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# INTRODUCTION

Novo Holdings is a holding and investment company, wholly owned by the Novo Nordisk Foundation. Our objective is to meet the Novo Nordisk Foundation's strategic and commercial goals and, as such, we make investments with a view to long-term returns. Since 2016, our reporting has been modified to include the long-term (five and ten year) investment performance of Life Science Investments and Financial Investments (together the 'Investment Portfolio').

Performance of Novo Holdings 2017, 2016 and trailing 5 and 10 years

	2017 FY	2016 FY	Trailing 5 years	Trailing 10 years
Increase in dividend from Novo Group	-18% (+18%)	+84% (+28%)	21%	24%
Return on Life Science Investments	24%	-4%	21%	18%
Return on Financial Investments	10%	8%	11%	8%
Total return on the Investment Portfolio	18%	2%	16%	11%

**Note:**

All returns are in DKK and reflect total returns, excluding internal costs. Income from the Novo Group includes the dividends received from the three Novo Group companies only, i.e. proceeds from participation in the Novo Group's share buy-back programmes are not reflected in the presented growth rates. Growth rates in the brackets for the 2017 and 2016 dividends are adjusted for the interim dividend provided in 2016. Returns on Life Science Investments and the illiquid assets within Financial Investments are calculated on an Internal Rate of Return (IRR), based on the book value at the end of the measurement period and cash flows within the measurement period compared with the book value at the beginning of the measurement period. Returns on liquid assets within Financial Investments are based on Total Weighted Return (TWR).

As a leading global life science investor, Novo Holdings aims to deliver long-term competitive returns and we benchmark our performance to relevant indices, as for example the MSCI World and MSCI World Health Care indices.

Comparing the performance of Novo Holdings to relevant indices over the last five to ten years, it is our assessment that we have delivered competitive returns on our Life Science Investments and Financial Investments.

# IMPROVED INCOME AND INVESTMENT RESULT DRIVEN BY RETURNS IN THE INVESTMENT PORTFOLIO

The Income and Investment Result in 2017 amounted to a record high DKK 20.7bn versus DKK 8.4bn in 2016. This development is largely attributed to the realised and unrealised returns of Life Science Investments.

All Novo Group companies continued to increase profits in 2017 and income from the Novo Group was in line with expectations at DKK 6.0bn. The decrease compared to 2016 is due to the introduction of the interim dividend payment by Novo Nordisk in August 2016. Adjusted for the introduction of the interim dividend of 2016, the DKK 6.0bn in 2017 represents an increase of 20% over 2016.

In 2017, Return from Life Science Investments was positively impacted by increases in, among others, the share prices of Chr. Hansen, Inogen, Evotec and BTG, as well as increases in the valuations of the privately held companies. The Return from Life Science Investments in 2017 reached a record high of DKK 10.9bn, compared to the DKK -1.5bn in 2016 (the 2016 return was negatively impacted by the decrease in the share price of Chr. Hansen and the decrease in the value of Ophthotech Corp). As of December 2017, the five and ten year IRR for Life Science Investments stood at 21% and 18%, respectively. Financial Investments delivered a return of DKK 3.8bn in 2017 versus DKK 2.8bn in 2016. This represents a return above the relevant benchmark and was partially driven by the continued appreciation of the shareholding in FLSmidth & Co.

Year-on-year market fluctuations, both positive and negative, can give a distorted view of the long-term development of the investment performance. Therefore, we focus on the five to ten year returns, which stand at 16% and 11%, respectively, for Novo Holdings. We consider this to be a satisfactory performance.

## Performance of Novo Holdings 2017 and 2016

DKK billion	2017	2016
Income from the Novo Group	6.0	7.1
Return from Life Science Investments	10.9	-1.5
Return from Financial Investments	3.8	2.8
<b>Income and Investment Result</b>	<b>20.7</b>	<b>8.4</b>

### Note:

Income from the Novo Group includes only dividend and direct income related to the sale of shares in Novo Group companies, whereas the returns from Life Science Investments and Financial Investments (the Investment Portfolio) also represent realised and unrealised gains and losses on these investments.



## TOTAL ASSETS INCREASES BY 30%

At the end of 2017, our investment assets totalled DKK 358.3bn, of which the value of our Investment Portfolio accounted for DKK 95.0bn.

In 2017, the value of our holdings in Novo Nordisk and Novozymes increased by 31% and 43%, respectively, whereas the value of our holding in NNIT decreased by 16%. The combined value of the Novo Group companies increased by 32% to DKK 263.2bn, up from DKK 199.2bn in 2016. In 2017, we decided not to participate in the Novo Nordisk share buy-back programme, and by the end of the year we held 537,436,000 A shares and 163,814,000 B shares, equivalent to 28.05% of the share capital and 75.5% of the votes in Novo Nordisk.

As announced in January 2014, and repeated in the Management Report for 2016, Novo Holdings has informed Novo Nordisk that it intends to consider its participation in the Novo Nordisk share repurchase programme on a case-by-case basis. For 2018, Novo Holdings has informed Novo Nordisk that it plans to participate in its share repurchase programme. Novo Holdings currently intends to maintain its ownership of the Novo Nordisk share capital at around 28%.

Of the current ownership, 25.5% is the minimum historical ownership level, and the additional 2.6% held is now part of the liquidity reserve of Novo Holdings. In future, we might consider reducing our holding in Novo Nordisk B shares. Over time this could bring our ownership toward the minimum historical ownership of 25.5%.

As part of Novozymes' share buy-back programme, we sold 1,275,000 B shares, yielding DKK 0.4bn. At the end of 2017, we held 53,743,600 A shares and 24,031,400 B shares, equivalent to 25.5% of the share capital and 71.2% of the votes in Novozymes.

The value of the Investment Portfolio increased during 2017 to a record high DKK 95.0bn, up from DKK 76.5bn in 2016. This was primarily driven by increases in the share prices of Chr. Hansen, Inogen, Evotec and BTG, combined with higher valuations of some of our privately held companies.

In 2017, Novo Holdings paid a DKK 13.0mn dividend to the Novo Nordisk Foundation, which in accordance with its statutes, provides grants to support scientific, humanitarian and social purposes. Since 2010, the Novo Nordisk Foundation has issued more than DKK 16.2bn in grants to support scientific, humanitarian and social purposes in Denmark and the Nordics.

### Novo Holdings total assets 2017 and 2016

DKK billion	2017	2016
Novo Group	263	199
Life Science Investments	56	38
Financial Investments	39	38
<b>Total Holdings and Investment Assets</b>	<b>358</b>	<b>275</b>

#### Note:

Novo Holdings' investment in Novo Nordisk and Novozymes A and B shares in the above table are valued using the quoted B share price at closing on 31 December 2017. Financial Investments includes DKK 13.3bn, which are managed on behalf of the Novo Nordisk Foundation.





# LIFE SCIENCE INVESTMENTS PORTFOLIO AT HIGHEST LEVEL EVER BY END 2017

We divide our Life Science Investments into three distinct investment areas: Principal Investments, which generally invests in cash flow positive larger enterprises, Novo Ventures, which focuses on venture investments primarily in the US and in Europe, and Novo Seeds, which focuses on early start-ups primarily in the Nordic Region. By the end of 2017, Novo Holdings had DKK 55.8bn allocated to life science investments.



In line with our life science focused investment strategy, we have begun preparations for the establishment of a Principal Investments presence in the US. We have added an additional investment class to our life science activities, namely, Growth Equity. This area, which will initially operate out of Principal Investments, will explore investment opportunities in the space between Novo Ventures and Principal Investments.

In terms of return, Life Science Investments had a strong year in 2017, delivering a 24% IRR.

## Total Life Science Investments portfolio value 2017 and 2016

DKK billion	2017	2016
Principal Investments	50.9	31.5
Novo Ventures	4.4	5.9
Novo Seeds	0.4	0.3
<b>Total Life Science Investments</b>	<b>55.8</b>	<b>37.7</b>



## PRINCIPAL INVESTMENTS

Since 2013, more of our investments have been directed towards well-established, dividend yielding and cash flow positive companies. These investments are made in publicly listed as well as privately owned companies, with a mix of minority and majority positions.

Principal Investments made two major new investments in 2017 – both as minority stakes in publicly traded companies. We acquired 10.1% of the shares in German-based Evotec AG in February 2017. This was followed in March 2017 by the acquisition of a 19.95% stake in the UK medical device company, ConvaTec. Combined, the two investments amounted to DKK 9.6bn. In addition to the two new investments, Principal Investments made a follow-on investment in privately held SYNLAB, where our current ownership is approximately 20% of the equity.

