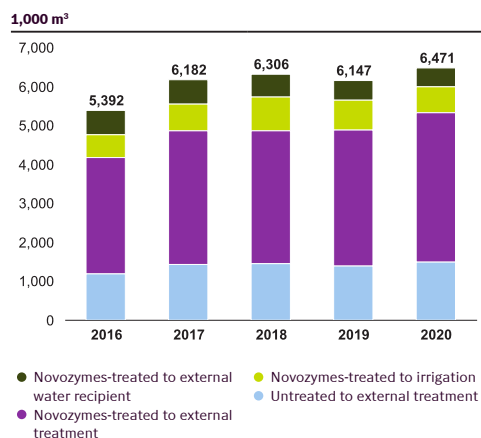
1,000 m <sup>3</sup>	2020	2019
Wastewater used for irrigation	662	774
Wastewater discharged	5,809	5,373
<b>Wastewater volume, total</b>	<b>6,471</b>	<b>6,147</b>

Within our operations, we achieved water-savings of 45,000 m<sup>3</sup> for the year through water reduction and re-use projects. This year, we also initiated a large water savings project at our Tianjin site in China which when completed will contribute to estimated water savings of around 150,000 m<sup>3</sup> annually through the re-use of water for cooling towers and our internal processes, among other things.

To further expand our water stewardship efforts in India, Novozymes initiated work on the ambitious water project ‘NOWO – Novozymes Water Opulence’ to address water-scarcity situation in the neighboring villages near our production site in Patalganga near Mumbai. The project, which is being implemented in close collaboration with, Anarde, a local NGO that aims to raise the underground water table in the area, empowers villagers to be self-reliant for water, and educates them on its efficient and appropriate use.

Going forward, we will focus on completing the development of contextual water management programs for all our key sites and further expand our water stewardship efforts. At the same time, we will continue our efforts to increase water efficiency and wastewater recycling internally to reduce our dependence on freshwater.

Wastewater by treatment method



## 7.4 Waste

Novozymes supports the transition to a circular economy through biological solutions which enable our customers to adopt sustainable production and consumption practices. At the same time, we are committed to driving our own business towards more circularity by focusing on the reduction, reuse and recycling of the planet's limited natural resources.

Circular waste management is a key enabler for a sustainable future and we are committed to doing our part.

### Our approach

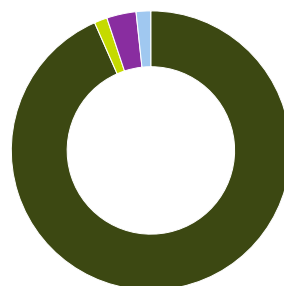
Waste management at Novozymes is managed through the 'Production and consumption' pillar of our strategy, which includes ambitions and targets on circular waste management. We aim to have all key materials and waste managed in circular systems by 2030.

Novozymes has 17 major sites. As waste management is a complex issue subject to a diverse set of local regulations and involving several external service providers, we have adopted a site-specific management approach.

### 2020 highlights

Novozymes generated 480,000 tons of total waste in 2020, of which 465,000 tons was biomass, compared with 526,000 tons of total waste in 2019, of which 513,000 tons was biomass. The majority of the waste was recovered, and only 5% was sent to landfill.

Waste and by-products 2020 (2019)



- Recovered biomass **93.4%** (94.5%)
- Recovered (recycled) non-biomass waste **1.5%** (1.3%)
- Biomass sent for landfill **3.4%** (3.0%)
- Non-biomass waste sent for landfill/incineration **1.7%** (1.2%)

### Biomass

The biomass generated during production makes up 97% of Novozymes' total waste. The biomass is rich in nitrogen and phosphorus, and the energy can be recovered in biogas facilities. As part of our strategy, we have a target of achieving 100% circular management of our biomass by 2022.

In 2020, 97% of our biomass volume was handled in a circular set-up with nutrients, such as nitrogen and phosphorus, being used in agriculture. The biomass is distributed to local farmers or used as a raw material for fertilizer production. A part of the biomass is also sent through biogas plants to produce biogas on its organic content prior to being used in agriculture. In 2020, we secured a new contract to increase the amount of biomass to be recovered by local farmers for land applications.

A breakdown of the total biomass generated is provided in the table.

### § ACCOUNTING POLICIES

Biomass is measured or calculated based on volume or weight produced. At each site, biomass is produced with different dry-matter-to-water ratio. The consolidated dry matter figure is calculated by measuring of dry matter content in biomass from each site multiplied by volume produced at the same site. Biomass is distributed to local farmers, biogas plants or supplied as raw material for fertilizer production by third parties.

Non-biomass 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 solid waste.

### Biomass

1,000 tons	Biomass wet (actual)		Biomass dry matter (excl. water)	
	2020	2019	2020	2019
Used in Agriculture	449	497	47	52
Landfill	16	16	10	9
<b>Biomass, total</b>	<b>465</b>	<b>513</b>	<b>57</b>	<b>61</b>

## Environmental data

# 7.4 Waste (continued)

### Non-biomass waste

Our non-biomass waste accounts for 3% of Novozymes' total waste and it is further classified into nonhazardous and hazardous waste. In 2020, the recycling rate of non-biomass waste was 48% compared with 52% in 2019. The remaining 52% of the waste was sent for landfill or incineration.

A breakdown of the total waste generated is provided in the table.

Waste 1,000 tons	2020	2019
<b>Nonhazardous waste</b>		
Incineration	2.5	2.3
Landfill	4.5	3.1
Recycling (external)	4.2	4.3
<b>Nonhazardous waste, total</b>	<b>11.2</b>	<b>9.7</b>
<b>Hazardous waste</b>		
Incineration	0.8	1.0
Landfill	0.2	-
Recycling (external)	0.4	0.2
Recycling (internal)	2.7	2.4
<b>Hazardous waste, total</b>	<b>4.1</b>	<b>3.6</b>
<b>Waste, total</b>	<b>15.3</b>	<b>13.3</b>

To pave the way for our long-term circular ambition, we have a target that, by 2022, all sites should have programs to reach zero waste by 2030. To develop local solutions, we are working actively with local experts and service providers to explore site-specific opportunities.

In 2020, we developed zero waste programs for three of our major sites, located in Denmark.

Specifically on hazardous waste, in 2020, we introduced several measures to reduce both its generation and environmental impact. They include expansion of our internal recycling capability, local process improvements and engagement with local organizations to safely reuse or recycle specific types of hazardous waste.

In 2020, we increased our hazardous waste recycling capacity at two of our major sites. Due to the planned expansion, we safely diverted some of the hazardous waste from incineration in 2019 and we recycled it in 2020 – this explains the increase in the reported hazardous waste for 2020.

### Circular packaging

We are committed to minimizing the impact of the waste generated by our packaging. Therefore, by 2022 we will have circular plans for all our key packaging materials in key markets. We are working to minimize our packaging footprint by making our packaging recyclable, reusable or compostable.

## 7.5 Environmental compliance

Compliance with environmental norms and regulations is a high priority for Novozymes so as to maintain business continuity and the day-to-day running of operations. Novozymes is committed to complying with all environmental regulations at all our sites and maintaining high standards of environmental management on various aspects, including pollution prevention, resource conservation and waste reduction.

### Our approach

Our commitment to environmental compliance

is outlined in Novozymes' Sustainability Policy. All activities to ensure environmental compliance are anchored in the Quality, Environment & Safety function. Our Environmental Management System is based on ISO 14001 certification, and we strive to minimize instances of non-compliance and neighbor complaints.

### 2020 highlights

In 2020, 20 environmental incidents were registered across our facilities, compared with 17 in 2019. Most of these were related

to wastewater treatment. Plans for preventive action for these incidents have been agreed with the relevant authorities.

Novozymes received ten neighbor complaints in 2020 compared to seven complaints in 2019.



### ACCOUNTING POLICIES

Breaches of environmental regulatory limits are measured as the number of incidents in the reporting year considered not to be in conformity with environmental permits or requirements under environmental law.

Breaches related to annual control measurements of spills reported in previous years are not included, as they are not indicative of performance during the reporting year.

Neighbor complaints refers to the number of registered environmental complaints, primarily odor and noise related.

## 7.6 Bioethics & biodiversity

Novozymes' research and business are based on bio-innovation. To develop sustainable solutions and applications for our customers, we explore nature and take samples of fungi, bacteria and enzymes among the available biodiversity. Next, we assess the samples and optimize applications by means of biotechnological research.

### Our approach

Novozymes' position paper on industrial biotechnology describes how industrial biotechnology and gene technology can contribute to sustainable development.

Novozymes is committed to sharing its knowledge about the potential of biology and industrial biotechnology with the public and other stakeholders outside of Novozymes.

Novozymes supports a science-based regulatory framework for products involving gene editing, operating in compliance with legislation and following any guidance and requirements from regulatory authorities on biotech innovation classification. We are committed to using scientifically-sound tools in a way that is safe to humans, animals and the environment.

When we take biological samples in nature, it is important that we always follow the local laws of the countries where we operate as well as complying with globally recognized principles on the utilization of genetic resources. We continuously discover new microbes that are valuable solutions for more environmentally-friendly industrial processes. Novozymes' position paper on biodiversity articulates how we endorse, acknowledge and respect the principles of the United Nations Convention on Biological Diversity and the complementary Nagoya Protocol on Access and Benefits Sharing. Internal procedures in

our management system ensure that we live up to our commitments. As an example, we have established a Nagoya Protocol steering group which ensures compliance with the protocol and that internal guidelines are maintained. We also continuously monitor the global dialogue and development on biodiversity.

## 7.7 Product stewardship

Novozymes is committed to ensuring product safety and stewardship in our operations and across our value chain. Many of our biological solutions serve as ingredients in consumer goods (e.g. in laundry detergents) or are used for manufacturing consumer products such as food, textile and paper.

Novozymes' ambition is to continue supplying safe products and substitute hazardous substances in its operations using safer and more sustainable alternatives wherever possible. Novozymes strives to reduce the risk of enzyme allergies among employees and downstream users by promoting adherence to enzyme safety standards.

### Our approach

Product stewardship is an integral part of Novozymes' Quality Management System, and our approach is outlined in the Quality and Product Safety Policy. Novozymes constantly strives to reduce the risk of potential harm to both human health and the environment during the manufacture, handling and use of its products. This approach is implemented by means of many cross-functional teams, and the primary responsibility rests with Regulatory Affairs & Product Safety functions. Procedures ensuring product stewardship are enforced globally and audited by the independent external body Bureau Veritas.

