General guidelines for remuneration of the Board of Directors and Executive Management of Novozymes A/S

Pursuant to section 139 of the Danish Companies Act, before a public limited company can enter into a specific agreement for incentive-based remuneration with a member of its management, the company’s Board of Directors must set general guidelines for incentive-based remuneration for the company’s management.

Novozymes A/S (“Novozymes”) has used incentive programs for the company’s Executive Management and employees for many years, whereas the Board of Directors has not received incentive-based remuneration.

The present guidelines concern remuneration of the Board of Directors and the members of Novozymes’ Executive Management (“Executive Management”) registered at any time with the Danish Business Authority, including incentive programs (variable remuneration) for Executive Management, and have been drawn up in accordance with section 139 of the Companies Act.

The main purpose of the guidelines is to create a framework for the variable salary component in due consideration of the company’s short- and long-term targets.

Agreements for incentive-based remuneration entered into prior to adoption of the present guidelines will continue on the terms agreed.

1. General principles for remuneration of the Board of Directors

The Board of Directors regularly assesses the fees paid to the Board based on recommendations from the Nomination and Remuneration Committee. In making its recommendations, the Nomination and Remuneration Committee is guided by relevant benchmarks, including benchmarks of Novozymes’ peers in Denmark and the rest of Europe.

Remuneration of the Board of Directors for the present year is approved at the Annual Shareholders' Meeting each year.

The remuneration of the Board of Directors comprises a fixed base salary and as such 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' base fee is set at a level that conforms to the market and reflects the members' competencies and efforts given the complexity of the Group, the scope of the work, and the number of board meetings.

Board members receive a fixed base fee, while the Chairman receives a fee that is three times higher and the Vice Chairman a fee that is twice as high. In addition, the chairman of the Audit Committee and the chairman of the Nomination and Remuneration Committee each receives a base fee and members of the Audit Committee and members of the Nomination and Remuneration Committee each receives half a base fee as a supplementary payment; provided, however that the Chairman and the Vice Chairman of the Board of Directors shall not receive any such supplementary payment if elected to the Nomination and Remuneration Committee.

The Board of Directors may decide to grant an additional fee to individual board members (including the Chairman and the Vice Chairman of the Board of Directors) for extraordinary Novozymes board work which can reasonably be considered outside the scope of the ordinary board work in Novozymes and the work in the board committees. In each such case, the Board of Directors shall determine a fixed fee for the work carried out related to those tasks up to a total maximum of an extra half base fee per member per annum. The fixed fee will be disclosed in the annual report and approved at the next Annual Shareholders' Meeting.

Travel, accommodation and other reasonable expenses, etc., in connection with board work and/or meetings, including expenses associated with any relevant training are paid on submission of receipts.

The Company pays statutory contributions to social security and similar taxes and charges that the Company is obligated to pay according to applicable law in relation to a board member’s position as member of the board of the Company.
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2. General principles for remuneration of Executive Management

The total remuneration to a member of Executive Management shall be competitive in comparison with other comparable companies in Denmark and the rest of Europe. The elements of the total remuneration are put together on the basis of market practice and the Group’s specific requirements.

The Board of Directors wishes to incentivize Executive Management to ensure continued positive development of Novozymes and, as a result, good value creation for Novozymes’ shareholders. The Board considers that the best results are achieved when a relatively high proportion of the executive’s total remuneration is dependent on achievement of the executive’s individual targets and Novozymes’ social, environmental, and financial targets.

3. Total remuneration to members of Executive Management

The total remuneration to members of Executive Management comprises:

(i) A fixed base salary (base salary and pension contribution) plus company car and certain other benefits in kind
(ii) A short-term incentive scheme (cash bonus)
(iii) A long-term incentive scheme (stock-based program)

Executive Management has a defined contribution pension scheme, with the pension contribution representing between 25% and up to 30% of base salary and cash bonus.

Members of Executive Management have a number of work-related benefits at their disposal, including a company car, free telephony and other benefits related to their positions. The scope and level of the individual benefits are negotiated with the individual executive.