In 2017, realised and unrealised gains in Principal Investments reached a record high DKK 9.9bn, which is a significant improvement over 2016, where a loss of DKK 2.1bn was recorded. The positive development in the share prices of Chr. Hansen, Inogen, Evotec and BTG, combined with higher valuations of some of the privately held investments, are the main reasons for this development.

At end 2017, our Principal Investments portfolio comprised twelve companies of which ten are located in Europe and two in the US. The portfolio consists of majority positions in Sonion and Xellia, both headquartered in Denmark, and minority positions in Chr. Hansen, Symphogen, SYNLAB, Orexo, Veloxis, BTG, ConvaTec, Evotec (all European) and ERT and Inogen (both in the US).

Following an extensive strategy review in 2016, we intend to continue to allocate significant funds to Principal Investments in the years to come.

### Principal Investments portfolio value, investments, proceeds and gains/losses 2017 and 2016

DKK billion	2017	2016
Value of portfolio at the end of the year	50.9	31.5
Investments during the year	12.0	6.5
Cash proceeds during the year	2.5	0.7
Realised and unrealised gains/losses during the year	9.9	-2.1



## NOVO VENTURES

During 2017, Novo Ventures added four new public and eight new private investments to their portfolio. There were fourteen exits from the portfolio.

Of the DKK 1.7bn invested by Novo Ventures in 2017, DKK 1.5bn was invested in the US and DKK 0.2bn in Europe. DKK 1.0bn was invested into new companies and DKK 0.7bn as follow-on investments in existing portfolio companies. In 2017, fourteen of our portfolio companies were exited and the proceeds from this totalled DKK 4.1bn. As of year-end, our venture portfolio consists of forty-seven companies, of which thirty-seven are located in the US. The proportion of publicly listed companies in the portfolio decreased from 66% in 2016 to 42% in 2017.

It is the intention of Novo Holdings to continue to allocate significant resources to the private and public venture markets in the US and to EU's venture market in the coming years.

### Novo Ventures portfolio value, investments, proceeds and gains/losses 2017 and 2016

DKK billion	2017	2016
Value of portfolio at the end of the year	4.4	5.9
Investments during the year	1.7	2.1
Cash proceeds during the year	4.1	0.8
Realised and unrealised gains/losses during the year	1.0	0.7



## NOVO SEEDS

Novo Seeds celebrated their ten-year anniversary in 2017. The Novo Group has established itself as the leading early stage life science investor in the Nordic Region. Novo Seeds provides: i) pre-seed grants awarded on behalf of the Novo Nordisk Foundation to create biotech start-ups; ii) seed and follow-on investments to bring start-ups to meaningful value inflection points; and iii) Investments as an LP in venture funds, with strategic impact in the Nordics.

In 2017, Novo Seeds further expanded its company creation capabilities by establishing an entrepreneur in residence program, BiOrigin, set up to provide managerial and strategic support to start-ups and pre-seed projects.

In 2017, Novo Seeds invested in four new companies, two in Denmark and two outside the Nordics. The Novo Seeds portfolio company Lysogene, undertook an IPO on Euronext, marking the first public exit from the Novo Seeds portfolio.

At the end of the year, the total book value of Novo Seeds was DKK 438mn and consisted of twenty active portfolio companies, of which fourteen are located in the Nordics.

It is the intention of Novo Holdings to continue to allocate significant resources towards building the Nordic biotech industry in the coming years.

### Novo Seeds portfolio value, investments, proceeds and gains/losses 2017 and 2016

DKK million	2017	2016
Value of portfolio at the end of the year	438	291
Investments during the year	175	149
Cash proceeds during the year	9	26
Realised and unrealised gains/losses during the year	-19	-81

## IV

## FINANCIAL INVESTMENTS

A key part of our strategy is to have some element of diversification in our portfolio by investing in non-health care assets, as managed by Financial Investments. These investments are to a large extent liquid, which is important for financing the grant-giving activities of the Novo Nordisk Foundation and for allowing us to support Novo Nordisk and Novozymes in any fund raising they may undertake.

Financial Investments had another strong year in 2017, delivering a return of 10%. At the end of 2017, liquid investments constituted approximately 90% of the portfolio. This liquid part of the portfolio has delivered a return of approximately DKK 20.3bn since its inception in 2005, and has an attractive return (measured as TWR) of 11% and 8% measured over a five and ten year period, respectively.

At the end of 2017, the value of Financial Investments (including the DKK 13.2bn we manage for the Novo Nordisk Foundation) was DKK 39.2bn. The liquid part of the Financial Investments portfolio was allocated as follows: 64% in equities, 15% in credit investments and 21% in bonds. Since equities comprise the bulk of the portfolio, the return of Financial Investments is closely linked to the performance of the global equity markets. The liquid part of Financial Investments delivered a strong performance in 2017, outperforming its benchmark by generating a return of 9.8% (versus 6.2% for the benchmark). This outperformance is attributed to positive results from most of our external portfolio managers, as well as our direct investments, including FLSmith and Vestjysk Bank.

## Financial Investments portfolio value and gains/losses 2017 and 2016

DKK billion	2017	2016
Value of portfolio at the end of the year	39.2	38.1
Realised and unrealised gains/losses during the year	3.8	2.8





## STRATEGY

Our strategy is guided by the objectives of the Novo Nordisk Foundation.

We will continue to be a strong owner of the companies in the Novo Group and will invest our capital in the life sciences sector to optimise value creation and to support development in the industry in general. We target returns that allow us to deliver an income to the Novo Nordisk Foundation and grow our investment portfolio.

Due to our extensive experience and expertise, we are particularly well positioned to play an active role in the life sciences sector. We invest across the entire spectrum of life science companies, from early seed investments through to venture investments and investments in large, established companies. We have a flexible investment approach, enabling us to take both minority and majority ownership stakes.

We strive to build on and enhance our position as a leading life science investor. We will continue to focus on and increase our investments in the life sciences sector in the US and Europe.

We will maintain an adequate liquidity reserve, which we will continue to allocate to investments in global equity and fixed income securities.



# VI

## GOVERNANCE

We value representative ownership and aim to have board representation in the companies we invest in, and this contribute to the major strategic initiatives that our portfolio companies take. We also take an active interest in the composition of the board and the executive leadership team in portfolio companies, and we monitor their performance. However, when it comes to

daily management and operations, we rely on and entrust the management and board of the respective companies.

As of yet, the Novo Holdings' Board of Directors has no female members. In 2016, the Board decided to set out the target that by 2020 the Board will consist of at least one member of each gender. To achieve

this goal, the Board will work to identify suitable candidates.

We refer to the annual report of the Novo Nordisk Foundation where the statutory requirements in regards to \$99b are disclosed.



## VII

CORPORATE SOCIAL  
RESPONSIBILITY

Corporate Social Responsibility is integral to the values of Novo Holdings as a wholly owned subsidiary of the Novo Nordisk Foundation.

The vision of the Foundation is to contribute significantly to research and development that improves the health and welfare of people. In 2017, the Foundation awarded grants in excess of DKK 5.8bn for scientific, humanitarian and social purposes.

The mission of Novo Holdings is to enable and to make a positive and meaningful impact on health, science and society by:

- generating attractive long-term returns on the wealth of the Novo Nordisk Foundation;
- being a life science focused investor and supporting the application of science by investing in seed, venture and late-stage companies; and
- upholding the Novo Group Charter

The Charter describes a shared set of values, which

all companies in the Novo Group must adhere to.

Novo Group companies must strive to make sure that their products and services make a significant difference in improving how people live and work. It also includes a commitment to continuously improve financial, environmental and social performance.

To align the reporting on Corporate Social Responsibility with its overall business performance, Novo Holdings evaluates its focus areas, policies and activities every year and makes adjustments, if any.

We refer to the CSR policies of the Novo Nordisk Foundation where the statutory requirements in regards to §99a are disclosed: [issuu.com/nnfoundation/docs/nnf\\_-\\_koncernen\\_og\\_samfundet\\_2017](https://issuu.com/nnfoundation/docs/nnf_-_koncernen_og_samfundet_2017)

#### Impact of investment activities on society

The impact of Novo Holdings on society depends on how well it manages its financial

resources. The aim is to leave a positive footprint on society. Novo Holdings does this by ensuring a sufficient return on investment to support the Novo Nordisk Foundation's grant giving activities.

