

RISK FACTORS

All businesses are exposed to a wide range of risk factors. Novozymes strives to identify and mitigate risks that could affect our financial, environmental, or social performance and/or reputation as early as possible.

This section describes a number of critical risks along with measures that Novozymes has taken to reduce them. The list is not in any order of priority and is not exhaustive.

Financial risks are presented in Note 37 to the financial statements.

SALES-RELATED RISKS

Markets, customers, and sales channels

Novozymes sells products worldwide and is subject to the financial and political risks this naturally entails. Growth in individual markets is therefore influenced by the local economic situation and local legislation. Novozymes works together with our agents, distributors, and other business partners to ensure that they know and do not violate Novozymes' business integrity rules when selling our products.

Customer concentration

A relatively small number of customers account for a high proportion of Novozymes' sales in certain product areas, which means that Novozymes is also affected by trends in these customers' markets. Novozymes works closely with our major customers to limit risks, for example by means of joint development projects and joint production planning, including the integration of IT systems.

Innovation

Novozymes strives to maintain our position as market leader by continually launching new and improved, high-quality products that meet customers' needs. Novozymes' projected sales are not dependent on single large product launches, as we constantly have several new products in the pipeline. This places high demands on the Group's research and development, requiring it to keep pace with customer needs. Failure here would entail the risk of a negative impact on Novozymes' sales targets. Novozymes allocates around 14% of sales to research and development to ensure sufficient resources for future innovation.

Enzymes produced using GMOs

Novozymes produces a large number of enzymes using genetically modified organisms (GMOs). Without this technology, it would be necessary to use larger quantities of raw materials, water, and energy, and in many cases commercial production of an enzyme would not be viable.

The use of gene technology is the subject of ongoing debate around the world, mainly concerning genetically modified crops or foods containing GMOs. Novozymes' use of gene technology has only featured in the debate to a limited degree, as the Group's end products do not contain GMOs. However, it is possible that Novozymes' production and sales to the food and feed industries in particular may be affected by the public debate on gene technology and the impact this may have on consumer demand.

Read more about Novozymes' use of gene technology at www.novozymes.com.

Supply chain management

Novozymes has sharpened our focus on integrating sustainability and risk management into the selection and evaluation of key suppliers. In order to identify risks and opportunities in our global purchasing processes, an advanced supplier performance management system has been developed.

Sustainability is a performance parameter in the system and is evaluated alongside commercial and quality parameters. Instead of relying only on supplier self-evaluations, the supplier evaluation process is supplemented with media research, dialogue, and the critical insight of Novozymes' purchasers. The system helps rank and compare suppliers according to risk and opportunity and provides an overview of the global supplier pool. The system is also designed to help the purchasing function identify the suppliers who typically pose the biggest risks. Suppliers with critical issues are subject to further questions or an audit.

As maintaining optimal production is critical for Novozymes, there is a strong focus on the reliability of deliveries from suppliers. To safeguard supplies, cooperation agreements have been entered into with a number of key suppliers. These agreements also help to reduce sensitivity to fluctuations in the price of raw materials and energy.

Competition

Historically, Novozymes has experienced constant price pressure in our markets. Competition from producers based in low-cost countries, particularly China and India, will always be a challenge. One of the ways in which we are trying to counter this challenge is by using our technology to continuously optimize production, thereby reducing costs per unit produced so that production remains at the forefront and competitive.

Patent strategy

Novozymes' technology is the basis of our business, and we pursue an active patent strategy by protecting new discoveries as early as possible. This prevents new products, processes, etc., from being copied.

ENVIRONMENTAL AND SOCIAL ISSUES

Novozymes' fundamental values include environmental and social responsibility. These are key to the way in which Novozymes conducts business and are significant to all activities. These values are underpinned by a number of targets for environmental and social responsibility.

Reputation

Novozymes is heavily dependent on being able to attract and retain skilled people, and our reputation is an important factor in this respect. Novozymes aims to maintain a good reputation by means of openness and transparency in both internal and external communications. Work is also carried out on an ongoing basis to reduce the risk of situations arising that could damage Novozymes' reputation. For example, employees have been trained in our business integrity principles. Relevant legislation must be complied with at all times, and Novozymes is committed to setting an even higher standard in many areas.

Having a positive impact on our surrounding environment is important to Novozymes. We therefore endeavor to do business in such a way that our environmental impact is part of the solution to current environmental problems. Novozymes' targets of achieving significant reductions in CO₂ emissions and water and energy consumption are examples of this.

Animal testing

Novozymes uses animal testing in connection with the development and approval of products where this is demanded by public authorities. The use of animal testing is the subject of ongoing public debate and as such constitutes a risk to Novozymes' reputation and business. The current product portfolio involves relatively few animal tests, but this may change as a result of the development of new business areas.

Novozymes strives continuously to minimize the number of animal tests by further refining the methods used and employing alternatives wherever possible.

Business partners and acquisitions

In Novozymes' relations with business partners, the company seeks to reduce the risk of being associated with environmental and social failings that could impact negatively on Novozymes' reputation.

On entering into agreements with new business partners or acquiring new companies or activities, Novozymes takes environmental and social issues into account on par with the financial considerations.

OTHER RISKS

Energy consumption and prices

Our production requires relatively large amounts of energy, and fluctuations in energy prices will therefore affect the cost of the goods we sell. The risk of a negative impact from rising energy prices is managed by optimizing the production process, for example by using gene technology, and by partially hedging energy prices for a future period. In the long term, this risk is offset by the positive impact on sales when energy prices go up, as it becomes more profitable for our customers to replace oil-based ingredients with enzymes and to use energy-saving enzymes in their production.

Raw material consumption and prices

A significant proportion of Novozymes' raw materials is derived from agricultural produce, and fluctuations in prices for these commodities will therefore affect the cost of the goods we sell. Novozymes seeks to reduce the risk of a negative impact on costs by optimizing the production process, for example by using gene technology, and by ensuring the greatest possible flexibility in the use of raw materials.

Global organization and taxes

Novozymes operates in many markets via sales companies and distributors, while production takes place in a small number of countries. This leads to transactions between Group companies. Novozymes follows the OECD principles in setting internal transfer prices for these transactions, but this is a complicated area and entails a tax risk, partly because the area is subject to political judgment in each individual country. Novozymes regularly enters into dialogue with the tax authorities to reduce this risk, and we have entered into advance pricing agreements with the tax authorities in the countries where internal transactions are most significant. For Novozymes, such agreements create predictability in relation to taxation and reduce the risk of Novozymes becoming part of the ongoing transfer pricing debate around the world. However, some countries, including India and Brazil, have yet to introduce legislation permitting agreements of this kind. All in all, a major part of internal transactions in the Group is covered by advance pricing agreements.

Insurance

The risk of personal injury, material damage, and other events beyond our control, as well as other losses that Novozymes may cause, is covered by an extensive insurance program to the extent that this is feasible and possible. Cover in different areas is subject to a premium based on Novozymes' claims history. The current price of the policies and the cover provided may be affected by external circumstances, such as natural disasters and similar events.