The contract of employment for each member of Executive Management also includes a termination clause that, in the event of termination on the part of Novozymes, entails payment of an amount not exceeding 36 times the monthly salary (base salary and pension contributions). The termination payment is made in addition to payment of salary during the period of notice. The contract of employment for executives appointed after adoption of these guidelines March 2, 2011 will not contain a termination clause that, in the event of termination on the part of Novozymes, entails payment of an amount of more than 24 times the monthly salary (base salary and pension contributions).

The Board of Directors has set the fixed base salary for members of Executive Management at a level below the average for a relevant sample of comparable Danish and/or European companies. To ensure that the total remuneration is competitive, the Board of Directors has therefore decided that the variable component (cash bonus and stock-based remuneration) of the total remuneration should be relatively large.

4. Guidelines for the short-term incentive scheme for Executive Management

Individual members of Executive Management can achieve an annual cash bonus of up to five months’ fixed base salary (base salary and pension contributions) calculated on the basis of the most recently fixed base salary. Cash bonuses can be achieved in different ways. The aim of the cash bonus is to increase focus on the targets set. The general guidelines for this are as follows:

Two forms of cash bonus apply for members of Executive Management.

In the first instance the executive receives an annual cash bonus, the size of which depends on the degree of fulfillment of the individual targets the executive has previously agreed with the company’s CEO. In the case of the CEO, the individual targets are agreed with the Chairman of the Board of Directors. The size of this bonus may not exceed an amount equivalent to three months’ fixed base salary (base salary and pension contributions) calculated on the basis of the most recently approved fixed base salary.

In the second instance the executive receives an annual cash bonus of an amount equivalent to up to two months’ fixed base salary (base salary and pension contributions) calculated on the basis of the most recently approved fixed base salary.
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The fundamental condition for this is that in the preceding calendar year Novozymes achieved the budget target for operating profit ("EBIT") in accordance with the budget drawn up by Executive Management and approved by the Board of Directors. If the EBIT condition is satisfied, the bonus amount is obtained by multiplying the specified amount (two months’ fixed base salary) by the degree to which the Board of Directors assesses the company has achieved the targets for Novozymes' environmental and social responsibility set in the most recent annual report, the maximum being 100%.

Cash bonuses are pensionable as set out above.

In addition, the Board of Directors may in individual cases or in extraordinary circumstances, as determined by the Board of Directors, for recruitment or retention purposes decide to award a one-off bonus or other extraordinary incentive-based remuneration, e.g. sign-on bonus, relocation bonus, retention bonus or other schemes. Such extraordinary awards may consist of cash or share-based remuneration or a combination thereof. The total value of such extraordinary awards for an executive cannot at the time of the agreement on the arrangement exceed an amount corresponding to 100% of the executive’s total annual remuneration assuming full allocation.

5. Guidelines for the long-term incentive scheme for Executive Management

The general purpose of incentive-based remuneration in the form of a stock-based program is:

- To ensure that the members of Executive Management can be retained (and, if necessary, new members attracted) by offering an attractive addition to the fixed base salary
- To ensure that the members of Executive Management are incentivized in such a way that there is a focus on long-term growth and earnings in Novozymes, in order to ensure that shareholders’ interests are met as best possible
- To ensure that the remuneration of the members of Executive Management is partly linked to the shareholders' loss of and gain in value

The general guidelines for this are as follows:

a. What does the long-term incentive scheme comprise?

The incentive program can consist of a stock-based scheme whereby Executive Management is allocated a number of B shares (share program) and/or rights to buy a number of B shares in Novozymes (stock option program). If deemed appropriate by the Board of Directors for administrative or other relevant reasons, the stock-based incentive program can fully or partly be substituted with a similar long-term incentive program based on cash (“phantom shares”), provided that the below terms and conditions shall apply with the necessary changes (mutatis mutandis).

The shares required to fulfill the incentive program are provided by the company's holding of treasury stock at any time.