In 2017, the Foundation awarded DKK 5.8bn through 432 grants. The Foundation prepares an Annual Report assessing its impact on society.

For more insights on this go to [impact.nvonordiskfonden.dk](https://impact.nvonordiskfonden.dk).

In 2017, Novo Holdings helped start fourteen new companies and invested DKK 13.9bn in seventy-seven new and existing life science companies.

The Novo Group paid corporate tax of DKK 7.3bn in Denmark in 2017.

#### Charter and values

Novo Holdings complies with the Novo Group Charter and the Foundation's three cornerstones.

**Charter:** The companies in the Novo Group (Novo Holdings, Novo Nordisk, Novozymes and NNIT) each comply with the Charter, and Novo Holdings ensures that the portfolio companies do not conflict with the Charter.

**Values:** The values of Novo Holdings are an integrated part of every employee's performance requirements.

### **Brand and employees**

The main non-financial operational asset of Novo Holdings is its brand and its employees. We strive to be a well-respected company and a responsible and attractive employer. All employees are expected to help to build the Novo Holdings brand by upholding and promoting its values and culture.

We conduct workplace risk assessment, which includes collecting key figures on sick leave and training.

Novo Holdings welcomed twenty-seven new colleagues, including five student assistants, in 2017. In addition, we hired seven new colleagues in 2017, with start dates in 2018.

### **Impact of investments on human rights and the environment**

For information on the impact of investments on human rights and the environment, see the Corporate Social Responsibility Reports of the respective Novo Group companies.



# VIII

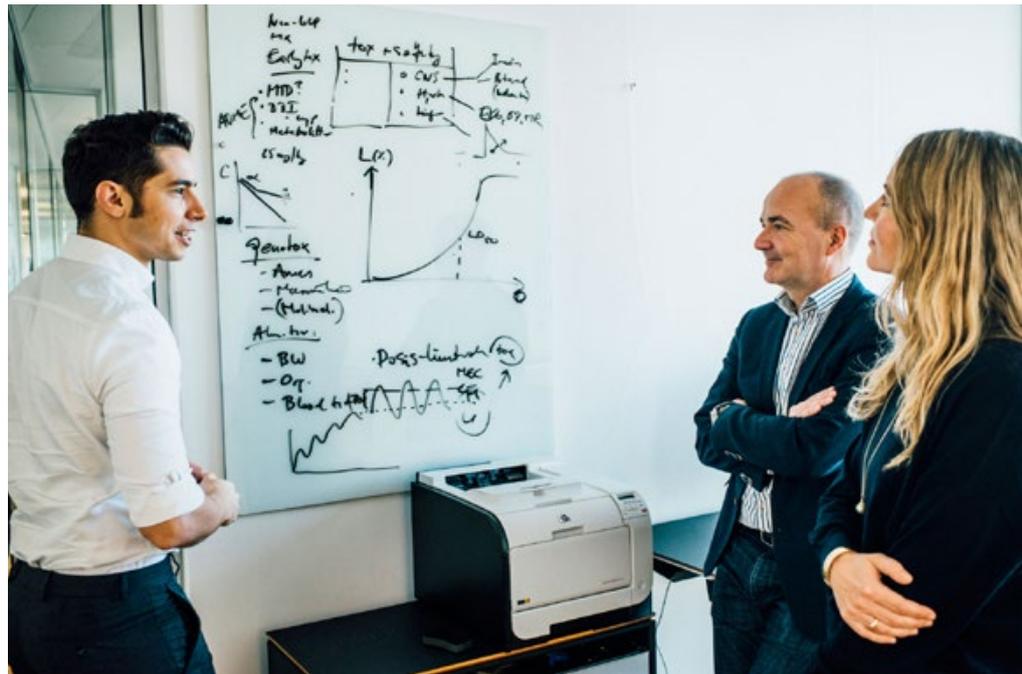
## KNOWLEDGE RESOURCES

Novo Holdings relies on highly specialised expertise, particularly within the areas of life science and investments. For this reason, the professional competences of our colleagues are of great strategic importance. We focus on training and education to allow the individual employee to increase his or her value to Novo Holdings.

To serve our portfolio companies with the best combination of competences, our life science teams include individuals who have obtained their professional expertise through work and training from within and outside the Novo Group.

Novo Holdings professionals strive to deliver high performance with high responsibility, where what we do and how we do it go hand in hand.

In addition to the Board of Directors, Novo Holdings has an advisory group of external life science professionals (the Novo Advisory Group), who provide Novo Holdings with feedback and advice on life science investment projects.





## BUSINESS AND FINANCIAL RISKS

Our most important risks are related to the business risk of the two subsidiaries, Novo Nordisk and Novozymes. The business risks vary in the two subsidiaries as a consequence of their different activities.

There are inherent risks associated with investing in Novo Nordisk. A detailed enterprise risk management process is in place at Novo Nordisk to identify critical risks, and mitigate potential adverse impacts and protect value creation. Risks that have an impact on the company's performance may materialize such as delays or failure of products in the pipeline, supply disruptions, competition and market developments, compromises to product quality and safety, information technology security breaches, currency impact and tax disputes, breach of legislation or ethical standards, and loss of intellectual property rights.

In 2017, the most prominent risk that did materialize was US price pressure. In turn, the overall short term R&D profile improved considerably during the year with results of key clinical trials that were better than expected. Further to this, and important for future growth, in December 2017 Ozempic® (semaglutide) was approved by the US Food and Drug Administration (FDA) and recommended for marketing authorisation in Europe by Committee for Medicinal Products for Human Use (CHMP) under the European Medicines Agency (EMA).

Novozymes is exposed to a range of risks throughout the value chain and has implemented measures to mitigate these. Based on risk analysis, the Novozymes Board of Directors has identified four key risks that may impact the company: competition in industrial enzymes, volatility of the starch-based ethanol business, loss of knowledge,

and delay of BioAg commercialisation. To mitigate the risk of competition from existing and new competitors in industrial enzymes, Novozymes focuses on its strong innovation pipeline and on delivering novel solutions tailored to the needs of customers operating in different local market conditions.

To address the risk of a persistent low-price environment in the starch-based ethanol business, Novozymes is continuously investing in R&D to develop even better enzyme solutions for improving yield and profitability to ensure biofuels are a commercial alternative to traditional fossil fuels. To ensure protection of knowledge and mitigate the risk of cyber-attacks, Novozymes pursues an active patent strategy and continuously implements key security procedures and behaviours to prevent theft of e.g. production strains and data.

The Novozymes Board of Directors continues to place the BioAg Alliance high on its agenda, and prioritises and follows developments closely. Although a merged Bayer-Monsanto could cause a delay in the BioAg commercialisation, the new entity could also be an attractive alliance partner for Novozymes in the long-term, sharing vision and commercial commitment, and increasing the commercial reach of the Alliance. In the short-term, Novozymes' priority is to ensure the success of the Alliance.

For more information about Novo Nordisk and Novozymes and their approach to risk management, please consult the Annual Reports of the companies.

Moreover, Novo Holdings' Investment Portfolio is significantly weighted toward the life sciences industry. Whereas the industry is considered broad with several subsectors, including biotech, medtech, pharma, health

care IT, bioindustrials, etc., Novo Holdings is especially exposed to the particular risks associated to the life sciences sector.

Based on a number of risk measures and tolerance levels decided by the Novo Nordisk Foundation, we continued to develop our financial risk framework during 2017, as we updated our methodology, expanded the measures and further detailed our reporting. Hence, by end 2017, we measure and focus upon shortfall risk for growth in grant pay-outs, portfolio volatility, idiosyncratic risk, access to liquidity as well as diversification of the Investment Portfolio. In Novo Holdings, we adhere to this risk framework, as we plan and execute our investment strategy.

More specifically, we allocate the capital to reflect that i) the Novo Nordisk Foundation should generally be able to increase its grants by at least the growth in nominal GDP, ii) a maximum loss on the investment portfolio, excluding Novo Nordisk, Novozymes and NNIT, in exceptionally negative market conditions is defined, iii) no single investment should represent more than a certain percentage of the investment portfolio, iv) the Novo Nordisk Foundation should at any time be able to liquidate assets without incurring losses from forced disposals, for a value corresponding to the actual commitment as well as expected five-year grant pay-out obligations plus an additional buffer, and v) of the investment portfolio, the Financial Investments should at any time represent a certain minimum of the total portfolio.

Novo Holdings is adaptive and has a range of strategic levers available for meeting these risk objectives.