Novozymes measures performance in product stewardship, through internal targets that guide our progress, particularly in the areas of product safety and hazardous substance management. We have also developed a position on and approach to related topics such as product information and labeling, traceability, industrial biotechnology, animal testing, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) and FIAP (Food Improvement Agents Package). Our position papers on animal testing and industrial biotechnology are available at [Novozymes.com](https://www.novozymes.com).

Novozymes chairs the Enzyme Safety Working Group, which plays a coordinating role within The Association of Manufacturers and Formulators of Enzyme Products (AMFEP) in the EU. In addition, Novozymes is a co-chair of the Safety and Sustainability Committee in Enzyme Trade Association (ETA) in the US. Through both of these groups, Novozymes has developed advanced safety standards for enzyme use.

An annual cross-functional process has recently been established to explore the potential phase-out and substitution of hazardous substances and materials. Every year, new and existing chemicals are screened for environmental, health and safety impacts,

followed by risk and feasibility assessments to determine candidates for potential phase-out.

### 2020 highlights

Novozymes remains firmly committed to maintaining high-quality dossiers that document product safety and transparency under relevant regulatory schemes such as REACH and FIAP. With its extensive experience in responding to increasing global regulatory requirements, Novozymes worked in 2020 on developing compliance with new REACH-like regulations in South Korea, Turkey, UK, India and other countries. Novozymes also strongly supports and complies with regulation on the reduction of chemicals of concern such as microplastics and 1,4-dioxane.

In 2020, Novozymes established an internal governance committee to guide implementation and decisions in the phase-out of hazardous substances. Within our annual process cycle, we also identified top candidates to explore potential phase-outs in 2021.

In 2020, through the AMFEP, Novozymes published an industry guideline on the 'Safe Handling of Enzymes in Pulp and Paper Manufacturing' in collaboration with the Confederation of European Paper Industries.

Furthermore, as a member of the American Cleaning Institute (ACI), Novozymes took part in the update of the guideline for 'Risk Assessment of Enzyme-Containing Consumer Products'.

In 2021, we will continue to prioritize product stewardship practices at Novozymes. One example is, we will focus on establishing a systematic follow up on the identified hazardous substance candidates to explore the feasibility of phasing them out and developing appropriate substitution strategies. Another example of a new initiative in 2021 will be the development of safety guidelines for the feed industry in collaboration with the EU Association of Specialty Feed Ingredients and their Mixtures (Fefana).



# Social and governance data

We measure our social performance using a number of indicators in the areas of labor practices & human rights, occupational health & safety, business ethics, customer engagement and community engagement. These indicators enable us to track our progress and respond to risks and opportunities related to both talent attraction and retention, and business development.

Lost-Time Injury frequency (per million working hours)

**1.3**

Women in senior management

**33%**

Completion of business integrity training for employees

**99%**



## 8.1 Labor practices & human rights

Employees are vital for Novozymes' growth and the successful execution of our strategies. Therefore, it is important for Novozymes to focus on employee development and diversity in all operations. Novozymes is responsible for ensuring that human rights are respected throughout its value chain.

### Our approach

We have adopted a common management approach and reporting structure for labor practices and human rights. Our People and Organization (P&O) function, together with leaders across Novozymes are responsible for ensuring equal rights for all employees and for promoting diversity. We are committed to ensuring equal opportunities and avoiding discrimination based on race, religion, gender or age in our global organization.

In Novozymes, we have a policy for diversity and equal opportunities, which covers the entire workforce. Accordingly, the monitoring and the measures implemented to improve diversity in Novozymes cover all layers of management. One of Novozymes' primary priorities on the diversity agenda has been to increase the number of women in senior management.

Novozyymes is committed to providing a work environment where all individuals can work together comfortably and productively, free of any kind of harassment and discrimination. Novozymes recognizes and respects the right

to form and join associations and to bargain collectively. Our P&O function works together with local leadership to facilitate the fulfillment of these fundamental rights in countries with limited labor legislation.

Novozyymes respects human rights as defined by the UN Guiding Principles on Business and Human Rights and has implemented them in our operational policies and procedures. We respect the International Bill of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, and, since 2001, we have been a signatory to the United Nations Global Compact. Novozymes is also a signatory to the Women's Empowerment Principles.

We publish an annual statement under the UK Modern Slavery Act.

In 2019, we defined targets for 2020-2022 focused on building a culture where our employees can thrive, grow and perform to bring out their best. Novozymes aims to nurture diversity, and to achieve a score of 86 on our diversity index by 2022. The diversity index is calculated based on gender and national representation at management and other job levels. By 2022, we aim to achieve an 80-point rating on Enable learning in our employee survey. For the Zymer spirit index, our target is to achieve a score of 81 by 2022.

### 2020 highlights

#### Labor practices

The Enable learning target and excite zymers target are based on our annual employee survey. In 2020, in our employee survey, we achieved a score of 78 points on Enable learning, and a score of 81 on our Zymer spirit index. The employee survey is an important tool that enables us to not only track the organizational mood but also to make room for better and more relevant team talks focusing on how we work together at Novozymes.

These tools are critical to ensuring our success as a business and for sustaining our reputation as a great place to work.

We also believe in promoting diversity at work and this year, for our nurture diversity target, we achieved 83 on our diversity index, which is based on gender and nationality.

We are on track to achieving our 2022 targets.

### Employee statistics

		2020	2019
Rate of employee turnover – retirement	%	1.2	1.0
Rate of employee turnover – dismissal	%	3.0	5.7
Rate of employee turnover – voluntary	%	4.5	6.0
<b>Rate of employee turnover, total</b>	%	<b>8.7</b>	<b>12.7</b>

### Rate of absence

Senior management, management, professional and administrative	%	1.1	1.2
Skilled workers, laboratory technicians, other technicians and process operators	%	2.8	2.6
All employees	%	1.9	1.9

### Other employee statistics

Average age	Years	42.0	42.0
Average seniority	Years	10.0	10.1
Number of expatriates	No.	19	22
Average training cost spent per employee	DKK	3,871	3,351
Costs as percentage of total employee costs	%	0.7	0.5

## 8.1 Labor practices & human rights (continued)

In 2020, we converted our policy for diversity and equal opportunities into action by ensuring that diversity became a design criterion in our 2020 reorganization. To increase diversity following our reorganization, we have initiatives targeting the recruitment process where we held bias training for recruiters and developed relevant material for hiring managers. Further, our local offices partner with organizations to support diverse long lists of candidates. Novozymes engages in forums to learn about and promote gender equality and this year we focused on the challenges caused by COVID-19. For example, we are active in the 'UN Women' and 'Advancing Women in Agriculture Conference'. Novozymes' President and CEO Ester Baiget was invited to ring the bell for Gender Equality together with UNGC Denmark, Nasdaq Copenhagen, UN Women and other leaders. We are continuously tracking the impact of our initiatives, for example, gender diversity of new hires and internal transfers, and overall, we have made progress to ensure gender diversity in management levels. In 2020, 33% of our senior management were female.

Novozyymes believes that respectful, professional conduct furthers Novozymes' mission and is fundamental to a good workplace. This year, we launched a global non-discrimination and anti-harassment policy and company-wide global training for all employees on these topics.

In 2020, the enrollment of leaders in our leadership development program 'Lead the Way' increased to ~70% from ~57% in 2019. The program was impacted by COVID-19 as trainings were cancelled, postponed or changed to virtual sessions, which did not suit all participants. The rate of employee turnover decreased to 8.7% from 12.7% in 2019. We recorded a 1.9% rate of absence, which is in line with last year. The rate of absence has been broken down into grouped job categories, based on whether the work carried out is primarily office-based.

### *Human rights*

We conduct regionally focused human rights impact assessments to identify and assess human rights risks and impacts in our business and supplier base. As human rights risks vary from region to region, this approach enables us to gain a more comprehensive understanding of human rights risks, our positioning and the associated gaps within the respective regions.

In 2020, we conducted the human rights impact assessment for The Americas. In the past two years, we have completed assessments for Europe, Middle East and Africa (EMEA) region and India. Through these assessments, we identified the most salient human rights, and are taking appropriate measures to mitigate the identified risks and gaps. Our aim is to complete the assessment for China in 2021.



### ACCOUNTING POLICIES

Absence is defined as time lost due to an employee's illness, including sick leave, and occupational injuries 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 leaving the Group during the preceding year (excluding employees at divested entities transferred to the acquiring company).

Average age and seniority are calculated as the sum of employees' total age/seniority in whole years at the reporting date, divided by the number of employees.

Expatriation refers to Novozymes employees temporarily reassigned within Novozymes from the country of original employment for periods of more than six months.

Training costs express the cost of external training courses and seminars, translated into Danish kroner at average exchange rates. Training costs are also shown as a percentage of total employee costs.

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

Nurture Diversity index measures the ratio of women and international employees at both Senior management and Management level. If women and international employees are represented at the same ratio in all management layers as in the academic population in Novozymes as such, the index would be 100.

The Zymer spirit and Enable learning are derived from specific questions in the annual employee survey questionnaire. The resulting score is a value between 0 and 100.

The 'Lead the Way' program indicates the number of leaders globally who have been registered for the leadership development program 'Lead the Way'. It is shown as a percentage of total number of leaders in Novozymes.

## 8.2 Occupational health & safety

The health and safety of all our employees is of paramount importance to Novozymes, and therefore forms a fundamental part of our business strategy. The aim is to ensure that robust safety processes, equipment, standards, tools and training are fully integrated into the way we work. We take appropriate measures to ensure focus on occupational health and safety across the organization, by means of initiatives owned and driven locally under a global framework.

### Our approach

Novozyymes' Quality, Environment and Safety function is responsible for supporting the organization in ensuring a safe and healthy work environment. To reinforce our safety culture, we have a global Health and Safety Policy, along with internal standards and procedures. We monitor our performance and ensure continuous improvement through benchmarking of both internal and external key performance indicators.

We define annual targets to ensure we continue to improve our performance on health and safety.

In 2019, as part of our strategy update, we increased our focus on health and wellbeing and defined new ambitions and programs on these topics. Our main target is to drive down the three-year rolling average of lost-time injury frequency rate to 1.5 per million working hours by 2022 relative to a 2017-19 baseline of 1.6 per million working hours.

