

ACCOUNTING POLICIES

The consolidated financial statements of the Novozymes Group have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the EU, and additional Danish requirements on the presentation of accounts. Novozymes has prepared its consolidated financial statements in accordance with all the IFRS standards in force. The accounting policies are unchanged from the previous year. The consolidated financial statements have been prepared under the historical cost convention, with the exception of the following items, which are recognized at fair value:

- Available-for-sale financial assets
- Derivatives

Some of the information required pursuant to IFRS is contained in the sections Report and Management. The rest will be found in the following sections.

The Novozymes Report does not contain the financial statements for the parent company, Novozymes A/S. The financial statements for the parent company can be found online under "Financial statements for Novozymes A/S" at www.Novozymes.com. Together the Novozymes Report and the financial statements for the parent company, Novozymes A/S, forms the Annual Report that will be sent to the Danish Commerce and Companies agency.

Reporting of selected environmental, social, and knowledge data is based on an assessment of which data are of particular significance for Novozymes' earnings capacity in the longer term. We also believe these data to be of greatest relevance to our key stakeholders. Information on Novozymes' use of the GRI indicators will be found in the online report under Supplementary reporting.

Environmental, social, and knowledge data are an integrated part of the Annual Report and are covered by the statutory audit performed by the auditor elected by the Annual Shareholders' Meeting.

Impact of new accounting standards

In 2008, the following standard and interpretations with relevance for Novozymes were brought into effect and implemented:

- IFRS 8 "Operating Segments"
- IFRIC 11 and 14

The implementation has led to further disclosures, but not resulted in any changes in recognition and measurement.

Standards and interpretations adopted, but not brought into effect and implemented as at December 31, 2008, include:

- "Improvements to IFRSs 2008"
- Admendment to IFRS 2 "Vesting conditions and cancellations"
- Revised IFRS 3 "Business combinations"
- Revised IAS 1 "Presentation of financial statements"
- Revised IAS 23 "Borrowing costs"
- Revised IAS 27 "Consolidated and separate financial statements"
- IFRIC 12 and 15-17

Implementation of these will lead to further specifications in the Notes, but no

material changes in recognition and measurement. The most significant changes pursuant to IFRS 3 are that acquisition costs must be expensed and that it is possible to use the full goodwill method. In addition, borrowing costs relating to qualifying assets must be capitalized pursuant to IAS 23. The requirement for proceeds of government loans at below-market rates of interest to be recognized at market value may also become relevant to Novozymes.

Significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of Novozymes A/S (the parent company) and all the companies in which the Group owns more than 50% of the voting rights or otherwise has control or similar de facto control (subsidiaries), as well as joint ventures. The consolidated financial statements are based on the financial statements for the parent company and for the subsidiaries, and are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal stockholdings and balances, and unrealized intercompany profits and losses. All the financial statements used for consolidation are prepared in accordance with the Group's accounting policies.

The Group's holdings in joint ventures regarded as jointly controlled entities are consolidated using the proportionate consolidation method by including its proportional share of their assets, liabilities, revenue, and costs line by line.

Business combinations

On acquisition of new companies, the assets, liabilities, and contingent liabilities of each new company are recognized at fair value at the time of acquisition. Goodwill is adjusted for changes in the purchase price after acquisition and changes in the fair value of the identifiable assets, liabilities, and contingent liabilities acquired since the acquisition date until 12 months afterwards. Newly acquired companies are recognized as from the date of acquisition, and no adjustment is made to comparative figures. Goodwill is allocated to business activities in order to test for impairment.

Translation of foreign currencies

The consolidated financial statements are presented in Danish kroner (DKK). Foreign currency transactions are translated into the functional currency 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 balance sheet date. Financial statements of foreign subsidiaries are translated into Danish kroner at the exchange rates prevailing at the balance sheet date for assets and liabilities, and at average exchange rates for income statement items.