## THE FUTURE

Novo Holdings' financial prospects are partly dependent on the results of Novo Nordisk and Novozymes. For further information on the outlook for 2018 for these two companies, please consult their Annual Reports.

At their Annual General Meetings, Novo Nordisk and Novozymes approved dividends for 2017 of DKK 7.85 per share and DKK 4.50, respectively. Consequently, Novo Holdings expects to receive DKK 4.4bn in March 2018. In August 2018, we also expect to receive additional interim dividends from Novo Nordisk. Further hereto, we plan to participate in the share repurchase programme of Novo Nordisk and Novozymes, which we anticipate will generate additional income.

In addition to the income from the Novo Group companies, the result of Novo Holdings relies on the investment returns from our Investment Portfolio. As directed by our strategy, the Investment Portfolio is largely allocated and exposed to the life sciences sector.

Although pricing and healthcare reforms are adding pressures on the life sciences industry, we believe that the underlying long-term trends will continue to be positive. Positive developments in the Life Science Investments portfolio, combined with a number of strong exits and public offerings in recent years, provide the basis for our continued optimism. In support of this, we will also continue to expand and consolidate our investment areas as well as invest further in our operational structure.



### Five year summary

DKK million	2017	2016	2015	2014	2013
Income from Novo Group companies	6,033	7,142	4,271	3,666	5,203
Return from investment activities	14,671	1,225	11,487	9,864	5,658
Operating profit	20,285	8,155	15,375	13,460	10,814
Net profit for the year	19,148	7,121	14,848	13,460	10,784
Proposed dividend	1,600	13	3,008	4,715	2,745
Investments in property	423	-	-	-	-
Equity	86,197	67,062	62,949	52,816	42,101
Total assets	100,123	80,971	74,390	54,630	42,412

### Financial ratios

Equity ratio	86%	83%	85%	97%	99%
Employees	51	41	34	30	27



# MANAGEMENT'S STATEMENT

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Novo Holdings for the financial year 1 January – 31 December 2017.

The Annual Report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations and cash flows for 2017.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Company, of the results for the year and of the financial position of the Company as well as a description of the most significant risks and elements of uncertainty facing the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hellerup, 23 March 2018

## **Executive Management**

Kasim Kutay  
CEO

Peter Haahr  
CFO

## **Board of Directors**

Sten Scheibye  
*Chairman*

Jeppe Christiansen

Per Wold-Olsen

Jean-Luc Butel

Göran A. Ando

Steen Riisgaard

Lars Rebien Sørensen

Francis Cuss

# XII

To the Shareholder of Novo Holdings

## INDEPENDENT AUDITOR'S REPORT

### Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Financial Statements of Novo Holdings for the financial year 1 January - 31 December 2017, which comprise statement of comprehensive income and statement of financial position, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

### 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 section of our report. We are independent of the Company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Statement on Management Report

Management is responsible for Management Report.

Our opinion on the financial statements does not cover Management Report, 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 Report and, in doing so, consider whether Management Report is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management Report provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management Report is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in the Management Report.

### Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of 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 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.

In preparing the financial statements, Management is responsible for assessing the 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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.

As part of an audit conducted 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, 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 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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Hellerup, 23 March 2018

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

**Kim Fühse**

State Authorised Public Accountant

mne9291

**Tue Stensgård Sørensen**

State Authorised Public Accountant

mne32200

## XIII

STATEMENT OF COMPREHENSIVE  
INCOME

1 January to 31 December

DKK million	Note	2017	2016
Income from Novo Group companies	2	6,033	7,142
Return from Life Science Investments	3	10,865	-1,534
Return from Financial Investments	4	3,806	2,758
Costs	5, 6, 7	-419	-212
<b>Operating profit</b>		<b>20,285</b>	<b>8,155</b>
Novo Nordisk Foundation's share of return of joint investment portfolio		-1,137	-1,000
<b>Profit before tax</b>		<b>19,148</b>	<b>7,155</b>
Income tax expense	8	0	-34
<b>Total comprehensive income/Net profit for the year</b>		<b>19,148</b>	<b>7,121</b>
<b>Proposed distribution of profit</b>			
Proposed dividend		1,600	13
Retained earnings		17,548	7,108
		<b>19,148</b>	<b>7,121</b>



# STATEMENT OF FINANCIAL POSITION

Year end 31 December

DKK million	Note	2017	2016
<b>Assets</b>			
Novo Group companies	9	4,410	4,422
Life Science Investments	10	55,768	37,670
Financial Investments	11, 12	39,245	38,078
Property		419	-
<b>Total non-current assets</b>		<b>99,842</b>	<b>80,170</b>
Amounts owed by group companies		24	7
Other receivables		49	99
Cash at bank		208	695
<b>Total current assets</b>		<b>281</b>	<b>801</b>
<b>Total assets</b>		<b>100,123</b>	<b>80,971</b>
<b>Equity and liabilities</b>			
Share capital		500	500
Retained earnings		85,697	66,562
<b>Total equity</b>		<b>86,197</b>	<b>67,062</b>
Real estate debt		249	-
Joint investment portfolio Novo Nordisk Foundation		13,260	13,573
Trade payables		13	23
Amounts owed to group companies		2	7
Tax payables		24	41
Other liabilities		57	45
Other provisions	14	321	220
<b>Total current liabilities</b>		<b>13,926</b>	<b>13,909</b>
<b>Total liabilities</b>		<b>13,926</b>	<b>13,909</b>
<b>Total equity and liabilities</b>		<b>100,123</b>	<b>80,971</b>



# STATEMENT OF CASH FLOWS

1 January to 31 December

DKK million	2017	2016
<b>Net profit</b>	<b>19,148</b>	<b>7,121</b>
Adjustment for non-cash items	-19,105	-7,607
Contribution from the Novo Nordisk Foundation to the joint investment portfolio	-	2,900
Repayments to the Novo Nordisk Foundation from the joint investment portfolio	-1,450	-1,070
Divestments of Life Science Investments	5,039	1,182
Investments in Life Science Investments	-13,891	-8,723
Received dividends Life Science Investments	1,520	177
Divestments of Financial Investments	15,163	18,935
Investments in Financial Investments	-12,938	-17,786
Received dividends Financial Investments	135	182
Paid corporation tax	-	-1
<b>Cash flow before change in working capital</b>	<b>-6,379</b>	<b>-4,690</b>
<b>Change in working capital</b>		
Changes in accounts with affiliated companies	-21	2
Changes in other receivables	50	42
Changes in other liabilities	3	34
<b>Cash flow from operating activities</b>	<b>-6,347</b>	<b>-4,612</b>
<b>Investment activities</b>		
Proceeds from sale of shares in Novo Group	373	240
Received dividends Novo Group companies	5,673	6,909
Investment in property	-423	-
Repayment of loans from subsidiaries	-	87
<b>Cash flow from investment activities</b>	<b>5,623</b>	<b>7,236</b>
<b>Financing activities</b>		
Real estate debt	250	-
Dividends paid	-13	-3,008
<b>Cash flow from financing activities</b>	<b>237</b>	<b>-3,008</b>
<b>Net cash flow</b>	<b>-487</b>	<b>-384</b>
Cash and cash equivalents at the beginning of the year	695	1,079
<b>Cash and cash equivalents at the end of the year</b>	<b>208</b>	<b>695</b>



# STATEMENT OF CHANGES IN EQUITY

1 January to 31 December

DKK million	Share capital	Retained earnings	Total
<b>2017</b>			
<b>Equity at the beginning of the year</b>	<b>500</b>	<b>66,562</b>	<b>67,062</b>
Net profit for the year		19,148	19,148
Dividends paid		-13	-13
<b>Equity at the end of the year</b>	<b>500</b>	<b>85,697</b>	<b>86,197</b>
<b>2016</b>			
<b>Equity at the beginning of the year</b>	<b>500</b>	<b>62,449</b>	<b>62,949</b>
Net profit for the year		7,121	7,121
Dividends paid		-3,008	-3,008
<b>Equity at the end of the year</b>	<b>500</b>	<b>66,562</b>	<b>67,062</b>
<b>Share capital</b>		<b>No.</b>	<b>Nominal value DKK million</b>
A share capital (shares of DKK 1)		115,400,000	115
B share capital (shares of DKK 1)		384,600,000	385
<b>Total share capital at 31 December</b>		<b>500,000,000</b>	<b>500</b>

Any share amount of DKK 1 of the A share capital carries ten votes, while any share amount of DKK 1 of the B share capital carries 1 vote.