### 2020 highlights

As for most companies, the COVID-19 pandemic posed a huge challenge to Novozymes in 2020 and our regional leadership teams and OHS professionals were instrumental in handling the situation and keeping employees safe and production running. We are successfully addressing the different challenges across the world through our regional task force teams that are led by our regional senior leadership.

In 2020, we met our target to drive down the three-year rolling average of lost-time injury frequency rate to 1.5.

The performance this year was recorded at 1.3 compared with 0.9 in 2019.

This year, in occupational health and safety, we followed a risk and data-based strategy when defining clear category themes such as traffic in outdoor areas, exposure to chemicals, struck by object (e.g. falling items) and maintenance hazards.

### Consequences of occupational injuries

No.	2020	2019
Return to original job	13	10
Return to a different job in the same department	-	-
Out of work or early retirement	-	-
Case pending	1	-
<b>Occupational injuries with absence, total</b>	<b>14</b>	<b>10</b>
Total days of absence related to injuries registered in the same year	400	351
Injury severity rate	29	35



### ACCOUNTING POLICIES

Occupational injuries are 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 of absence from work other than the day of injury.

Occupational diseases are defined as the number of diseases contracted as a result of exposure to risk factors arising from work activity and notified as work related in accordance with local legislation.

The consequences of occupational injuries with absence and occupational diseases are measured by recording the work situation once the situation resulting from an incident has stabilized, for example whether the employees have returned to their original jobs, and the total number of calendar days of absence.

Frequencies of occupational injuries with absence are stated per million working hours.

The injury severity rate is calculated by dividing total days of absence related to injuries registered in the same year by the number of occupational injuries.

## 8.2 Occupational health & safety (continued)

### Consequences of occupational diseases

No.	2020	2019
Return to original job	2	1
Return to a different job in the same department	-	-
Out of work or early retirement	-	-
Case pending	2	-
<b>Occupational diseases, total</b>	<b>4</b>	<b>1</b>
Total days of absence related to diseases registered in the same year	-	-

### Types of occupational diseases

No.	2020	2019
Skin disease	2	-
Enzyme allergy	2	-
Other	-	1
<b>Occupational diseases, total</b>	<b>4</b>	<b>1</b>

Injury prevention is key to our safety strategy. Our global incident handling system CAPTURE has since 2018 enabled us to implement targeted, data and theme-based safety initiatives. In 2020, we took CAPTURE a step further by introducing a medical application which allows EU GDPR (General Data Protection Regulation) compliant management of all medical cases.

Enzyme & biological safety is a top priority for Novozymes. In January 2020, we published a scientific study, which concluded that our preventive program for enzyme safety works effectively. Our learnings enable us to further improve the enzyme safety program ZEAL (Zero Enzyme Allergy) and gives inspiration for our biological safety program ZEBRA (Zero

Biological Reactions) for the benefit of both employees and customers. We continuously promote a culture of product safety across the Novozymes organization through our corporate safety culture and awareness activities that promote safe behavior.

Focus on mental wellbeing is an ongoing activity that aims to help and inspire our leaders and employees. One example is our global initiative called BrainSpace.

Moving forward, we will focus on further implementing our strategy, aiming to improve safety in relation to our workplace and products and assure the continued wellbeing of all our employees.

## 8.3 Business ethics

Novozymes is committed to conducting business in a responsible, ethical, and transparent manner, and to meeting stakeholders' expectations of high business integrity standards across our operations.

### Our approach

Novozymes' approach to business integrity is embedded in our corporate values, policies and procedures.

Novozymes has adopted seven business integrity principles that lay the ground rules for engaging with third parties and apply to all employees across the world. The business integrity principles underline Novozymes' zero tolerance approach to bribery and define clear rules for gifts and donations. They act as Novozymes' code of conduct in business integrity matters and form the basis of our efforts to eliminate all forms of corruption. See our position paper on business integrity at [Novozymes.com](http://Novozymes.com).

A dedicated legal compliance function, headed by the Chief Legal Compliance Officer, handles business integrity-related matters and training of our employees. All employees have access to relevant guidance on our intranet and are encouraged to raise any concerns about business integrity to the designated business integrity contacts or through other relevant grievance channels. Novozymes also has a whistleblower system which allows employees and others to report their concerns relating to

business integrity and corruption, fraud and other serious matters.

We offer mandatory business integrity training annually for our employees in scope. This training is designed and rolled out by the Chief Legal Compliance Officer, based on input from regional lines of business and questions raised during the year to ensure relevance and applicability. This training includes real-life case studies and reinforces employee commitment to business integrity principles.

Novozymes' recurring antitrust training provides general guidance on competition law and is completed by relevant employees in commercial roles across all regions.

Novozymes works proactively to prevent, detect and respond to fraud, corruption and other violations of our business integrity principles, and we continuously promote internal awareness and develop relevant programs or initiatives as required. An internal control system enables identification of potential violations and addresses concerns raised, e.g. through our whistleblower system. All whistleblower reports and all cases on fraud and corruption are reported to the Audit Committee on a quarterly basis. All allegations of fraud, corruption and other business integrity violations are appropriately investigated in accordance with internal policies and procedures. Substantiated violations will lead to proportionate disciplinary sanctions for the parties involved.



### ACCOUNTING POLICIES

Completion of business integrity training refers to the percentage of employees in scope who have undergone business integrity training in the latest training period. New entities are included within six months of acquisition. Business integrity training is conducted for employees who can potentially influence third-party interactions or decisions as part of their job role. This comprises employees in professional, managerial or administrative positions.

The reporting criteria for competition law violations are whether it has been established by an authority member of the International Competition Network or by a competent court anywhere in the world that a company in the Novozymes Group has violated applicable anti-trust regulations. Novozymes defines fraud and corruption as deliberate misconduct with the intent to gain a direct or indirect personal advantage while exposing Novozymes to a financial or reputational loss.

## 8.3 Business ethics (continued)

General concerns and violations of our business integrity principles are reported to Novozymes' Corporate Business Integrity Committee, which oversees business integrity matters across the company and our business partners.

Novozyymes' responsibility for ensuring ethical business practices also extends to our business partners. Our third-party due diligence processes include monitoring and ensuring that our commercial partners conduct business with integrity and share our values regarding legal compliance.

Novozyymes' whistleblower system allows employees and others to report their concerns relating to fraud, corruption and other violations of Novozymes' business integrity principles as well as other serious violations

of law. Concerns reported are handled by the Chief Legal Compliance Officer and all concerns from the system are reported to the Audit Committee.

### 2020 highlights

In 2020, the business integrity training was completed by 99% of our employees in scope and focused on risks relating to conflicts of interest. The competition law compliance training this year provided a general reminder on competition law restrictions.

During the year, we released a new conflict of interest policy that provides better guidance to employees on identification and proper management of potential conflicts of interests and related risks with respect to business integrity.

In 2020, a new dedicated fraud detection e-learning was rolled out to select functions.

Consistent with previous years, there were no violations of competition law in 2020. The number of potential fraud and corruption cases investigated increased in 2020 due to extended use of data mining in internal controls and proactive detection. The nominal number of substantiated cases increased slightly compared to 2019. The substantiated cases had no material business or financial impact.

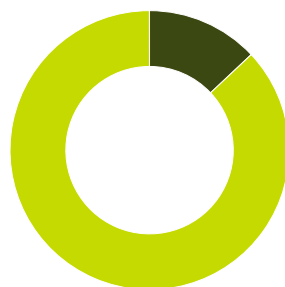
The charts below provide further details of the reporting channels and consequences for fraud and corruption cases.

Consequences of substantiated fraud and corruption cases 2020 (2019)



● Dismissal **29%** (25%)  
 ● Other disciplinary sanctions **25%** (30%)  
 ● Unknown perpetrator **46%** (45%)

Reporting channels for potential fraud and corruption 2020 (2019)



● Whistleblower/tip-off **13%** (66%)  
 ● Internal controls and proactive detection **87%** (34%)

## 8.4 Customer engagement

As part of our strategy Better business with biology, we want to give the voice of the customer a stronger presence at Novozymes and convert customer needs and demands into biological solutions. We believe that our customers' feedback on our solutions and services is of great importance to determining the success and performance of our business. Therefore, customer engagement and value of our partnership is measured across our commercial divisions and across regions.

### Our approach

Each year, we conduct a customer satisfaction survey. This is to monitor customer perceptions of our solutions and services and learn where we can improve.

We use the survey as a dialogue tool with our customers. Overall customer perceptions are

measured via four key performance indicators: Net Promoter Score (NPS), Loyalty Index, Value of Partnership, and Customer Satisfaction Score.

Responsibility for measuring, analyzing and addressing customer satisfaction and performance is anchored with our commercial functions.

### 2020 highlights

In 2020, Novozymes invited 1,063 customers across 100 countries to participate in the survey with a response rate of 58%. We achieved an NPS of 50.

The results confirm our strong relationships with our customers both large and small, new and old and across emerging and developed markets.

The COVID-19 pandemic does not seem to have affected customer perceptions of Novozymes in 2020 compared to previous years.

Responding customers pointed out that it is essential that we continue to deliver innovation to help them become more competitive and within their detailed responses are a number of insights that relate to how we can improve our performance within certain industries and with certain accounts.

Going forward, we will strive to maintain close relationships with our customers and proactively work on the areas where we can improve.



### ACCOUNTING POLICIES

The Net Promoter Score (NPS) is derived from an annual questionnaire measuring on a scale from 1-10 how likely the customer is to recommend Novozymes to others. The NPS is calculated as the share of promoters (rating us 9 or 10) less the share of detractors (rating us 1-6). The resulting score is a value between -100 and +100.

## 8.5 Community engagement

We believe that businesses have an obligation to engage with the communities in which they operate and to invest strategically in programs that create value for society. We are passionate about delivering on our promise of *better lives in a growing world*, both inside and outside the workplace.

### Our approach

Novozymes has committed to contribute to our local communities and inspire people about the potential of biology. As part of this commitment, Novozymes has set a target to “Pledge 1% of our time to local outreach activities by 2022”.

Our community engagement initiatives are driven through our Inspire-related initiatives. The Inspire program is governed by strong guardrails to guide implementation and determine eligibility, and is led by a cross-functional team. The Inspire initiatives are regionally owned and driven by grassroot employee-led initiatives. The Executive Leadership encourages all employees to spend up to 1% of work time in local outreach and workplace sustainability initiatives.