Goodwill arising on the acquisition of new companies is treated as an asset belonging to the new foreign subsidiaries and translated into Danish kroner at the exchange rates prevailing at the balance sheet date.

Realized and unrealized foreign exchange gains and losses are recognized under Financial income or Financial costs, with the exception of unrealized gains and losses relating to hedging of future cash flows, which are recognized in Shareholders' equity under Cash flow hedges. The following exchange rate differences are also recognized directly in Shareholders' equity under Currency translations, translated at the exchange rates prevailing at the balance sheet date:

Accounting policies for the Novozymes Group

- Translation of foreign subsidiaries' net assets at beginning of year
- Translation of foreign subsidiaries' income statements from average exchange rates to the exchange rates prevailing at the balance sheet date
- Translation of long-term intercompany balances, which are considered to be an addition to net assets in subsidiaries
- Fair value adjustment of financial liabilities that qualify for hedging of net assets in foreign subsidiaries

Stock-based payment

The Group's employees are covered by stock option programs comprising, equity-settled and cash-settled programs.

The fair value of the employee services received in exchange for the grant of stock options is computed using the value of the granted stock options. The fair value of the granted stock options is calculated using the Black-Scholes model.

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

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

Government grants

Government grants received relating to research and development costs are recognized under Other operating income, net, based on the percentage completion of the projects. Grants received relating to investments in property, plant and equipment are offset against the cost price of the eligible assets.

Segment information

The consolidated financial statements provides information on the Group's operating segments in a manner, which is consistent with the internal reporting that goes to Board of Directors and Executive Management. In addition, information is provided on geographical allocation.

Leases

Operating lease costs are recognized in the income statement on a straight-line basis over the period of the lease. Liabilities relating to non-cancelable contracts are specified in the notes.

Key figures

Key figures are mainly prepared in accordance with the 'Recommendations and Key Figures 2005' of the Danish Society of Financial Analysts, although certain key figures are adapted to the Novozymes Group.

Revenue

Revenue covers sales of goods and services for the year less goods returned, and volume, and cash discounts. Sales are recognized at the time of risk transfer relating to the goods sold, provided that the revenue can be measured on a reliable basis and is expected to be received.

The Group has entered into few agreements where the other contracting party undertakes sales to third parties and the profit is distributed between the

Group and the other contracting party on the basis of a predetermined formula. Sales are recognized using information on the other contracting party's realized sales, and a liability is recognized for the distribution of the profit, which is calculated and settled with final effect once a year.

The Group has entered into commission agreements where agents undertake sales to third parties in return for commission on realized sales. These sales are recognized when they are realized. A liability is recognized when it is permitted for goods to be returned and this is likely.

Research and development costs

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

Other operating income, net

Other operating income, net, comprises grants from public authorities and customers for research projects and collaborations, and income, net, of a secondary nature in relation to the main activities in the Group. This item also includes non-recurring income items, net, in respect of damages, outlicensing, etc.

Tax

Corporation tax, comprising the current tax liability, change in deferred tax for the year, and any adjustments relating to previous years, is recognized in the income statement at the amount attributable to net profit, and directly in Shareholders' equity at the amount attributable to items recognized in Shareholders' equity. Deferred tax is measured using the balance-sheet liability method, and comprises all temporary differences between the accounting and tax values of assets and liabilities. No deferred tax is recognized for goodwill, unless amortization of goodwill for tax purposes is allowed. Deferred tax is measured and recognized to cover retaxation of losses in jointly taxed foreign subsidiaries if this is expected to be realized on the divestment of stock or when recapture of tax losses becomes applicable. The tax value of tax-loss carry-forwards is included in the calculation of deferred tax to the extent that the tax losses can be expected to be utilized in the future.

Deferred tax is measured according to current tax rules and at the tax rate expected to be in force on elimination of the temporary differences. Changes in deferred tax due to tax rate changes are recognized in the income statement where they can be attributed to net profit, and directly in Shareholders' equity where they can be attributed to items recognized in Shareholders' equity.