There have been no changes in the share capital during the last five years.

Paid dividend per share equals DKK 0.03 (2016: DKK 6.02)

# NOTES

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The financial statements included in this Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the EU as well as further Danish disclosure requirements for annual reports of reporting large-sized class C ("Regnskabsklasse C stor").

The financial statements are presented in DKK million unless otherwise stated.

### Effects of new and amended accounting standards

The company has adopted all new and amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2017. The application of the new IFRS has not had a material impact on the Financial Statements in 2017 and no significant impact on future periods from the adoption of these new IFRS's are anticipated.

The following standards, which are not yet effective, are relevant for the company:

- IFRS 9 Financial instruments, which will be effective from 1 January 2018.
- IFRS 16 Leases, which will be effective from 1 January 2019.

It is the management's assessment that the above-mentioned changes in accounting standards and interpretations will not have any significant impact on the financial statements upon adoption of these standards.

### Critical accounting policies

The management of Novo Holdings considers the accounting policies for the investment categories set out below to be the most important to the company.

### Investments in Novo Group companies

Investments in the category Novo Group companies are defined as being the company's directly owned shares in Novo Nordisk A/S, Novozymes A/S and NNIT A/S.

Investments in Novo Group companies are included in the company's financial statements at cost. If cost exceeds the recoverable amount, the carrying amount is written down to recoverable amount. Dividends received are included in 'Income from Novo Group companies' in the company's statement of comprehensive income.

### Life Science Investments

Investments in the category Life Science Investments are defined as direct or indirect investments in financial assets that are primarily related to health care and does not meet the definition of investments in Novo Group companies.

Subsidiaries, associates and other financial assets that fall into this category are recognised in accordance with IAS 39 as "Held for trading" at fair value through profit or loss; Investments are initially recognised at fair value plus transaction costs and subsequently adjusted to fair value.

Realised and unrealised gains and losses on fair value adjustments are recognised in the statement of comprehensive income in the financial year in which they arise. Realised gains and losses on sale of financial assets are calculated on the basis of the original purchase price. Purchase and sale of Life Science Investments are recognised on the settlement date.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within 'Return from Life Science Investments' when the company's right to receive payments is established.

Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income within 'Return from Life Science Investments' based on the effective interest rate.

### Financial Investments

Investments in the category Financial Investments are defined as investments in financial assets that does not meet the definition of investments in Novo Group or Life Science Investments.

Subsidiaries, associates and other financial assets that fall into this category are recognised in accordance with IAS 39 as "Held for trading" at fair value through profit or loss; Investments are initially recognised at fair value plus transaction costs and subsequently adjusted to fair value.

Realised and unrealised gains and losses on fair value adjustments are recognised in the statement of comprehensive income in the financial year in which they arise. Realised gains and losses on sale of financial assets are calculated on the basis of the original purchase price. Purchase and sale of Financial Investments are recognised on the settlement date.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within 'Return from Financial Investments' when the company's right to receive payments is established.

Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income within 'Return from Financial Investments' based on the effective interest rate.

#### **Fair value estimation**

Please refer to Note 13.

### **Other accounting policies**

#### **Translation of foreign currencies**

The financial statements are presented in Danish kroner (DKK), which is the company's functional currency and presentation currency.

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Foreign exchange gains and losses on completion of these transactions and on the translation of monetary assets and liabilities in foreign currencies to the exchange rates prevailing on the balance sheet date are recognised in the statement of comprehensive income.

Exchange rate differences arising on the translation of non-monetary items, such as other financial investments at fair value recognised in the statement of comprehensive income, are recognised as part of the gain or loss on fair value adjustments.

#### **Derivative financial instruments**

Novo Holdings does not apply hedge accounting which is why value adjustments are recognised directly in the statement of comprehensive income under Return from Financial investments.

#### **Leasing**

Operating lease costs are charged to the statement of comprehensive income over the period of the lease.

#### **Other receivables**

Other receivables comprise primarily accrued interest at year end on listed and unlisted bonds.

Other receivables are recognised at amortised cost less allowances for

doubtful trade receivables. The allowances are based on an individual assessment of each receivable.

#### **Tax**

Corporation taxes in the statement of comprehensive income include tax payable for the year and change in provision for deferred tax.

Provision for deferred tax is based on the liability method and covers all temporary differences between carrying and tax values and from realisable tax-loss carry-forwards.

The tax value of tax-loss carry-forwards is included in deferred tax assets to the extent that the tax losses and other tax assets are expected to be utilised in the future taxable income. The deferred taxes are measured according to current tax rules and at the tax rates expected to be in force on elimination of the temporary differences. Measurement of deferred taxes in Denmark is based on a tax rate of 22%.

Tax payable/receivable includes tax payable computed on the basis of the expected taxable income for the year and any adjustment for tax payable for previous years.

Novo Holdings is covered by the tax rules concerning compulsory joint taxation, as a result of which the company is jointly taxed with its Danish subsidiaries. Corporation tax is allocated between profit-making and loss-making Danish companies in ratio to their taxable income. Provision is made for tax using the full allocation method.

#### **Costs**

Costs comprise the costs incurred to investments and the administration of the company including transaction costs and salaries.

#### **Employee benefits**

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are recognised in the year in which the associated services are rendered by the company's employees. Where the company provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

#### **Pensions**

The company's contributions to defined contribution plans are charged to the statement of comprehensive income in the year to which they relate.

#### **Provisions**

Provisions are recognised 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 resources that can be reliably estimated. Provisions are recognised for the estimated total liability that is expected to arise, taking into account foreign currency effects and the time value of money.

**Property**

Property comprise the company's domicile. Property is measured at cost, less subsequent depreciation and impairment losses, except for land, which is measured at cost less impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

- Buildings 50 years
- Installations 20-50 years

The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at each balance sheet date.

Cost comprises acquisition price and expenses directly related to the acquisition until the time when the asset is ready for use. The cost of self-constructed assets comprises direct expenses for wage consumption and materials.

**Liabilities**

Liabilities are generally recognised at amortised cost unless specified otherwise.

**Dividends**

Dividends are recognised as a liability in the period in which they are declared at the Annual General Meeting.

**Cash flow statement**

The cash flow statement is presented in accordance with the indirect method and shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

The cash flow statement cannot be immediately derived from the published financial records.

**Cash flows from operating activities**

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and noncash operating items such as depreciation, amortization and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

**Cash flows from investing activities**

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

**Cash flows from financing activities**

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

**Cash and cash equivalents**

Cash and cash equivalents comprise solely cash at banks.

**Critical accounting estimates and judgements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the balance sheet date(s) and the reported amounts of revenues and expenses during the reporting period(s). Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the reported carrying amounts of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results could differ from those estimates. Novo Holdings believes the following to be the critical accounting estimates and related judgements used in the preparation of its financial statements.

**Life Science Investments**

Investments in biotech companies are associated with significant risks, as they involve long-term investments in the development of new drugs and technologies. In accordance with the company's investment strategy, Novo Holdings has a wide spread in its investments in terms of geographical location, technologies and stage of development in order to limit the risk. Life science investments are valued at fair value, if this can be set with a sufficient degree of reliability. By nature uncertainties exists regarding fair value assessments of life science investments.

The company's management reviews and assesses the value of the individual investments. Revaluation is carried out if there are current purchase prices for listed securities, and for for unlisted shares based on deviations to the research and business plans, follow-up financing in the companies and recent transactions for comparable companies.

**Explanation of financial ratios**

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2015", issued by the Danish Society of Financial Analysts.

