ANNUAL REPORT 2018

Novo Nordisk Pharmatech A/S

Novo Nordisk Pharmatech A/S

Københavnsvej 216

4600 Køge

CVR. no. 13246149

Presented and adopted at the annual general meeting on 1 March 2019.

Chairman: Karoline Enodden

Novo Nordisk Pharmatech A/S

novo nordisk®

Novo Nordisk Pharmatech A/S

glance

69 YEARS HERITAGE

Novo Nordisk Pharmatech is a global company with 69 years of extensive experience supplying ingredients and API for the biopharmaceutical and pharmaceutical industries.

Part of Novo Nordisk, a global healthcare company with more than 90 years of innovation and leadership in diabetes care, ensures we have the experience and capabilities to improve biopharmaceutical manufacturing.

CUSTOMERS

We are proud to supply the largest pharmaceutical companies worldwide with continuous high quality products.

QUALITY

We never compromise on quality. By consistently meeting expectations and the needs of our stakeholders, we safeguard product quality and ultimately safeguard the patients. Our track record proves this.

PRODUCTS

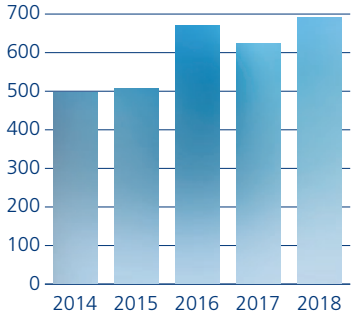
We live up to our customers' uncompromising standards by providing pure, efficacious and safe products every time.

MARKET

Novo Nordisk Pharmatech is the worldwide leading supplier of recombinant insulin for cell growth media and pharmaceutical grade quaternary ammonium compounds (Quats).

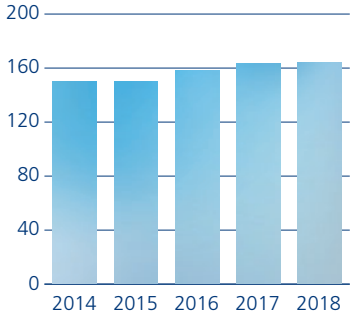
SALES DEVELOPMENT

DKK mill



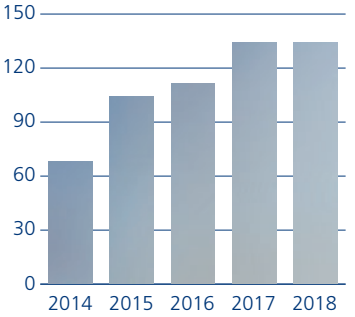
NUMBER OF FTEs

FTEs



NET PROFIT

DKK mill

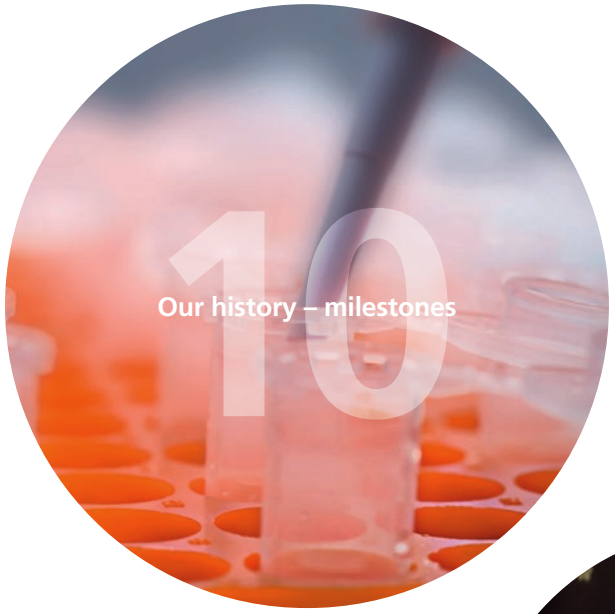


Content

ACCOMPLISHMENTS & RESULTS 2018

OUR WAY OF DOING BUSINESS

FINANCIAL STATEMENTS



Letter from management

2018 has been a year of consolidation and preparation for future growth. The company has worked and invested significantly to further raise compliance levels in several areas, while driving commercial focus and developing a broader pipeline of new products.

Investment has largely been within IT, where IT security and business continuity are top of the agenda. Part of this investment involves an increase in staffing to cope with current and future challenges. This level of investment is expected to be carried into 2019 in order to ensure a sustainable IT setup, fit for future challenges and growth.

Another major area of investment was the establishment of a new purified water distribution system for the entire site. It has been a large undertaking as production had to be maintained while selected areas were taken out of service. The project was completed ahead of time and below budget, and a tribute to this accomplishment was the adoption of a leaner way of qualifying physical assets.