Novozymes A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Novo and Novo Nordisk Groups. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses.

Costs associated with large IT projects on the development of software for internal use are capitalized if they are incurred with a view to developing new and improved systems. Associated borrowing costs are expensed in the financial year in which they are incurred. Amortization is based on the straight-line method over the expected useful lives of the assets, as follows:

- Completed IT development projects are amortized over the useful life.
Booked IT development assets are amortized over 3–5 years
- Acquired patents, licenses, and know-how are amortized over their useful lives. Patents are amortized over their useful lives, normally identical to the patent period, and licenses are amortized over the agreement period.
Booked patents, licenses, and know-how are amortized over 7–20 years

Some assets are amortized over a shorter period.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Borrowing costs in respect of construction of major assets are expensed in the financial year in which they are incurred.

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

- Buildings: 12–50 years
- Plant: 5–16 years
- Other equipment: 3–16 years

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

Gains and losses on the sale or disposal of assets are recognized in the income statement under the same items as the associated depreciation charges.

Impairment of intangible assets and property, plant and equipment

Intangible assets, and property, plant and equipment are reviewed for impairment losses when there is an indication that the assets have diminished in value beyond the level of normal depreciation. Goodwill is also subject to impairment testing each year, and when there is an indication that the assets have become impaired.

An impairment loss resulting from an asset having diminished in value beyond the level of normal depreciation is recognized at the amount by which the carrying amount exceeds its recoverable amount.

Inventories

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

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

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

Cash at bank and in hand

Cash at bank and in hand comprises cash balances and funds held at financial institutions.

Financial assets and liabilities

The Novozymes Group categorizes financial assets and liabilities as follows: Financial assets/liabilities at fair value through profit or loss, Loans and receivables, Hedge accounting, Available-for-sale financial assets, and Financial liabilities.

Financial assets/liabilities, which are measured at at fair value through profit or loss are the part of derivatives, which cannot be designated as hedge accounting, e.g.

accrued interest on currency swaps and time value of currency options. Loans and receivables are non-derivatives with fixed or determinable payments that are not listed on an active market. Loans and receivables are entered in the balance sheet under the following items: Trade receivables, Other receivables, and Cash at bank and in hand. The items are measured at amortized cost or net realizable value equivalent to nominal value less allowances for doubtful receivables, whichever is lower.

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

Derivatives used to hedge assets and liabilities are measured at fair value on the balance sheet date, and value adjustments are recognized as Financial income or Financial costs.

Derivatives used to hedge expected future cash flows are measured at fair value on the balance sheet date, and value adjustments are recognized directly in Shareholders' equity.

Derivatives used to hedge net investments in foreign subsidiaries are measured at fair value, and value adjustments are recognized directly in Shareholders' equity.

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

The fair value of derivatives is calculated using rates obtained from stock exchanges or other reliable data sources. All stock options are valued using the Black–Scholes model.

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

Available-for-sale financial assets are the remaining financial assets not included in the above categories. Available-for-sale financial assets are itemized in the balance sheet as Other financial assets and are measured at fair value (stock price) on the balance sheet date. Unrealized fair value adjustments are recognized directly in Shareholders' equity. Value adjustments are transferred from Shareholders' equity to Financial income or Financial costs when realized. Write-offs are recognized as Financial costs.

Financial liabilities are entered in the balance sheet under the following items: Other financial liabilities, Trade payables, and as part of Other liabilities.

Dividend

The dividend proposed for the financial year is shown under Retained earnings in the Statement of shareholders' equity.

Treasury stock

The cost price and proceeds from the sale of treasury stock are recognized directly in Shareholders' equity as a separate item. Among other things, the company's holding of treasury stock is used to hedge employees' exercise of granted stock options.

Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, and it is probable it will lead to an outflow of financial resources. Provisions are measured at the present value of the expected expenditure required to settle the obligation.