### 2020 highlights

Inspire is about helping our communities respond to local challenges. In 2020, the biggest crisis we all faced was the COVID-19 pandemic. Our employees in all regions stepped up, contributing with their resources, time, and creativity to help their communities respond to the pandemic and other pressing local issues.

In China, we donated RMB 1 million via the Red Cross to help build hospitals in Huoshenshan and Leishenshan, procure supplies, and provide support for frontline workers.

In Denmark, one of our employees, a trained nurse, spent a number of working days to help with COVID-19 testing at Holbæk Hospital. Another employee, an operator from Kalundborg, was seconded to his former employer who started a large production of hand sanitizer and needed his expertise to keep up with the high demand.

In India, around 140 Zymers participated in a virtual fitness challenge to raise money for daily-wage earners, whose lives had come to a standstill due to COVID-19. Observing local rules and guidelines, our employees walked an estimated 2.3 million steps in a day raising INR 1.7 million. The sum was donated towards state funds, and organizations involved with disaster management and eradication of hunger.

In Kenya, Novozymes was awarded by the Marketing Society of Kenya (MSK) for driving Biology amongst the disadvantaged and future generations for funding the upgrade of the Starehe Boys Bio-Lab. Starehe Boy's Centre & School is a charitable institution that runs a high school and a technical training institution for exceptionally talented students with financial constraints.

In Latin America, to promote digital inclusion especially among underprivileged students, we provided 100 computers with internet access for students of Marista Escola Social Ecológica.

In North America, our employees helped educators create meaningful content for students learning from home due to COVID-19 restrictions. We worked with local schools to organize virtual chats to discuss career opportunities in the sciences and hosted virtual tours of our site for teachers' professional development. Our North American sites have also supported COVID-19 response of local non-profit organizations. Through in-kind and financial charitable donations, we have helped local food banks, provided protective equipment and sanitizers to local hospitals, and given internet access to students in remote areas so that they can learn online.



## 8.6 Responsible sourcing

Novozymes always strives for responsible sourcing and we focus on environment, social and governance (ESG) issues across our value chain. Agricultural raw materials are a major component of our production processes and a secure supply of sustainable raw materials is crucial to Novozymes' production.

### Our approach

Novozymes' sourcing department drives our supplier management and responsible sourcing program and is anchored within Novozymes Operations, Supply and Quality function. Our approach to responsible sourcing is defined by our Responsible Purchasing Standards (RPS) and managed through our Supplier Performance Management (SPM) process and SEDEX platform. Through the SPM process, Novozymes screens suppliers and classifies their risk based on spend, country and category. In case a supplier does not meet our assessment criteria, either an action plan is established, or an alternate supplier is identified. Furthermore, we aim to use SEDEX to enhance the sustainability aspects of our SPM evaluation going forward. We have started onboarding our key suppliers, with due consideration for risk and spend, to the platform to increase the level of transparency in our supply chain.

Novozymes requires all contracted suppliers to comply with our RPS, as well as, when requested, to complete questionnaires and to accept visits and audits relevant for

confirmation of compliance with the standards. These standards cover various ESG criteria including respect for human and labor rights, business ethics, employee health and safety and environmental stewardship. All our suppliers of directly sourced agricultural raw materials are required to adhere to our deforestation requirements by not contributing to further deforestation and to have zero tolerance for land grabbing.

To know more, see our position paper on Responsible Purchasing, and our annual statement on Modern Slavery at Novozymes.com.

We will continue to focus on our long-term commitment of securing 100% renewable electricity, reducing Scope 3 CO<sub>2</sub> emissions from key raw materials and developing plans to manage 100% key materials and waste in circular systems.

### 2020 highlights

Novozymes continued to expand the use of the SEDEX platform, a sustainability platform, to enhance the transparency of our supply chain. After onboarding high-risk suppliers in 2019, this year our focus has been to onboard high-spend suppliers across Novozymes onto SEDEX, a process which will continue over time.

As part of Novozymes' journey towards becoming carbon neutral, we are taking various steps to reduce emissions. During 2020, Novozymes initiated additional means to increase the level of renewable electricity sourced.

In 2020, the entire electricity consumption at Novozymes' Franklinton site was covered by renewable electricity through the purchase of Renewable Energy Certificates (REC), deriving from a nearby solar energy plant.

Novozymes and Novo Nordisk have jointly engaged in a power purchasing agreement with Swedish energy provider Vattenfall AB, to supply the two Danish companies with renewable electricity for the coming decade. As part of our climate target we have also set a science-based Scope 3 target focused on purchased goods and services. For 2020, the target internally has been to identify relevant key suppliers with whom to engage with and to establish supplier engagement plans. For more details, read Note 7.1 Climate change.

During 2020, a sustainability hotspot analysis was conducted for all categories of direct sourcing of raw materials across different regions. The results of this exercise will be used to identify key sustainability issues and will serve as input to future sustainable sourcing strategies.

As a member of the Roundtable on Sustainable Palm Oil (RSPO), 100% of the palm oil we sourced in 2020 was RSPO-certified.

Novozymes has further increased its focus on sustainability when sourcing products and services other than raw materials, by including sustainability criteria in the tender supplier evaluations and implementing initiatives to improve sustainability performance within categories prioritized in risk assessments, e.g. waste and internal logistics.

Furthermore, we also completed a Human Rights & Impact assessment of our operations and supplier base in North America and Latin America. Read more about these assessments in Note 8.1 Labor Practices & Human Rights.

# Statement of the Board of Directors and Executive Management

The Board of Directors and the Executive Management have today considered and approved the Annual Report of Novozymes A/S for the financial year January 1 – December 31, 2020. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act. Management's Review has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the accounting policies used are appropriate, and the Group's internal controls relevant to preparation and presentation of the Annual Report are adequate. The Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at December 31, 2020 of the Group and the Parent Company and of the results of the Group and the Parent Company operations and consolidated cash flows for the financial year January 1 – December 31, 2020.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year, and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company. Novozymes' Consolidated environmental data and the Consolidated social and governance data and the related notes, have been prepared in accordance with the reporting principles of materiality, inclusivity, responsiveness and

the accounting policies. In our opinion, they give a true and fair view of the organisation's environmental, social and governance performance in accordance with these principles.

In our opinion, the Annual Report of Novozymes A/S for the financial year January 1 - December 31, 2020 identified as NOVOZYMES-2020-12-31.zip is prepared in all material respects, in compliance with the ESEF Regulation.

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

*Bagsvaerd, February 2, 2021*

## Executive Management

**Ester Baiget**  
President & CEO

**Thomas Videbæk**

**Lars Green**

## Board of Directors

**Jørgen Buhl Rasmussen**  
Chair

**Sharon James**

**Kim Stratton**

**Cornelis (Cees) de Jong**  
Vice Chair

**Anders Hentze Knudsen**

**Mathias Uhlén**

**Heine Dalsgaard**

**Kasim Kutay**

**Lena Bech Holskov**

**Lars Bo Køppler**

# Independent Auditor's Reports

To the shareholders of Novozymes A/S

## Report on the audit of the Financial Statements

### Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at December 31, 2020 and of the results of the Group's operations and cash flows for the financial year January 1 to December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at December 31, 2020 and of the results of the Parent Company's operations for the financial year January 1 to December 31, 2020 in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated environmental data and the Consolidated social and governance data for the financial year January 1 to December 31, 2020 are prepared in accordance with the accounting policies for the Consolidated environmental data and the Consolidated social and governance data.

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

### *What we have audited*

The Consolidated Financial Statements of Novozymes A/S, pages 52-60 and 65-116, for the financial year January 1 to December 31, 2020 comprise the consolidated income statement and statement of comprehensive income, the consolidated balance sheet, the consolidated statement of shareholders' equity, the consolidated statement of cash flows and the notes, including significant accounting policies.

The Parent Company Financial Statements of Novozymes A/S, pages 143-158, for the financial year January 1 to December 31, 2020 comprise the income statement, the balance sheet, the statement of changes in equity and the notes, including significant accounting policies.

Collectively referred to as the "Financial Statements".

The Consolidated environmental data and the Consolidated social and governance data of

Novozyymes A/S, pages 61-64 and 117-137, for the financial year January 1 to December 31, 2020 comprise the environmental performance and consolidated environmental data, the social and governance performance and consolidated social and governance data and the related notes, including significant accounting policies.

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

### Basis for opinion

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

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

### *Independence*

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

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided, except for an insignificant breach that was reported to the Audit Committee and which did not affect our independence.

### *Appointment*

We were appointed as auditors of Novozymes A/S for the first time after the initial public offering on March 21, 2001. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 20 years, including the financial year 2020.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most

significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in

forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b>Collaboration agreements</b></p> <p>Novozymes has entered into collaboration agreements.</p> <p>Some of these collaboration agreements include complex mechanisms for sharing profit and expenses. Due to the complexity of the agreements, there are uncertainties in relation to the interpretation of the agreements.</p> <p>In 2020, the most significant of these collaboration agreements, the Bioag collaboration agreement, was amended to a supply agreement. The amendment of the agreement included uncertainties and assessments of income and accruals.</p> <p>We focused on this area because the agreements and the related accounting treatment of profit-sharing and expenses are complex and because the amendment of the Bioag collaboration agreement required significant judgment and estimation by Management.</p> <p>Refer to Note 2.2 and 3.1 to the Consolidated Financial Statements.</p>	<p>We tested relevant controls including applicable information systems and monitoring controls implemented to ensure that profit-sharing and expenses from the collaboration agreements are recognized and measured appropriately on an ongoing basis.</p> <p>We assessed the accounting treatment applied by Management of the amendment of the Bioag collaboration agreement, including settlement of income and cost associated with the change to the supply agreement.</p> <p>We also assessed the accounting treatment applied by Management of the amendment of the Bioag collaboration agreement in relation to impairment of intangible assets.</p> <p>We read the amended Bioag collaboration agreement and assessed Management's interpretation of the amended agreement and the financial impact.</p> <p>We tested Management's subjective estimation of profit-sharing and related accruals etc. under the applicable remaining collaboration agreements, as well as reconciled data inputs and significant assumptions – to both internal and external sources – and we assessed the accuracy of the accruals in previous periods.</p> <p>We assessed whether the disclosures in relation to revenue and intangible assets are appropriate and meet the requirements of accounting standards.</p>

## Statement on Management's Review

Management is responsible for Management's Review, pages 3-51.