In 2018, Novo Nordisk Pharmatech maintained its outstanding track record for audits and inspections. Numerous customer audits were carried out, as well as ISO audits, internal audits, and inspections from authorities. The takeaway from all this is that Novo Nordisk Pharmatech maintains high standards, going above and beyond the expectations of both customers and authorities.

Sales continued to develop positively in 2018, particularly within synthetic molecules, where a 30% sales increase was achieved. A strong driver of this is the continued focus on expanding geographical reach through a network of distributors. The sales increase was achieved mainly through higher volumes and better prices. Sales of insulin were broadly in line with expectations of modest growth. Increased usage of chemically defined media among our customers remains a challenge, while new geographical areas and new applications are in focus within sales.

Delivery of enzymatic products to Novo Nordisk has been in line with expectations. Meanwhile, a number of minor optimisations of the manufacturing facility were carried out throughout the year. Resin production was very stable, and the demanded volumes were delivered. The facility for restoration of resins was shut down as a result of improved pricing in raw materials, which made this manufacturing process less economically attractive.

In R&D, 2018 has been a busy year, with a growing portfolio of products and a growing organisation. The product portfolio is mainly increasing within our enzymatic and resin products, and the larger pipeline will serve as a future growth engine for the company. The larger portfolio and its progression through the development stages has also led the company to establish a new manufacturing development team within R&D.

With significant progress in our R&D pipeline, a strong quality base, improved IT systems and security, as well as improved manufacturing infrastructure, Novo Nordisk Pharmatech has a strong foundation to meet future challenges.

RASMUS
HOTHER LE FEVRE
President & CEO

Financial review 2018

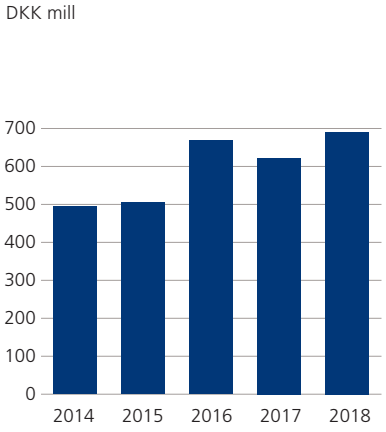
Revenue and EBIT development

Overall revenue in Novo Nordisk Pharmatech A/S in 2018 was DKK 690.7 million. This is an increase of DKK 68.3 million (+11%) compared to 2017, when total sales were DKK 622.4 million. The main drivers of this development were:

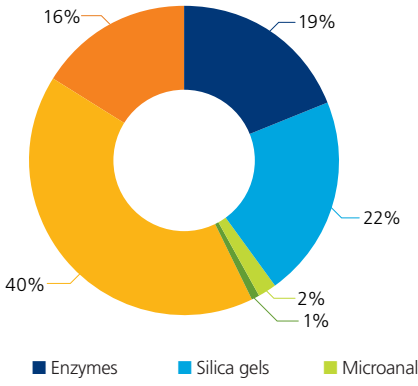
- Sales of ALP to Novo Nordisk were DKK 24 million (+21%) higher than 2017 driven by price adjustments.
- Sales of Silica to Novo Nordisk were DKK 21 million (+16%) higher than 2017 driven by price adjustments.
- Sales of insulin to the global market were DKK 4 million (-2%) lower than 2017 driven by lower prices – due to change in product mix – with higher sales on smaller volumes with lower margins.
- Sales of columns were DKK 2 million (-43%) lower than 2017 due to lower demand.
- Sales of Quats (synthetic molecules) to the global market were DKK 31 million (+31%) higher than 2017 driven by increase in volumes.