Other liabilities

Other liabilities are measured at amortized cost.

Pension obligations and other long-term employee benefits

Costs relating to defined contribution plans are recognized in the income statement in the financial year to which they relate.

Costs and liabilities relating to defined benefit plans are stated using the projected unit credit method. Liabilities for the major plans are calculated annually by an external actuary. Actuarial gains and losses are recognized in the income statement over the employees' expected average remaining working life if these differences exceed 10% of either the present value of the liability or the fair value of the plan assets in the previous year, whichever is the higher. Pension assets can only be recognized to the extent that the Group is able to achieve future financial benefits in the form of refunds from the pension plan or a reduction in future benefits.

Costs relating to other long-term employee benefits are accrued over the employees' expected average remaining working life.

Statement of cash flows and financial resources

The Statement of cash flows and financial resources for the Group, 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 expenses, 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 minority stock, intangible assets, and property, plant and equipment.

Cash flow from financing activities comprises proceeds from borrowings, repayment of principal on interest-bearing debt, payment of dividends, proceeds from stock issues, and the purchase and sale of treasury stock and other securities.

Cash and cash equivalents comprises cash at bank and in hand less current bank loans due on demand. Financial resources comprises cash and cash equivalents plus undrawn committed credit facilities expiring in more than one year.

Accounting policies for environmental, social, and knowledge data

The accounting policies for environmental, social, and knowledge data are unchanged from last year.

The environmental, social, and knowledge data in the Annual Report are based on data for the parent company and for all subsidiaries, combining items of a uniform nature compiled using the same methods, unless specifically stated otherwise below.

Acquired companies are recognized as from the date of acquisition, and comparative figures are not restated.

Environment

The environmental data cover those activities that, based on an overall environmental assessment, could have a significant impact on the environment, cf. companies in the group. Sites with activities considered not to have a significant impact are not included. Such sites comprise sales offices, R&D labs and sites with limited blending and storage of products.

Water

Water includes drinking water, industrial water, and steam. The reported quantities are stated on the basis of the metered intake of water to Novozymes, and include both quantities consumed in the production process and in other areas. The reported quantities of steam are converted to volume running water and therefore subject to calculation.

Drinking water is water of drinking water quality.

Industrial water is water from lakes or groundwater from own wells that is not of drinking water quality, but which is suitable for certain industrial processes, e.g. for use in cooling towers.

When calculating the target for water consumption development compared to sales growth in local currencies, a correction is applied to account for changes in inventory. This is to ensure that the water consumption target accurately reflects the consumption applicable to the products sold in the period.

Energy

Internally generated energy is measured as fuel consumption converted to energy on the basis of the lower of combustion value and weight by volume. The associated emissions of CO₂, SO₂, and NO_x are calculated on the basis of the amount of fuel consumed using annually determined conversion factors from Danish authorities and suppliers.

Externally generated energy is the input to Novozymes of externally generated electricity, heat, and steam. The associated emissions of CO₂, SO₂, and NO_x are calculated using annually determined conversion factors from power plants or their organizations.

Fuel consumption does not include fuel for transportation.

When calculating the target for energy consumption development compared to sales growth in local currencies, a correction is applied to account for changes in inventory. This is to ensure that the energy consumption target accurately reflects the consumption applicable to the products sold in the period.

Raw materials and packaging

Raw materials and packaging comprises materials for fermentation, recovery, granulation, wastewater and sludge treatment, and packaging of products. Consumption of raw materials and packaging is converted into kilograms.

Wastewater

Wastewater is measured as the volume discharged by Novozymes. COD, dry matter, BOD₅, nitrogen, and phosphorus in the wastewater are calculated on the basis of samples taken at the point of discharge.

Biomass

Biomass is measured as the volume produced and transported from Novozymes as liquid fertilizer (NovoGro®) or converted to a fertilizer product with a higher dry matter content (NovoGro® 30 or compost). The nitrogen and phosphorus contents in the fertilizer are measured.