Equity ratio = Equity / Total liabilities and equity x 100

## NOTE 2 - INCOME FROM NOVO GROUP

DKK million	2017	2016
Dividends received from Novo Nordisk A/S	5,330	6,592
Dividends received from Novozymes A/S	316	279
Dividends received from NNIT A/S	27	38
Gains from sale of shares in Novozymes A/S	360	233
<b>Total Income for the year</b>	<b>6,033</b>	<b>7,142</b>

## NOTE 3 - RETURN FROM LIFE SCIENCE INVESTMENTS

DKK million	2017	2016
Realised gains and returns for the year, net	4,099	345
Appreciation to fair value, net	6,766	-1,879
<b>Total Investment Result for the year</b>	<b>10,865</b>	<b>-1,534</b>

## NOTE 4 - RETURN FROM FINANCIAL INVESTMENTS

DKK million	2017	2016
Realised gains and returns for the year, net	3,489	1,739
Appreciation to fair value, net	317	1,019
<b>Total Investment Result for the year</b>	<b>3,806</b>	<b>2,758</b>

## NOTE 5 - COSTS

DKK million	2017	2016
Costs regarding Life Science Investments	162	189
Incentive fees	127	-65
Costs regarding Financial Investments	10	10
Administration & management	120	78
<b>Total cost for the year</b>	<b>419</b>	<b>212</b>

## NOTE 6 - FEE TO STATUTORY AUDITORS

DKK million	2017	2016
Statutory audit	0.6	0.6
Tax advisory service	1.9	1.2
Other services	6.0	0.8
<b>Total fee to statutory auditors</b>	<b>8.5</b>	<b>2.6</b>

## NOTE 7 - EMPLOYEE COSTS

DKK million	2017	2016
Wages and salaries	97	95
Incentive fees, paid	27	346
Incentive fees, change in provision	101	-411
Pension costs, defined contribution plans	15	12
Other employee costs	3	7
<b>Total employee costs</b>	<b>243</b>	<b>49</b>

### Allocation of employee costs by category:

Life Science Investments	168	-9
Financial Investments	10	6
Administration & management	65	52
	<b>243</b>	<b>49</b>

### Hereof remuneration to Executive Management:

Salaries and short-term incentives	15	7
Long-term incentives	2	-
Pension	1	1
	<b>18</b>	<b>8</b>

Severance payment of DKK 23mn to former CEO is not included in the remuneration for 2016 above.

In 2016 executive management consisted of Eivind Kolding (1 January - 29 February), Thomas Dyrberg (1 March - 31 August), Kasim Kutay (1 September - 31 December) and Peter Haahr (1 November - 31 December). Thomas Dyrberg was both Managing Partner, Novo Ventures and CEO in the period and we have allocated DKK 0.3mn of his remuneration to the CEO position.

DKK thousands	2017			2016		
	Board fee	Committee work	Total	Board fee	Committee work	Total
Sten Scheibye	1,800	-	1,800	1,500	-	1,500
Göran Ando	650	350	1,000	500	325	825
Jeppe Christiansen	650	-	650	500	-	500
Per Wold-Olsen	650	450	1,100	500	425	925
Steen Riisgaard	650	-	650	500	-	500
Lars Rebien Sørensen	506	-	506	-	-	-
Jean-Luc Butel	367	350	717	-	-	-
Francis Cuss	293	-	293	-	-	-
	<b>5,566</b>	<b>1,150</b>	<b>6,716</b>	<b>3,500</b>	<b>750</b>	<b>4,250</b>

Committee work consists of Novo Advisory Group. Board Fee also covers travel allowance.

In connection with his role as executive chairman from 1 March 2016 to 31 August 2016 Sten Scheibye received an extraordinary remuneration of DKK 2.5mn.

	2017	2016
<b>Average number of full-time employees (no.)</b>	<b>51</b>	<b>41</b>

## NOTE 8 - INCOME TAXES

DKK million	2017	2016
<b>Computation of effective tax rate</b>		
Statutory tax rate	22.0%	22.0%
Non-taxable income less non-deductible expenses	-20.2%	-22.0%
Deductible dividend	-1.8%	0.0%
<b>Effective tax rate</b>	<b>0.0%</b>	<b>0.0%</b>

When assessing Danish corporation tax the company and all Danish subsidiaries are taxed jointly. Novo Holdings is the administrative body in relation to the joint taxation. The Danish group companies are jointly liable for corporation tax on the consolidated taxable income.

The joint income tax paid was DKK 7,329mn (DKK 6,057mn in 2016) for the current year, and received DKK 367mn (DKK 1,068mn in 2016) in taxes regarding the previous year.

## NOTE 9 - NOVO GROUP COMPANIES

DKK million	2017	2016
Cost at the beginning of the year	4,422	4,429
Additions during the year	-	-
Disposals during the year	-12	-7
<b>Carrying amount at the end of the year</b>	<b>4,410</b>	<b>4,422</b>

Valued at historical cost.

## NOTE 10 - LIFE SCIENCE INVESTMENTS

DKK million	2017	2016
Cost at the beginning of the year	26,025	18,426
Additions during the year, net	11,321	7,599
Transfer between Financial Investments and Life Science Investments	11	-
<b>Cost at the end of the year</b>	<b>37,357</b>	<b>26,025</b>
Value adjustments at the beginning of the year	11,645	13,524
Appreciation to fair value, net	6,766	-1,879
Transfer between Financial Investments and Life Science Investments	-	-
<b>Value adjustments at the end of the year</b>	<b>18,411</b>	<b>11,645</b>
<b>Fair value at the end of the year</b>	<b>55,768</b>	<b>37,670</b>
<b>Fair value measurement hierarchy</b>		
Active market data	36,516	21,844
Directly or indirectly observable market data	-	-
Not based on observable market data	19,252	15,826
	<b>55,768</b>	<b>37,670</b>
<b>Change in values not based on observable market data</b>		
At the beginning of the year	15,826	11,482
Additions during the year	3,425	7,510
Disposals during the year	-999	-2,089
Change in hierarchy due to investments that completed an IPO during the year	-306	-1,969
Gains through profit or loss	1,306	892
	<b>19,252</b>	<b>15,826</b>

## NOTE 11 - FINANCIAL INVESTMENTS

DKK million	2017	2016
Cost at the beginning of the year	27,760	27,488
Additions during the year, net	861	272
Transfer between Financial Investments and Life Science Investments	-11	-
<b>Cost at the end of the year</b>	<b>28,610</b>	<b>27,760</b>
Value adjustments at the beginning of the year	10,318	9,299
Appreciation to fair value, net	317	1,019
Transfer between Financial Investments and Life Science Investments	-	-
<b>Value adjustments at the end of the year</b>	<b>10,635</b>	<b>10,318</b>
<b>Fair value at the end of the year</b>	<b>39,245</b>	<b>38,078</b>
<b>Fair value measurement hierarchy</b>		
Active market data	33,480	33,294
Directly or indirectly observable market data	2,622	2,391
Not based on observable market data	3,143	2,393
	<b>39,245</b>	<b>38,078</b>
<b>Change in values not based on observable market data</b>		
At the beginning of the year	2,393	2,338
Additions during the year	604	738
Disposals during the year	-92	-706
Gains through profit or loss	238	23
	<b>3,143</b>	<b>2,393</b>
<b>Allocation of Financial Investments</b>		
Short term bonds	7,632	6,142
Corporate credits and emerging market bonds	5,427	5,896
Equities	23,043	23,096
Private equity and real estate companies	3,143	2,944
	<b>39,245</b>	<b>38,078</b>

# NOTE 12 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

## Financial instruments

The company contracts derivatives to hedge financial assets based on individual considerations.

The table below shows the derivatives contracted to hedge currency exposure on investments which give rise to value adjustments in the statement of comprehensive income.

DKK million	2017		2016	
	Contract amount	Market value 31 December	Contract amount	Market value 31 December
USD/DKK	1,737	7	4,173	-207
JPY/DKK	55	10	65	5
CHF/DKK	26	0	27	0
GBP/DKK	129	-1	286	-2
	<b>1,947</b>	<b>16</b>	<b>4,551</b>	<b>-204</b>

The forward exchange contracts are booked at market value and fall due in 2018

## Financial risk factors

### Currency exposure

Currency exposure arises when Novo Holdings invests in financial assets in other currencies than DKK. Financial assets are most exposed to the USD and EUR. An increase of 5% in the value of USD would, other things being equal, result in an increase in the value of the portfolio of DKK 188mn (2016: DKK 210mn). An increase of 2.25% in the value of EUR would, other things being equal, result in an increase in the value of the portfolio of DKK 58mn (2016: DKK 82mn).

Novo Holdings' policy is not to hedge share-based assets, but to hedge bond-based and liquid assets based on individual considerations. Hedging of currency exposure is carried out through currency swaps, which generally have a maturity period that would not exceed six months.

### Credit risk

Credit risk occurs on financial assets. Novo Holdings' policy is to have the majority of the bond-based investments in Danish government bonds and domestic mortgage credit bonds and a minority in different high interest bonds. Based on individual consideration of each asset it is decided whether the credit risk should be hedged through derivatives.

### Market risk (interest rate exposure)

Interest rate exposure arises in relation to interest-bearing assets and liabilities. Novo Holdings invests in bonds and high interest bonds (Rating AA-AAA).