Our opinion on the Financial Statements and on the Environmental, Social and Governance Data does not cover Management's Review,

and we do not express any form of assurance conclusion thereon.

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

audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, in our view, Management's Review is in

accordance with the Consolidated Financial Statements, the Parent Company Financial Statements, and the Environmental, Social and Governance Data, and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

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

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

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

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

## Auditor's responsibilities for the audit of the Financial Statements and the Environmental, Social and Governance Data

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

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements and the Environmental, Social and Governance Data, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether

the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial, environmental, social and governance information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements and the Environmental, Social and Governance Data. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances,

we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on compliance with the ESEF Regulation

As part of our audit of the Financial Statements we performed procedures to express an opinion on whether the Annual Report of Novozymes A/S for the financial year January 1 to December 31, 2020 with the filename NOVOZYMES-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the Annual Report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

Management is responsible for preparing an Annual Report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the Annual Report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for all financial information required to be tagged using judgement where necessary;

- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human-readable format; and
- For such internal control as Management determines necessary to enable the preparation of an Annual Report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the Annual Report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the Annual Report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;

- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the Annual Report of Novozymes A/S for the financial year January 1 to December 31, 2020 with the file name NOVOZYMES-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

*Hellerup, February 2, 2021*

### **PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab  
CVR no 3377 1231

### **Lars Baungaard**

State Authorized Public Accountant  
mne23331

### **Rasmus Friis Jørgensen**

State Authorized Public Accountant  
mne28705

# Financial statements for Novozymes A/S

## Financial statements

Income statement

Balance sheet

Statement of shareholders' equity

## 1

### Basis of reporting

1 Accounting policies

## 2

### Primary operations

2.1 Revenue

2.2 Employee costs

2.3 Other operating income

## 3

### Other assets and liabilities

3.1 Intangible assets

3.2 Property, plant and equipment

3.3 Leases

3.4 Financial fixed assets

3.5 Other receivables

3.6 Deferred tax

3.7 Other provisions

## 4

### Financial activities

4.1 Financial income and costs

4.2 Credit institutions

4.3 Proposed appropriation of net profit

## 5

### Other notes

5.1 Contingent liabilities and pending litigation

5.2 Related party transactions

5.3 Fees to statutory auditors

5.4 Common stock and treasury stock

5.5 Derivatives

5.6 Events after the reporting date

# Income statement, Novozymes A/S

DKK million	Note	2020	2019
Revenue	2.1	8,519	8,260
Cost of goods sold		(3,847)	(3,867)
<b>Gross profit</b>		<b>4,672</b>	<b>4,393</b>
Sales and distribution costs		(1,325)	(1,285)
Research and development costs		(1,512)	(1,621)
Administrative costs		(543)	(598)
Other operating income	2.3	1,214	1,237
<b>Operating profit / EBIT</b>		<b>2,506</b>	<b>2,126</b>
Income from investments in subsidiaries	3.4	772	1,494
Share of result in associates	3.4	(4)	(5)
Financial income		157	105
Financial costs		(227)	(278)
<b>Profit before tax</b>		<b>3,204</b>	<b>3,442</b>
Tax		(592)	(371)
<b>Net profit</b>		<b>2,612</b>	<b>3,071</b>
<b>Proposed appropriation of net profit</b>			
Dividend to shareholders		1,496	1,528
Revaluation reserve according to the equity method		1,307	2,147
Retained earnings		(191)	(604)
	4.3	2,612	3,071
Proposed dividend per share		DKK 5.25	DKK 5.25



# Balance sheet, Novozymes A/S

## Assets

DKK million	Note	Dec. 31, 2020	Dec. 31, 2019
<b>Intangible assets</b>	3.1	<b>3,547</b>	<b>3,064</b>
<b>Property, plant and equipment</b>	3.2	<b>4,400</b>	<b>4,471</b>
Investments in subsidiaries	3.4	7,157	8,581
Investments in associates	3.4	33	37
Other long-term receivables	3.5	9	2
Receivables from Group enterprises	3.4	295	352
<b>Financial fixed assets</b>		<b>7,494</b>	<b>8,972</b>
<b>Fixed assets</b>		<b>15,441</b>	<b>16,507</b>
Raw materials and consumables		146	155
Work in progress		432	476
Finished goods		648	707
<b>Inventories</b>		<b>1,226</b>	<b>1,338</b>
Trade receivables		1,103	924
Receivables from Group enterprises		-	158
Tax receivables		186	344
Other receivables	3.5	204	138
<b>Receivables</b>		<b>1,493</b>	<b>1,564</b>
<b>Cash at bank and in hand</b>		<b>475</b>	<b>141</b>
<b>Current assets</b>		<b>3,194</b>	<b>3,043</b>
<b>Assets</b>		<b>18,635</b>	<b>19,550</b>

## Liabilities and shareholders' equity

DKK million	Note	Dec. 31, 2020	Dec. 31, 2019
Common stock		570	582
Treasury stock		(3,314)	(4,142)
Revaluation reserve according to the equity method		441	2,116
Reserve for development costs		219	166
Cash flow hedges		127	19
Retained earnings		10,352	10,100
Proposed dividend		1,496	1,477
<b>Shareholders' equity</b>		<b>9,891</b>	<b>10,318</b>
Provisions for deferred tax	3.6	555	448
Other provisions	3.7	159	10
<b>Provisions</b>		<b>714</b>	<b>458</b>
Lease liabilities		154	176
Credit institutions		3,254	2,716
Transitional holiday accrual		-	58
<b>Non-current liabilities</b>		<b>3,408</b>	<b>2,950</b>
Lease liabilities		63	92
Credit institutions		1,126	1,408
Transitional holiday accrual		180	-
Trade payables		494	512
Payables to Group enterprises		2,228	3,083
Other payables		531	729
<b>Current liabilities</b>		<b>4,622</b>	<b>5,824</b>
<b>Liabilities</b>		<b>8,744</b>	<b>9,232</b>
<b>Liabilities and shareholders' equity</b>		<b>18,635</b>	<b>19,550</b>

# Statement of shareholders' equity, Novozymes A/S

DKK million	Common stock	Treasury stock	Revaluation reserve according to the equity method	Reserve for development costs	Cash flow hedges	Retained earnings	Proposed dividend	Total
<b>Shareholders' equity at January 1, 2020</b>	<b>582</b>	<b>(4,142)</b>	<b>2,116</b>	<b>166</b>	<b>19</b>	<b>10,100</b>	<b>1,477</b>	<b>10,318</b>
Net profit for the year			1,307			1,305		2,612
Capitalized development costs				53		(53)		-
Dividend received			(2,255)			2,255		-
Dividend paid							(1,513)	(1,513)
Dividend paid relating to treasury stock							30	30
Proposed dividend						(1,496)	1,496	-
Purchase of treasury stock		(1,500)						(1,500)
Sale of treasury stock		508						508
Write-down of common stock	(12)	1,820				(1,808)		-
Currency translation adjustments of investments in subsidiaries, etc.			(765)					(765)
Fair value adjustments					108			108
Other adjustments			38			49	6	93
<b>Shareholders' equity at December 31, 2020</b>	<b>570</b>	<b>(3,314)</b>	<b>441</b>	<b>219</b>	<b>127</b>	<b>10,352</b>	<b>1,496</b>	<b>9,891</b>

# 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 2019.

The accounting policies are consistent with those applied for the consolidated financial statements except as 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 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 reliably. Liabilities are recognized in the balance sheet when they are considered probable and can be measured reliably. At initial recognition, 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 at 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 Reserve for development costs.

## Financial assets

Investments in subsidiaries and investments in associates are recognized initially at cost and subsequently measured using the equity method. The company's share of the equity of subsidiaries, based on the fair value of the identifiable net assets at the acquisition date, less or plus unrealized intercompany profits or losses, with the 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.

## 2.1 Revenue

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Geographical distribution:		
Denmark	173	166
Rest of Europe, Middle East & Africa	5,542	5,318
North America	1,038	1,032
Asia Pacific	1,331	1,316
Latin America	435	428
<b>Revenue</b>	<b>8,519</b>	<b>8,260</b>

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

## 2.2 Employee costs

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Wages and salaries	1,739	1,767
Pensions - defined contribution plans	180	186
Other social security costs	12	22
Other employee costs	135	88
<b>Employee costs</b>	<b>2,066</b>	<b>2,063</b>
Average number of employees in Novozymes A/S	2,607	2,688

The employee costs in 2020 included severance costs of DKK 80 million related to the organizational changes, of which DKK 65 million was related to the changes to the Executive Leadership Team announced in 2020.

The employee costs in 2019 included restructuring costs related to organizational changes of around DKK 100 million. The one-off impact in 2019 was partly offset by

reduced employee costs during the remainder of the year. In addition, changes made to the Executive Leadership Team during 2019 resulted in severance costs of DKK 58 million.

Reference is made to Note 6.1 to the consolidated financial statements concerning remuneration of the Board of Directors and the Executive Leadership Team.