Waste

Waste is the registered volume of waste broken down into hazardous and nonhazardous waste, and by disposal method. Disposal methods include landfill, incineration, recycling, and other.

The amount recycled is the quantity sent for recycling to a certified service provider.

Emissions to air of ozone-depleting substances

Emissions to air of ozone-depleting substances is measured as consumption of CFCs, HCFCs, and halons.

Environmental impact potentials

The environmental impact potentials for global warming, ozone layer depletion, and acidification are calculated on the basis of 'Udvikling af Miljøvenlige Industriprodukter' (UMIP), published by the Institute for Product Development at the Technical University of Denmark.

Environmental compliance

Breaches of regulatory limits is measured as the number of incidents which is evaluated to be in nonconformity with environmental permits or environmental legal requirements.

Unintended releases of GMOs is spill of fermentation liquid to recipients which, based on criteria such as amount, type of recipient and authority demands, is evaluated to have an impact on the environment.

Minor GMO spills that are not considered to have an impact on the environment are not included in this figure.

Significant spills is measured as the number of spills of chemicals, oil, etc. into water, air, or soil, and include both on-site and transport related spills. Significance is assessed both on the basis of extent of the spill and impact on the environment.

Minor spills that are not considered to have an impact on the environment are not included in this figure.

Neighbor complaints is the number of registered environmental complaints.

Animals for testing

This item covers the number of animals used for all commenced internal and external testing undertaken for Novozymes.

Social responsibility

Number of employees

The number of employees is calculated as the actual number of employees at year-end, excluding employees on unpaid or parental leave, temporary hires, student interns, and PhD students.

In calculating the number of full-time employees, employees with a working-time ratio of 95% or over are stated as full-time employees.

Job categories

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

Employee turnover

Employee turnover is measured as the number of permanent employees who left the Group during the financial year, compared to the average number of permanent employees in the financial year. The average number of permanent employees is calculated as the average number of permanent employees at the end of each quarter.

Growth in number of employees, organic

The organic growth in number of employees is measured as the number of employees at year-end less the number of employees gained via acquisitions and the number of employees at the beginning of the year.

Growth in number of employees, acquisitions

The growth in number of employees via acquisitions is measured as the number of employees gained via acquisition of new companies.

Age and seniority

Age and seniority are calculated as the average age and seniority in whole years per employee.

Absence

Absence is stated as time lost due to the employee's own illness, including pregnancy-related sick leave and occupational accidents and diseases. The rate of absence is calculated as the number of registered days of absence as a percentage of the total number of normal working days in one year, less holidays and public holidays.

Expatriation

Expatriation refers to Novozymes employees being temporarily assigned to undertake tasks outside their home country for a period of more than six months.

Training costs

Training costs is the costs of seminars and internal and external training courses, translated into Danish kroner at the average exchange rates. Training costs is also shown as a percentage of total employee costs.

Occupational health and safety

Occupational accidents

Occupational accidents with absence is defined as the number of reported work-related accidents involving at least one day's absence after the day on which the accident occurred.

Occupational diseases

Occupational diseases is defined as the number of new reported cases of work-related diseases. In accordance with newly enacted Danish legislation, employees working in noisy areas must be tested for hearing disorders. Identified cases are reported as occupational diseases even though it may not be possible to establish whether the disease is related to working at Novozymes

Consequences of occupational accidents and occupational diseases

The consequences of occupational accidents with absence and occupational diseases are measured by recording the work situation once the outcome of the incident has stabilized, for example whether the employee has returned to his or her original job, and the total number of (calendar) days of absence.

Frequencies of occupational accidents and occupational diseases

The frequencies of occupational accidents with absence and diseases are calculated per million working hours.

Knowledge

Number of new products

The number of new products with new or improved characteristics launched during the year.

Number of active patent families

The number of inventions for which there are one or more active patent applications or active patents at year-end.