Novo Holdings' policy is to place the majority of the interest-bearing assets in Danish government bonds and domestic mortgage credit bonds, and a minority in different high interest bonds. The interest rate risk is not hedged through derivatives, but the duration of the portfolio is adjusted to a desired exposure. An increase of one percentage point in the interest rate would, other things being equal, result in an decrease in the portfolio of DKK 93mn (2016: DKK 166mn).

### Market risk (share price)

Share price risk arises in relation to investments in share-based assets. Novo Holdings invests in shares through mutual funds and discretionary mandates.

Novo Holdings' policy is to place up to 80% of the securities in share-based assets. The share quotation risk is not hedged through derivatives.

# NOTE 13 - FAIR VALUE ESTIMATION POLICIES

Fair value is the price that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Novo Holdings has implemented fair value guidelines and procedures, which ensure a consistent fair value measurement of each investment over time. Moreover, the fair value guidelines provide a framework for reasonable, consistent and transparent selection of valuation methodologies for valuing our investments. The selection criteria are in line with the value hierarchy in IFRS 13.

## Hierarchy of fair value inputs

Investments measured at fair value are classified according to a fair value hierarchy depending on the inputs used in the valuation method. The fair value hierarchy distinguishes between observable and unobservable inputs, which are categorised within one of the following levels:

**Level 1** – Unadjusted quoted market prices for identical assets in an active market.

**Level 2** - Inputs, other than quoted market prices included within Level 1, which are observable either directly or indirectly.

**Level 3** – Inputs for the asset that are not based on observable market data.

Securities traded on active markets are generally classified in Level 1. Securities traded on inactive markets are generally categorised in level 2. Securities in private operating companies are generally categorised in level 3.

Investments in private investment companies are classified in level 2 or level 3 depending on the nature of their investment portfolios, their ability to liquidate their underlying investments, and any other restrictions on the disposition of the investments. If the investment can be redeemed at the reported net asset value on the measurement date or in the near future, the investment is categorised in level 2. Otherwise, the investment is categorised in level 3.

## Policy for determining when transfers between levels are deemed to have occurred

Transfers into level 3 occurs when quoted market prices (level 1) or other observable inputs (level 2) are no longer available. Transfers out of level 3

occurs if quoted market prices (level 1) or other observable inputs (level 2) becomes available (e.g. when a private company goes public through an IPO, equity investments in the company transfers from level 3 to level 1 as the shares can be valued using the quoted market price (level 1).

## Valuation methods and input

The general principle applied in selection of valuation approach maximizes the use of observable inputs and minimizes the use of unobservable inputs.

If a security trades in an active market the closing price based on the mid-point in the bid-ask spread is applied. An active market is defined as one in which transactions for the security occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Should a security not trade in an active market it is initially booked and held at cost in the first twelve months succeeding the investment, unless any material events occur within this timeframe. Beyond the twelve months window, the valuation methodology follows the following hierarchy below:

When independent broker quotes representing contemporaneous trades exist, these will be applied in estimating the fair value of the security;

If a portfolio company has carried out any financing rounds within the last twelve months and the pricing in the financing round is likely to represent a fair value, the fair value estimate is based on the price obtained in the financing round;

If neither independent broker quotes nor pricing from financing rounds are available, the fair value will be based on application of a modelling approach, which again follows a strict hierarchy:

1. If the company runs an established business with an identifiable stream of continuing earnings or cash flows that are considered to be maintainable, and it is possible to identify comparable companies in terms of risk attributes and earnings growth prospects, the fair value shall be based on application of the market approach (i.e. relevant multiples based on a set of comparable companies);
2. If no comparable companies in terms of risk attributes and earnings growth prospects can be identified, the fair value shall be based on application of an income approach (i.e. a discounted cash flow model);

3. If the company does not run an established business with an identifiable stream of continuing earnings or cash flows that are considered to be maintainable, the fair value shall be based on a value trigger approach, by which the fair value changes based on the occurrence of value triggering events.

#### Fair value measurement by hierarchy

The following table presents the categorised investments as of December 31 2017:

DKK million	Level 1	Level 2	Level 3	Total
Short term bonds	7,632	0	0	7,632
Corporate credits and emerging market bonds	2,805	2,622	0	5,427
Equities	23,043	0	0	23,043
Private Equity and real estate companies	0	0	3,143	3,143
<b>Financial Investments in total</b>	<b>33,480</b>	<b>2,622</b>	<b>3,143</b>	<b>39,245</b>
<b>Life Science Investments</b>	<b>36,516</b>	<b>0</b>	<b>19,252</b>	<b>55,768</b>
<b>Total investments at fair value</b>	<b>69,996</b>	<b>2,622</b>	<b>22,395</b>	<b>95,013</b>

For the investments in unquoted equities, estimations of fair value rely substantially on non-observable input (level 3) such as pro-forma adjusted operating income multiplied by relevant multiples (e.g. EV/EBITDA) for a set of comparable companies less net interest bearing debt. If comparable companies are not available or applicable, fair value estimation will rely on other inputs such as projected cash flows discounted with a weighted average cost of capital (WACC). Estimations of fair value that rely substantially on non-observable input (level 3) comprise a total value of DKK 22,395mn of which DKK 8,689mn has been valued by application of the income approach, DKK 8,163mn has been valued by application of trading multiples, and DKK 5,543mn has been valued by application of other approaches. The fair value for each investment can vary significantly if one or more of these inputs were changed.

The following table shows the range of inputs used in the valuation of unquoted equities.

Input	Range	Sensitivity
Multiples for comparable companies	14.2.-19.0x	If multiples decreased by 1x, total investments at fair value would decrease by DKK 893mn
Pro-forma adjusted operating income	Individual	N/A
Weighted average cost of capital	4.1%-9.2%	If WACC increased by 1%-point, total investments at fair value would decrease by DKK 3,286mn
Projected cash flows	Individual	N/A
Net interest-bearing debt	Individual	N/A

## NOTE 14 - OTHER PROVISIONS

DKK million	2017	2016
Provision for incentive fees at the beginning of the year	220	631
Paid during the year	-26	-346
Appreciation during the year, net	127	-65
<b>Provision for incentive fees at the end of the year</b>	<b>321</b>	<b>220</b>

In 2017, a Long Term Incentive Programme (the LTIP) was introduced to cover all employees in Novo Holdings, which, subject to meeting certain targets in 2017, 2018 and 2019, might be paid out in 2020. Based on the investment returns for 2017 we have made provision for this incentive scheme.

Further to this, provisions have been made to cover an older incentive scheme covering certain employees and middle managers within life science investment activities. This old incentive scheme will be phased out over during 2018 and 2019.

To cover potential future pay-outs related to these incentive schemes Novo Holdings has made provisions of DKK 321mn in 2017 (DKK 220mn in 2016). Of these provisions, the company expects to pay out DKK 231mn in 2018.

## NOTE 15 - CONTINGENT LIABILITIES/ASSETS

### Contingent assets

In connection with Novo Holdings sale of certain Life Science companies, agreements on additional payments from the acquirers have been made if certain conditions are fulfilled. The total value of potential future milestone payments amounts to:

Potential milestone payments related to Life Science Investments	375	2,080
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### Contingent liabilities

Novo Holdings is engaged in supporting biotech companies, either directly or through capital funds. In connection with previous investments in biotech companies Novo Holdings has committed to make the following investments:

Contractual obligations related to Life Science Investments	1,445	1,269
Contractual obligations related to Financial Investments	630	586
<b>Total contingent liabilities</b>	<b>2,075</b>	<b>1,855</b>

# NOTE 16 - RELATED PARTY TRANSACTIONS AND OWNERSHIP

## Related party transactions

The Novo Nordisk Foundation, Novo Ventures 1 A/S, Novo Ventures (US) Inc., the Sonion Group, the Xellia Group, the Novo Nordisk Group, the Novozymes Group, the NNIT Group, associated companies and the board of directors and the executive managements of Novo Nordisk Foundation and Novo Holdings are considered to be related

parties. All agreements have been negotiated on market-based terms, and the majority of the agreements are valid for one year.