## 2.3 Other operating income

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Royalty income relating to subsidiaries	1,205	1,228
Other	9	9
<b>Other operating income</b>	<b>1,214</b>	<b>1,237</b>

## 3.1 Intangible assets

DKK million	2020				2019	
	Goodwill	Acquired patents, licenses and know-how, etc.	Completed IT development projects	IT development projects in progress	Total	Total
Cost at January 1	2,597	1,911	653	25	5,186	4,108
Additions during the year	757	191	27	113	1,088	1,078
Disposals during the year	-	-	(6)	-	(6)	-
Transfers to/(from) other items	-	-	56	(56)	-	-
<b>Cost at December 31</b>	<b>3,354</b>	<b>2,102</b>	<b>730</b>	<b>82</b>	<b>6,268</b>	<b>5,186</b>
Amortization and impairment losses at January 1	(602)	(1,055)	(465)		(2,122)	(1,662)
Amortization for the year	(376)	(158)	(71)		(605)	(460)
Disposals during the year	-	-	6		6	-
<b>Amortization and impairment losses at December 31</b>	<b>(978)</b>	<b>(1,213)</b>	<b>(530)</b>		<b>(2,721)</b>	<b>(2,122)</b>
<b>Carrying amount at December 31</b>	<b>2,376</b>	<b>889</b>	<b>200</b>	<b>82</b>	<b>3,547</b>	<b>3,064</b>

## 3.2 Property, plant and equipment

DKK million	2020				2019	
	Land and buildings	Production equipment and machinery	Other equipment	Property, plant and equipment under construction	Total	Total
Cost at January 1	3,594	5,075	1,234	329	10,232	9,675
Lease assets at January 1	-	-	-	-	-	218
Additions during the year	83	82	65	142	372	363
Disposals during the year	(91)	(27)	(95)	-	(213)	(24)
Transfers to/(from) other items	77	111	22	(210)	-	-
<b>Cost at December 31</b>	<b>3,663</b>	<b>5,241</b>	<b>1,226</b>	<b>261</b>	<b>10,391</b>	<b>10,232</b>
Depreciation and impairment losses at January 1	(1,492)	(3,483)	(786)	-	(5,761)	(5,420)
Depreciation for the year	(111)	(184)	(96)	-	(391)	(360)
Impairment losses	-	-	-	-	-	(5)
Disposals during the year	43	25	93	-	161	24
<b>Depreciation and impairment losses at December 31</b>	<b>(1,560)</b>	<b>(3,642)</b>	<b>(789)</b>	<b>-</b>	<b>(5,991)</b>	<b>(5,761)</b>
<b>Carrying amount at December 31</b>	<b>2,103</b>	<b>1,599</b>	<b>437</b>	<b>261</b>	<b>4,400</b>	<b>4,471</b>

### Capitalized interest

No interest was capitalized under Additions during the year (2019: DKK 2 million).

Capitalization rate 2019: 0.9%.

Land and buildings with a carrying amount of DKK 1,516 million (2019: DKK 1,526 million) were pledged as security to credit institutions. The mortgage loans expire in 2029 and 2039.

## NOTES SECTION 3

# 3.3 Leases

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
Land and buildings	53	73
Plant and machinery	97	100
Other equipment	65	91
<b>Carrying amount of lease assets</b>	<b>215</b>	<b>264</b>

Additions to the lease assets during 2020 amounted to DKK 9 million (2019: DKK 10 million).

### Maturity analysis of the lease liability

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
<b>Lease liability</b>		
Less than 1 year	62	92
Between 1 and 5 years	70	79
More than 5 years	89	103
<b>Undiscounted lease liability at December 31</b>	<b>221</b>	<b>274</b>

<b>DKK million</b>	<b>2020</b>	<b>2019</b>
<b>Amounts recognized in profit or loss</b>		
Interest on lease liabilities	4	5
<b>Depreciation of lease assets per asset class</b>		
Land and buildings	15	19
Plant and machinery	5	5
Other equipment	31	32
<b>Depreciation of lease assets</b>	<b>51</b>	<b>56</b>
<b>Amounts recognized in the statement of cash flows</b>		
Total cash outflow for leases	54	58

## 3.4 Financial fixed assets

DKK million	Investments in subsidiaries	Investments in associates	Receivables from Group companies	Total
Cost at January 1, 2020	8,655	128	352	9,135
Additions during the year	798	-	9	807
Disposals during the year	(12)	-	(66)	(78)
<b>Cost at December 31, 2020</b>	<b>9,441</b>	<b>128</b>	<b>295</b>	<b>9,864</b>
Revaluation reserve at January 1, 2020	(74)	(91)		(165)
Share of net profit/(loss)	1,311	(4)		1,307
Elimination of profit on internal asset transfers	(539)	-		(539)
Dividends received	(2,255)	-		(2,255)
Currency translation adjustment	(765)	-		(765)
Other adjustments	38	-		38
<b>Revaluation reserve at December 31, 2020</b>	<b>(2,284)</b>	<b>(95)</b>		<b>(2,379)</b>
<b>Carrying amount at December 31, 2020</b>	<b>7,157</b>	<b>33</b>	<b>295</b>	<b>7,485</b>

At December 31, 2020, the revaluation reserve included an amount of DKK 2,820 million from the elimination of profit on internal asset transfer.

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



## 3.5 Other receivables

DKK million	2020	2019
Prepaid expenses	50	68
Derivatives	119	15
Other receivables	44	57
<b>Other receivables at December 31</b>	<b>213</b>	<b>140</b>
Recognized in the balance sheet as follows:		
Non-current	B/S 9	2
Current	B/S 204	138
<b>Other receivables at December 31</b>	<b>213</b>	<b>140</b>

## 3.6 Deferred tax

DKK million	Deferred tax assets		Deferred tax liabilities	
	2020	2019	2020	2019
Intangible assets	-	-	214	191
Property, plant and equipment	-	-	383	347
Inventories	-	6	1	-
Stock options	61	79	-	-
Other	-	5	18	-
	<b>61</b>	<b>90</b>	<b>616</b>	<b>538</b>
Offsetting items	(61)	(90)	(61)	(90)
<b>Deferred tax at December 31</b>	<b>-</b>	<b>-</b>	<b>555</b>	<b>448</b>

DKK million	2020	2019
Deferred tax at January 1	448	380
Prior-year adjustments	25	24
Tax related to the income statement	34	51
Tax on shareholders' equity items	48	(7)
<b>Deferred tax at December 31</b>	<b>555</b>	<b>448</b>

## 3.7 Other provisions

Reference is made to Note 3.5 to the consolidated financial statements concerning business acquisitions, as the figures and

information applying to Novozymes A/S are identical to the information provided there.

## 4.1 Financial income and costs

DKK million	2020	2019
Interest income relating to subsidiaries	27	35
Interest costs relating to subsidiaries	(14)	(26)

## 4.2 Credit institutions

DKK million	2020	2019
Long-term debt to credit institutions falling due after 5 years	1,332	1,229

## 4.3 Proposed appropriation of net profit

DKK million	2020	2019
<b>Proposed appropriation of net profit</b>		
Dividend to shareholders	1,496	1,528
Revaluation reserve according to the equity method	1,307	2,147
Retained earnings	(191)	(604)
<b>Net profit</b>	<b>2,612</b>	<b>3,071</b>

## 5.1 Contingent liabilities and pending litigation

DKK million	2020	2019
<b>Other commitments</b>		
Contractual obligations to third parties relating to property, plant and equipment	129	92
<b>Other guarantees</b>		
Other guarantees and commitments to related companies	315	2,357
Other guarantees and commitments	196	151

### Pending litigation and arbitration

Reference is made to Note 6.3 to the consolidated financial statements concerning pending litigation and arbitration.

## 5.2 Related party transactions

### Transactions

DKK million	2020	2019
<b>Novo Holdings A/S</b>		
Sales	1	-
<b>The Novo Nordisk Group</b>		
Sales	72	103
Purchases	(113)	(129)
<b>The NNIT Group</b>		
Purchases	(43)	(27)
<b>The Chr. Hansen Group</b>		
Sales	60	45
Purchases	(3)	(9)
<b>Microbiogen Pty. Ltd.</b>		
Purchase of services	(30)	(15)

In 2020, Novozymes purchased from Novo Holding 1,530,000 of its own B shares with the approval of the Board of Directors, at a price of DKK 537 million (2019: 1,530,000 B shares at a price of DKK 475 million). The transactions were based on the market price.

There were no transactions with related parties other than the transactions described and normal remuneration of the Board of Directors and Executive Leadership Team, which is presented in Note 6.1 in the consolidated financial statements.

### Outstanding balances

DKK million	2020	2019
<b>Novo Holdings A/S</b>		
Receivables	-	-
<b>The Novo Nordisk Group</b>		
Receivables	8	9
Payables	(85)	(98)
<b>The NNIT Group</b>		
Payables	(14)	(7)
<b>The Chr. Hansen Group</b>		
Receivables	-	10
<b>Microbiogen Pty. Ltd.</b>		
Payables	(7)	(4)

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

Novozyymes A/S is included in the consolidated financial statements of Novo Nordisk Foundation.

## 5.3 Fees to statutory auditors

DKK million	2020	2019
Statutory audit	5	5
Other assurance engagements	-	-
Tax advisory services	3	1
Other services	1	-
<b>Fees to statutory auditors</b>	<b>9</b>	<b>6</b>

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

## 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 applying to Novozymes A/S are identical to the information provided there.

## 5.6 Events after the reporting date

Reference is made to Note 6.7 to the consolidated financial statements concerning events after the reporting date.

# Glossary

## Financial terms

### Financial Glossary

Earnings per share (diluted)

Net profit (attributable to shareholders in Novozymes A/S) divided by the weighted average number of shares outstanding (diluted).

### EBIT/Operating profit

Profit before interest and tax.

### EBIT margin

Profit before interest and tax as a percentage of revenue.

### EBITDA

Profit before interest, tax, depreciation and amortization.

### EBITDA margin

Profit before interest, tax, depreciation and amortization as a percentage of revenue.

### Economic profit

Economic profit is defined as adjusted operating profit (NOPAT) less (average invested capital \* WACC).

### Effective tax rate

Income tax expense as a percentage of profit before tax.

### Equity ratio

Total shareholders' equity as a percentage of total assets at year-end.

### Free cash flow before acquisitions

Cash flow from operating activities less cash flow from investing activities, changes in net working capital, business acquisitions, divestments and purchase of financial assets.

### Invested capital

Total assets excluding interest-bearing assets and minority investments less interest-bearing liabilities.

### iXBRL tags

iXBRL tags is hidden meta-information embedded in the source code of an XHTML document in accordance with the Inline XBRL specification, which enables the conversion of XHTML-formatted information into a machine-readable XBRL data record by appropriate software.

### Net interest-bearing debt (NIBD)

The market value of interest-bearing liabilities (financial liabilities) less the market value of cash at bank and in hand and other readily convertible interest-bearing current assets.

### Net working capital

Current assets less current liabilities used in, or necessary for, the company's operations. The main components are inventories, trade receivables and trade payables.

### Adjusted operating profit after tax

Operating profit adjusted for exchange gains/

losses, share of profit in associates less tax on adjusted operating profit using the effective tax rate.

### Operating costs

Operating costs consist of Sales and distribution costs, Research and development costs and Administrative costs.

### Organic sales growth

Sales growth from existing business, excluding divestments, measured in local currency. For acquisitions pro forma sales for the prior year is included in the calculation.

### Return on invested capital (ROIC)

Adjusted operating profit (NOPAT) after tax as a percentage of average invested capital

### Taxonomy

Taxonomy is an electronic dictionary of business reporting elements used to report business data. A taxonomy element is an element defined in a taxonomy that is used for the machine-readable labeling of information in an XBRL data record.