The stock-based remuneration received by the company’s CEO is at the time of adoption of the CEO’s stock-based remuneration 50% higher than that received by the other members of Executive Management.

The final number of shares or stock options granted is determined by the Board of Directors. Allocation may be based on degree of fulfillment of targets set by the Board of Directors.

In the case of a stock option program, stock options may be exercised between three and eight years from the grant date. Share programs are subject to a three-year binding period, after which all the shares for one or more vesting years are transferred from a Novozymes share custodian account to the individual executive's share custodian account. The binding period starts in connection with the start of the share program, which typically will be when the Board of Directors approves the financial statements for the year preceding the start of the share program and vesting period(s).

The exercise price for stock options granted is determined at the time of allocation. The exercise price is set at the average of the closing rate for the company’s shares on Nasdaq Copenhagen A/S on the first five trading days after publication of the annual report for the financial year prior to the vesting year.
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Stock options may only be exercised within the trading windows laid down in the company’s internal rules in force at any time governing trading in the company’s shares or in accordance with any exemptions that may ensue from these rules. If the rules in force at any time governing trading in securities, including the Danish Securities Trading Act, rules for issuers and/or the company’s internal rules for trading in the company’s shares, may prevent exercise of stock options in the specified period, the exercise period shall be deferred by decision of the Board of Directors such that exercise of stock options may take place in accordance with the current rules governing trading in securities.

b. Maximum value of the long-term incentive scheme

The value of stock options allocated to Executive Management for a given year may not, on the grant date, exceed an amount equivalent to Executive Management’s most recently approved annual fixed base salary (base salary and pension contributions) plus the maximum cash bonus (irrespective of actual allocation). In the case of a share program where allocations may be made for one or more years (“Grant Period”), the Value (as defined below) of the shares allocated to Executive Management under such programs may not exceed an amount equivalent to Executive Management’s most recently approved annual fixed base salary (base salary and pension contributions) plus the maximum cash bonus (irrespective of actual allocation), multiplied by the number of years in the Grant Period.

The value of stock options and shares allocated is calculated in accordance with International Financial Reporting Standards (IFRS), with stock options granted calculated using the Black & Scholes model (“Value”).

To ensure that the stock-based portion of the total remuneration does not reach unintended levels, the Board of Directors may reduce the scope of a stock option program or share program such that the Intrinsic Value (as defined below) at the end of the program does not exceed the Value at the grant date plus 100%. A stock option or share program is considered to be concluded when the Board of Directors approves the financial statements for the last year in the program’s vesting period.

The Intrinsic Value of a stock option program is calculated as the difference between the average of the closing rates for the company’s shares on Nasdaq Copenhagen A/S on the last five trading days ahead of approval of the most recent annual report and the exercise prices times the number of stock options granted, while the Intrinsic Value of a share program is calculated as the average of the closing rates for the company’s shares on Nasdaq Copenhagen A/S on the last five trading days ahead of approval of the most recent annual report times the number of shares granted (“Intrinsic Value”).

Stock option programs or share programs that the Board of Directors approves under these general guidelines will be described in more detail in Novozymes’ annual reports and on the company’s website.

6. Changes to and winding up of incentive programs

The Board of Directors may change or wind up an incentive program introduced in accordance with the present guidelines. Such changes may, however, only be made within the framework of these guidelines. More extensive changes shall be approved by the Annual Shareholders’ Meeting. Criteria in assessing whether this is necessary include among other things development of the company, changes to legislation, foreign exchange controls, regulation by public authorities, or similar.

7. Publication of the guidelines

These guidelines were discussed and approved at Novozymes’ Annual Shareholders’ Meeting on March 13, 2018. Immediately after approval the guidelines will be published on the company’s website (www.novozymes.com). In addition, in accordance with section 139.2 of the Danish Companies Act, a clause will be inserted in the company’s articles of association to the effect that the company adopted guidelines for incentive-based remuneration of the company’s management on March 13, 2018.

In the capacity of chairperson of the meeting:

Niels Kornerup