In 2017 and 2016 Novo Holdings had the following transactions and outstanding balances with:

DKK million	2017	2016
<b>Novo Nordisk Foundation</b>		
Sale of services	20	14
Purchase of services	2	-
Novo Nordisk Foundation's share of Joint investment portfolio	13,260	13,573
Novo Nordisk Foundation's share of result from joint investment portfolio	1,137	1,000
Dividend payment to Novo Nordisk Foundation	13	3,008
<b>Novo Ventures 1 A/S</b>		
Short-term facility for investment in Alta BioPharma Partners, L.P., Clarus Lifesciences III, L.P., SFJ Pharmaceuticals IX L.P. and Leerink Transformation Fund I L.P. at 31 December	343	168
<b>Novo Ventures (US), Inc.</b>		
Purchase of services	57	49
<b>Other subsidiaries and associates</b>		
Loans to other subsidiaries	1,150	1,306
Loans to associates	81	839
Contingent liabilities regarding commitments to associates	586	586

Apart from the balances included in amounts owed by and to affiliated companies there are no unsettled transactions with related parties at the end of the year.

There have been no major transactions with the boards of directors or executive management of Novo Holdings, Novo Ventures 1 A/S, Novo Ventures (US), Inc., Xellia Group, Novo Nordisk Group, Novozymes Group, NNIT Group or associates other than disclosed in Note 7 "Employee costs".

Other than the above mentioned intercompany transactions and normal remuneration to management employees, no transactions have been concluded with the board of directors, management, management employees, major shareholders, or other related parties.

## Ownership

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. Novo Holdings is a wholly owned subsidiary of the Novo Nordisk Foundation and is consolidated into the group financial statements of the Novo Nordisk Foundation.

The consolidated financial statements of the Novo Nordisk Foundation can be ordered at:

Novo Nordisk Foundation  
Tuborg Havnevej 19  
DK-2900 Hellerup  
Municipality of Gentofte, Denmark

# NOTE 17 - SUBSIDIARIES AND ASSOCIATES

Listed by investment category and secondarily degree of control.

## **Novo Group**

<b>Subsidiaries</b>	<b>Ownership/voting rights*</b>
Novo Nordisk A/S, Denmark	28.1%/75.5%
Novozymes A/S, Denmark	25.5%/71.2%
NNIT A/S, Denmark**	25.5%

## **Life Science Investments**

<b>Subsidiaries</b>	
ERT HoldCo A/S, Denmark	100%
Novo Invest 1 A/S, Denmark	100%
Novo Ventures (US), Inc., USA***	100%
Novo Ventures 1 A/S, Denmark	100%
Sonion HoldCo A/S, Denmark	100%
Xellia HoldCo A/S, Denmark	100%
Novo DP2 Inc., USA	100%
BiOrigin ApS, Denmark	100%

## **Associates**

Acesion Pharma ApS, Denmark	46%	Karus Therapeutics Ltd., United Kingdom	23%
Adenium Biotech ApS, Denmark	48%	MinervaX ApS, Denmark	49%
Affinicon ApS, Denmark	49%	NMD Pharma ApS, Denmark	32%
Antag Therapeutics ApS, Denmark	37%	Nuvelution Pharma, Inc., USA	47%
Avilex Pharma ApS, Denmark	72%	Orexo AB, Sweden	28%
Battersea Biotech, LLC, USA	33%	PCOVERY ApS, Denmark	35%
Biosyntia ApS, Denmark	46%	Reapplix ApS, Denmark	21%
Cardeas Pharma Corp., USA	28%	RSPR Pharma AB, Sweden	24%
Chr. Hansen Holding A/S, Denmark	26%	Rgenix Inc., USA	26%
Cianna Medical, Inc., USA	33%	Spruce Biosciences, Inc., USA	51%
Epsilon-3 Bio Ltd., United Kingdom	26%	Symphogen A/S, Denmark	28%
Forendo Pharma Oy, Finland	31%	Tarsa Therapeutics, Inc., USA	32%
Galecto Biotech AB, Sweden	21%	Unchained Labs, Inc., USA	33%
Hoba Therapeutics ApS, Denmark	43%	Vantia Ltd., United Kingdom	70%/49%
Inthera Bioscience Ltd., Switzerland	26%	Veloxis Pharmaceuticals A/S, Denmark	41%
IO Biotech ApS, Denmark	30%		

## **Financial Investments**

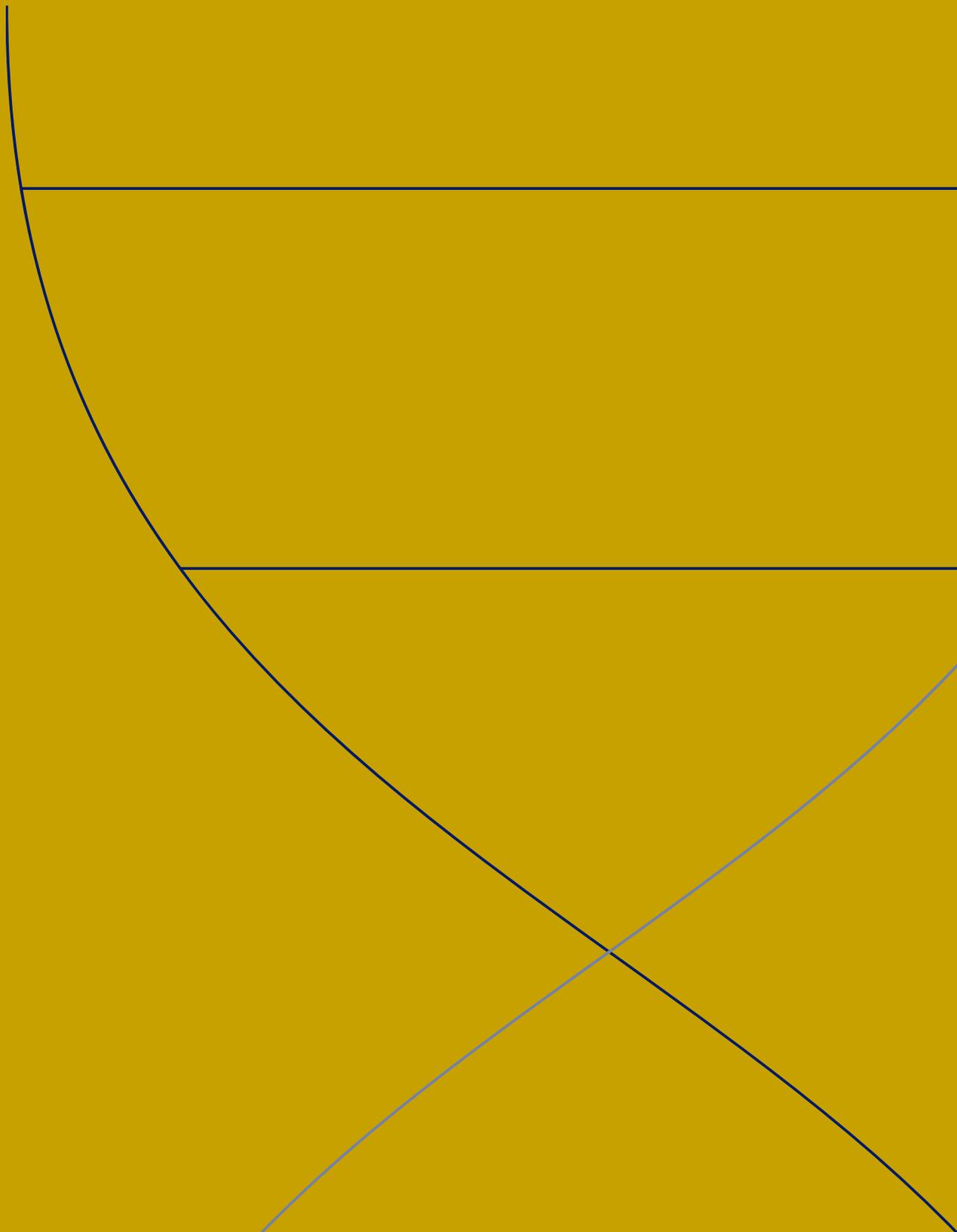
<b>Associates</b>	
Dades A/S, Denmark	45%

\* Voting rights is only disclosed if different from ownership. Voting right is calculated nominally, i.e. excluding treasury shares.

\*\* NNIT A/S is listed as a subsidiary given that Novo Holdings and the subsidiary Novo Nordisk A/S together own 51% of the shares and votes in the company.

For a complete overview of the subsidiaries in Novo Holdings group please refer to the consolidated financial statements of the Novo Nordisk Foundation.

\*\*\* Novo Ventures (US) Inc. is a separate legal entity that provides certain consultancy services to Novo Holdings, mainly within the areas of identifying, analysing, and negotiating investment opportunities among life science and biotech companies in the US. They also conduct related follow-up activities, such as board memberships and control and reporting efforts.



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