### XHTML

XHTML (eXtensible HyperText Markup Language) is a text-based markup language used to structure and mark up content such as text, images, and hyperlinks in documents that are displayed as Web pages in an updated standard Web browser like Chrome and Internet Explorer.

## Other terms

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

The term "CO<sub>2</sub>" is used to represent all greenhouse gasses (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O etc.) on an equivalency basis in this report.

### Zero waste

Zero waste means that >90% of all non-biomass waste is diverted from landfill or incineration without energy recovery – excluding when those are to fulfill regulatory requirements.

# About the report

**Novozymes' reporting ambition is to provide a single integrated report connecting our business model, strategy, targets and performance through integrated financial and nonfinancial data**

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## Reporting and audits

The website contains The Novozymes Report 2020, which, pursuant to section 149 of the Danish Financial Statements Act, is an extract of the company's annual report. It also contains the financial statements of the parent company Novozymes A/S. Together, these constitute the company's annual report as filed with the Danish Business Authority.

PwC has audited the consolidated financial statements, the parent company financial statements, and the environmental and social data.

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 under the headings The big picture, Our business, Governance, and Sustainability. The Sustainability section includes our Communication on Progress prepared in accordance with the UN Global Compact principles.

The report has been prepared in accordance with the International Financial Reporting Standards (IFRS), the Danish Financial Statements Act and additional requirements of Nasdaq Copenhagen A/S for the presentation of financial statements by listed companies. It is also inspired by the GRI's G4 Sustainability Reporting Guidelines. See Basis of reporting in the report for more details.

## 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 with a 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. These risks and uncertainties may 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 and EUR/DKK in particular, but not exclusively), interest rates and inflation; and 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.



05

# Sustainability



# Contents

## 163 CEO Statement

## 164 Novozymes and the UNGC

- Progress on the Ten Principles

## 167 Sustainability governance

## 168 Collective action

COMMUNICATION  
ON PROGRESS



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

# Keeping up momentum

**Every day in 2020, Novozymes' biological solutions and operations delivered towards our purpose, contributed to achieving the SDGs and lived up to the Ten Principles of the UN Global Compact for responsible business.**

The year 2020, and COVID-19 in particular, has served as a wake-up call to society. It has shown us how vital it is that we understand and respect the larger ecosystems we are part of, how our interaction with nature may affect us all and the need to work together to solve global challenges.

At Novozymes, we apply innovation through science to develop solutions that address important societal needs. Sustainability is in our DNA, it drives everything we do: whether it be the way we work, how we run our operations, bring our solutions and products to our customers or engage with the communities we are a part of. It is deeply embedded in our purpose "Together, we find the biological answers for better lives in a growing world, let's rethink tomorrow" and our strategy "Better business with biology". By living our purpose and delivering on our strategy, we generate value for our customers, shareholders and society at large, short term as well as long term.

## Our progress

In 2020, we stayed on course towards our 2030 sustainability goals and targets. For example, we increased the share of renewables in our sourcing of electricity to 69% and reduced absolute emissions from our operations by 46%. We are on track to meet our science-based commitments to halve CO<sub>2</sub> emissions from our own operations by 2030. This year, Novozymes endorsed the CEO Water Mandate and committed to advancing water stewardship. We partnered with WWF to develop context-based water management plans for our Chinese sites. We managed to keep our operations running during the pandemic, whilst safeguarding the health and safety of our employees. Progress on our diversity and employee engagement targets has also been satisfactory.

Our biggest positive contribution to society and the SDGs comes from our science-based biological solutions. Examples are the 49 million tons of CO<sub>2</sub> emissions avoided through

our low-carbon fuels for the transport sector and the 3.98 billion people we reached with laundry solutions based more on biology and less on chemicals. In 2020, we continued to innovate new solutions delivering to the SDGs. We launched Taegro® together with Syngenta, to provide farmers with a chemical-free fungicide to protect fruits and vegetables from disease, thereby improving food production with less environmental impact. Another example is Protana® Prime which improves the flavor profile of plant proteins and thereby enables a switch to more plant-based diets, which offers a big potential for helping to reduce agricultural land use and CO<sub>2</sub> emissions.

## Partnering for the SDGs

At Novozymes, sustainability has been a priority for decades and we take pride in being a partner in helping to achieve the SDGs. We are committed to doing our part and to collaborate with public and private sector partners, to help build the sustainable future we all want. To leverage the power of collaboration and partnerships, to promote and accelerate innovation for the SDGs, we have co-founded and are engaged in HelloScience, an open innovation platform helping to combine applied research, social, environmental and commercial innovation.

## Supporting our communities

We are part of the local community, wherever we are located. It is our responsibility to engage, support and inspire local communities to pursue their own sustainability initiatives. In 2019, we created 'Inspire the World' as a new target to encourage and enable employees to use 1% of their time on local outreach initiatives. Responding to local challenges in

the face of COVID-19, many Zymers stepped up - investing their resources, time, and creativity in helping communities respond to the consequences of the pandemic. As an organization, we used our core business competences and helped set up and run large-scale production of ethanol to be used for hand sanitization. We also prioritized keeping all our production plants running in order to secure a supply of food and cleaning ingredients; and we provided enzymes for COVID-19 testing kits.

## Looking ahead

Although I hope 2021 will be better than 2020, I also know that it will be challenging. There has never been a greater need for innovation and collective action to make our societies more resilient to the pandemic, climate change and many other sustainability challenges. We will continue to bring the benefits of biology through our solutions and progress on our 2030 ambitions on climate, water, production and consumption. By doing so, we will continue to contribute towards the SDGs and make progress on the Ten Principles of the UN Global Compact. Our commitment to enable better lives in a growing world in partnership with our customers remains strong!



**Ester Baiget** CEO

# Novozymes and the UNGC

**Novozymes has engaged with the UN Global Compact (UNGC) since 2001 and has been a LEAD member since 2011. We actively support the UNGC's global and regional work on the SDGs and climate change and participate in the UNGC's local networks in Denmark, Brazil, USA, China and India.**

**W**e also actively participate in UNGC facilitated peer network meetings to share learnings on key sustainability issues - for example, in sustainability reporting, covering topics such as the recommendations of the Task Force for Climate Related Disclosures (TCFD), SDG reporting and the EU taxonomy.

## Novozymes and the UNGC

### 2020 highlights

Novozymes signed the UNGC statement in support of the UN and multilateral institutions and provided support for the UNGC LEAD Expert Group as part of the UNGC Strategic Review process.

Novozymes President and CEO Ester Baiget was invited to ring the bell for Gender Equality together with UNGC Denmark, Nasdaq Copenhagen, UN Women and other leaders.

In Brazil, we shared our experiences from our human rights impact assessment work with other companies in the UNGC Brazil network in a workshop conducted by the regional Human Rights Platform.

In China, we continue to be recognized as pioneers for climate change action and ecology conservation and for the third time, we were awarded 'Best Practice for companies in achieving SDGs'.

### Key engagements

Business Ambition for 1.5°C  
— Our Only Future

CEO Water Mandate

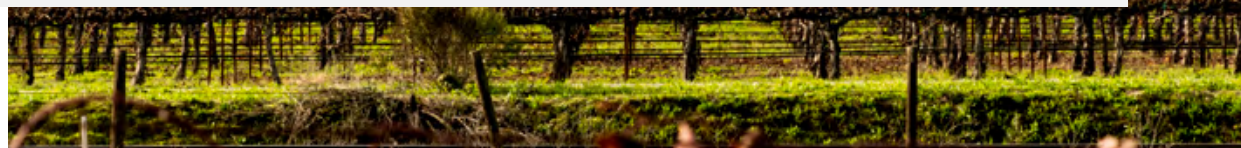
Women's Empowerment Principles

Caring For Climate

### UNGC Action Platforms

Business Ambition for Climate and Health

Reporting on the SDGs



# Progress on the Ten Principles

## Theme

### Human rights and Labor

#### Principle 1:

Businesses should support and respect the protection of internationally proclaimed human rights; and

#### Principle 2:

make sure that they are not complicit in human rights abuses.

#### Principle 3:

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

#### Principle 4:

the elimination of all forms of forced and compulsory labor

#### Principle 5:

the effective abolition of child labor; and

#### Principle 6:

the elimination of discrimination in respect of employment and occupation.

Novozymes respects human rights as defined by the **UN Guiding Principles on Business and Human Rights** and has implemented them in our operational policies and procedures. We respect the **International Bill of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work**, and, since 2001, we have been active with the **UNGC**.

Novozymes is committed to ensuring equal opportunities and avoiding discrimination based on race, religion, gender or age in our global organization. We have a policy for diversity and equal opportunities, which covers the entire workforce.

Novozymes is committed to providing a work environment where all individuals can work together comfortably and productively, free of any kind of harassment and discrimination. We recognize and respect the right to form and join associations and to bargain collectively. Our People & Organization function works together with local leaderships to facilitate the fulfillment of these fundamental rights in countries with limited labor legislation.

Novozymes engages in forums to learn about and promote gender equality. We are also a signatory to the **Women's Empowerment Principles**. One of Novozymes' primary priorities on the diversity agenda has been to increase the number of women in senior management.

Novozymes believes that respectful, professional conduct furthers Novozymes' mission and is fundamental to a good workplace. Novozymes is committed to ensuring the prevention of modern slavery and human trafficking in its business and supply chain. We publish our annual statement under the **UK Modern Slavery Act** on our website. We conduct regionally focused human rights impact assessments to identify and assess human rights risks and impacts in our business and supplier base. As human rights risks vary from region to region, this approach enables us to gain a more comprehensive understanding of human rights risks, our positioning and the associated gaps within the respective regions.



See Notes 8.1 and 8.6 in 'Accounts and performance'

## Theme

### Environment

#### Principle 7:

Businesses should support a precautionary approach to environmental challenges

#### Principle 8:

undertake initiatives to promote greater environmental responsibility; and

#### Principle 9:

encourage the development and diffusion of environmentally friendly technologies.

Novozymes' approach to environmental management is anchored in our Sustainability Policy. We are guided by the UN Sustainable Development Goals (SDGs) and we have carefully considered how we can make a positive and tangible impact. We have made commitments (**SBTi verified**) to help limit global warming increase to 1.5°C (Climate), ensure clean and efficient use of water (Water) and produce more and better products with less impact (Production & Consumption).

We are committed to complying with all environmental regulations at all our sites and to maintaining high standards of environmental management on various aspects, including pollution prevention, resource conservation and waste reduction.

Our research and business are based on bio-innovation. Climate action is an integral part of our business strategy and our solutions enable our customers and end users to reduce CO<sub>2</sub> emissions through the application of our solutions. Novozymes' existing solutions specifically in textile and laundry enable our customers to reduce water consumption compared with conventional methods and improve wastewater quality by replacing chemicals. We endorse, acknowledge and respect the principles of the **United Nations Convention on Biological Diversity** and **the complementary Nagoya Protocol on Access and Benefits Sharing**. Internal procedures in our management system ensure that we live up to our commitments. We adhere to responsible sourcing as defined by our Responsible Purchasing Standards (RPS) and managed through our Supplier Performance Management (SPM) process and **SEDEX** sustainability platform.



See Notes 7.1 to 7.7 and 8.6 in 'Accounts and performance'

### Anti-corruption

#### Principle 10:

Businesses should work against corruption in all its forms, including extortion and bribery

Novozymes is committed to conducting business in a responsible, ethical, and transparent manner and to meeting stakeholders' expectations of high business integrity standards across our operations. We have adopted seven business integrity principles that lay the ground rules for engaging with third parties and apply to all our employees across the world. The business integrity principles are inspired by and adhere to the **UN Convention against Corruption**. They underline Novozymes' zero tolerance approach to bribery and set clear rules for gifts and donations. They act as Novozymes' code of conduct in business integrity matters and form the basis of our efforts to eliminate all forms of corruption.



See Notes 8.3 and 8.6 in 'Accounts and performance'

# Sustainability governance

**S**ustainability forms an integral part of Novozymes' purpose and strategic direction and is governed by the Board of Directors and the Executive Leadership Team. The Board is responsible for overseeing financial and environmental, social and governance (ESG) performance as part of the Executive Leadership Team's day-to-day running of the company.

In 2020, Novozymes established a Corporate Sustainability Committee in the new organizational set-up reporting directly to the Executive Leadership Team (ExLT). This committee is responsible for the integration of sustainability into Novozymes' business strategies and innovation pipeline to deliver solutions that meet the needs of society and drive sales growth. It is also responsible for setting Novozymes' strategic direction, ambitious sustainability targets, and securing a strong internal foundation of responsible business practices.

The committee consists of members from senior leadership representing various functions and is chaired by the Executive Vice President of People, Sustainability & Brand function.

## Sustainability drives the way we do business

Sustainability drives the way we do business and we have always taken the triple bottom line approach to generate economic, environmental and social value. We manage our performance on material ESG issues through relevant targets and KPIs. Achieving our 2022 non-financial targets will put us on the path to accomplish our 2030 commitments. Our commitments and targets are focused on Climate, Water, Production & Consumption and Employees and guided by the SDGs.

### 2020 highlights

Novozymes sourced 69% of our global electricity consumption from renewable sources, making progress towards our 2030 commitment. CO<sub>2</sub> emissions (scope 1+2 only) from our operations decreased by 29% to 234,000 tons from 330,000 tons in 2019.

We developed contextual water management programs for two of our sites in China and have identified water targets that will help us address water challenges in and around these sites. Within

our operations, we achieved water savings of 45,000 m<sup>3</sup> for the year through water reduction and re-use projects.

97% of our biomass volume was handled in a circular set-up where nutrients, such as nitrogen and phosphorus, are used in agriculture and developed zero waste programs for three of our major sites located in Denmark.

For our nurture diversity target, we achieved 83 on our diversity index, which is based on gender and nationality. We met our target to drive down the three-year rolling average of lost-time injury frequency rate to 1.5.

Our business integrity training was completed by 99% of our employees in scope and focused on risks relating to conflicts of interest.



**For more information on measurement of outcomes, refer to 'Targets' and 'Accounts and Performance'.**



# Collective action

**At Novozymes, we recognize the importance of stakeholder engagement and partnerships to drive transformational change and have a significant impact on society.**

**O**ur stakeholders are essential partners in delivering on our purpose and the SDGs. Our most significant contributions to society are driven through collaboration with our customers, consumers, governments, suppliers, academia and others to learn, develop and deliver solutions to the most pressing needs of society. We maintain a transparent and ongoing dialogue with our investors on both financial and ESG performance. This is crucial to ensuring strong long-term relationships and improving our performance on material issues.

Novozymes engages with governments in all our regions of operation, primarily through policy advocacy. Our engagement with industry or trade associations further helps us in our policy advocacy efforts. Novozymes presents its positions to policymakers and other interested parties in accordance with national and international laws. Our public affairs employees in Europe, United States, India

and China primarily engage with governments through advocacy and consultation forums. They are registered in dedicated lobbyist registers, as legally required (e.g.: the Transparency Register in Brussels). Novozymes does not support political parties or politicians. We do not disclose other contributions, except where required by law. In 2020, in the US, Novozymes spent DKK 3.3 million on policy advocacy.

**“Our engagement with industry or trade associations further helps us in our policy advocacy efforts. Novozymes presents its positions to policymakers and other interested parties in accordance with national and international laws.”**





## Collective action

### 2020 highlights

Novozymes established strong internal and external engagement to secure success towards our long-term water strategy. We became a proud signatory to the CEO Water Mandate and established a partnership with the World-Wide Fund for Nature (WWF). WWF will help us to develop contextual water programs for our key sites that will ensure our efforts are focused on addressing the priority operational and basin water challenges. Novozymes has also joined the Science Based Targets Network's (SBTN) Freshwater Hub working group, which drives the development of methodology for science-based targets for water.

Our products help food producers meet the growing consumer demand for high-quality, healthy and sustainable foods. In 2020, we partnered with Firmenich to deliver healthier yogurt solutions with 50% less sugar through the use of our enzyme Saphera®.

We began to implement our scope 3 target to reduce our absolute CO<sub>2</sub> emissions from purchased goods and services. We are exploring multiple levers to achieve our target such as substitution to less CO<sub>2</sub> intensive materials and engaging with our suppliers to drive emission reductions.

Our 'Inspire' target is about helping our communities respond to local challenges. In 2020, the biggest crisis we all faced was the COVID-19 pandemic. Our employees in all regions stepped up by contributing their resources, time, and creativity to help their communities respond to the pandemic and other pressing local issues.



See 'Targets' and 'Community engagement' for further information.

Novozymes continued to drive collaborative innovation for the SDGs via its **HelloScience platform**. Leveraging its digital capabilities, a COVID-19 inspired challenge was launched in Denmark, among other activities, focusing on the **future of sustainable cleaning** with Nilfisk, local authorities, business associations and start-ups. Elsewhere, partnerships were established to support social innovation in the Arctic Region with **Sustainia** and to drive sustainable business innovation with **Nordin in India**. High impact projects within the HelloScience ecosystem like SolarSack have also continued forward, including providing safe drinking water for refugees in Uganda.

Novozymes maintained its active involvement throughout the year with the International Chamber of Commerce (ICC), notably through its work on Climate, Sustainability and Environmental issues and its Commissions, with ICC taking a key role in terms of business responses to COVID-19. In September 2020, Novozymes' President and CEO Ester Baiget spoke at the **SDG Business Forum** as part of this year's virtual UN General Assembly, co-organized by ICC, UNGC and UN DESA (Economic and Social Affairs) on the role of Sustainable Business Leadership, Purpose and Innovation.

Novozymes also maintained its support for the work of both the United States Council for International Business (USCIB) and the USCIB Foundation in 2020, with Novozymes' President and CEO Ester Baiget being elected to the Board of Trustees. USCIB's work across Biodiversity, Climate, Circular Economy and its ongoing support for inclusive multilateralism and the role of the U.S. in key international negotiations and processes such as the UNFCCC Paris Agreement were at the center of Novozymes' engagements with the organization.

# Our advocacy for climate action

We align our actions with our advocacy for a low carbon future. Novozymes actively engages in global discussions, partnerships and advocacy for robust policy framework to decarbonize the global economy with key stakeholders.

We engage directly with key stakeholders in government, industry and organizations around the world to maintain and strengthen political momentum and we offer knowledge and insights to broaden the understanding of industrial biotech and the industry's contribution to the green transformation and the Paris Agreement.



In the EU, through its representation in various industry organizations such as EuropaBIO, ePURE, EBIC, Novozymes supports the EU Green Deal, which articulates a roadmap for how Europe will live up to its ambitious climate commitments and make its economy circular, biobased and sustainable.



In the US, Novozymes has supported key climate legislation, such as the Renewable Fuel Standard which provides reduced GHG-emissions renewable fuels market access via minimum annual blending volume requirements and the Growing Climate Solutions Act which would enable farmers and foresters to participate in carbon credit markets.



In Denmark, Novozymes is part of the 'Climate Partnership for Life Science & Biotech' which aims to give recommendations on how each industrial sector can contribute to reducing GHG emissions and reach the Danish government's target of reducing absolute GHG emissions by 70% by 2030, compared to 1990.



In China, Novozymes supports the Government's ambition of becoming carbon neutral by 2060 and its overall objective of the clean energy strategy in the 14th national five-year plan. Novozymes also advocates for more policy support and subsidies for the advanced bioethanol sector due to its contribution to China's circular economy.



In Brazil, Novozymes was a founding member of the Association of Industrial Biotechnology (ABBI), which played a key role in establishing the RenovaBio program, which seeks to reduce the emissions intensity of the Brazilian transport sector in line with its commitment to the Paris Agreement.



In India, Novozymes has, through the Confederation of Indian Industry (CII), extensively engaged with government and industry stakeholders in shaping the National Policy on Biofuels which is aimed at achieving energy security, reducing carbon emissions and reducing dependence on fuel imports. Further, Novozymes supports the Indian government's efforts on climate action and the green transition and will proactively participate in the initiatives through the Danish Embassy in the country.

**For further  
information refer to:**



**This is Novozymes in  
'The big picture'**



**Novozymes' policies and position  
statements at [Novozymes.com](https://www.novozymes.com)**



**Working with SDGs in  
'The big picture'**



**Materiality and value chain  
assessment at [Novozymes.com](https://www.novozymes.com)**



**Targets in  
'Our business'**



**Partnerships and collective  
action at [Novozymes.com](https://www.novozymes.com)**



**Notes in  
'Accounts and Performance'**



**Awards and Recognitions  
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