The split and development of product sales

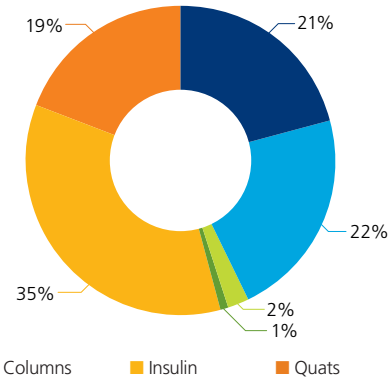
SALES DEVELOPMENT



SALE PRODUCT GROUP 2017

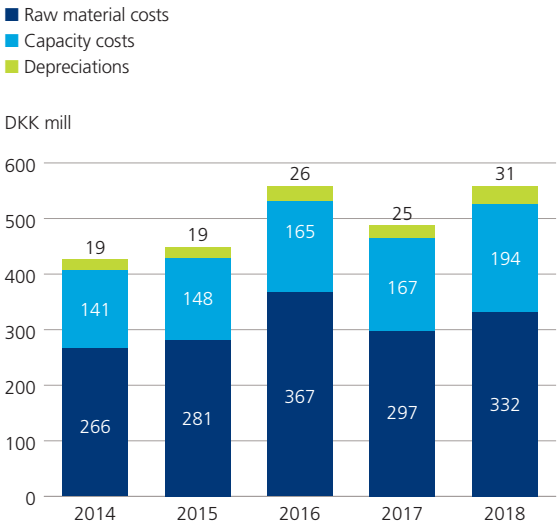


SALE PRODUCT GROUP 2018



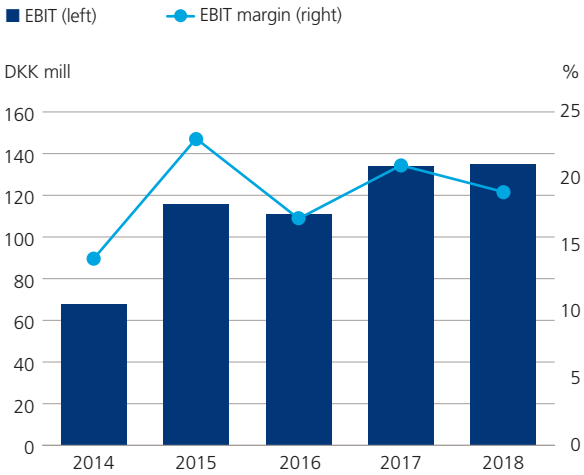
Cost development in Novo Nordisk Pharmatech was higher than 2017, primarily due to higher raw material costs, caused by an increase in sales volumes. Capacity costs and depreciations increased in line with expectations in 2018, due to focus on new business development and compliance projects.

COST



Net operating profit for 2018 was DKK 105.3 million, increasing from DKK 103.7 million in 2017. The increase in net operating profit is mainly driven by significantly higher revenue on sales of synthetic molecules (2018: 130.8 million compared to 2017: 99.9 million). This has been partially offset by a decrease in earnings on sales of Insulin and higher total capacity costs (2018: 39 million compared to 2017: 34 million).

EBIT



TOTAL PROFIT MARGIN IS 19.4%

Financial highlights

KEY FIGURES (DKK 1.000)

	2018	2017	2016	2015	2014
Result					
Revenue	690,700	622,436	669,077	505,233	495,202
Gross profit/loss	283,278	263,449	237,950	228,049	176,596
Profit/loss before financial income and expenses	134,241	133,554	110,928	115,550	68,271
Net financials	1,790	(1,333)	896	4,559	3,929
Net profit/loss for the year	105,268	103,665	87,367	92,104	55,343
Balance					
Balance sheet total	760,808	676,372	653,833	618,589	452,142
Equity	614,221	528,953	468,288	400,921	336,817
Cash Flow					
Investments in property, plant and equipment	64,210	25,440	15,563	42,557	35,161
Average number of employees	170	163	158	150	150
Ratios					
Gross margin[1]	41.0	42.3	35.6	45.1	35.7
Profit margin[2]	19.4	21.5	16.6	22.9	13.8
Return on assets[3]	17.6	19.7	17.0	18.7	15.1
Solvency ratio[4]	80.7	78.2	71.6	64.8	74.5
Return on equity[5]	18.4	20.8	20.1	25.0	17.3

Key figures are in accordance with The Danish Society of Financial Analysts' guidance from 2016.

1. Gross profit as a percentage of sales
2. Profit before financial income and expenses as a percentage of sales
3. Profit before financial income and expenses as a percentage of total assets
4. Equity on the balance sheet date as a percentage of total assets
5. Net profit for the year as a percentage of the shareholders' equity (average)

Content ☰

Outlook 2019

2019 will be a challenging and exciting year for Novo Nordisk Pharmatech

We will complete expansion of our geographical presence for synthetic molecules in two ways. Firstly, through a broader collaboration with distributors in areas where the company isn't currently present. And secondly, by establishing a sales office in Singapore to drive sales in that region. This collaboration is expected to drive bottom line sales growth significantly, while top-line growth will decline slightly due to the discontinuation of a large-volume unprofitable customer.

Sales growth of insulin is expected to be moderate single digit growth, where the market is characterised by increased competition and price pressure, combined with more generic biopharmaceutical manufacturing processes without the need for insulin in the cell culture. These market conditions make it challenging for sales of insulin for cell culture, only partly offset by general high growth in the biopharmaceutical industry.

Demand for purification resins in 2019 will remain at a low level, but demand is expected to increase again in 2020 thanks to Novo Nordisk's new purification facilities. R&D activities will continue to focus on developing more cost-efficient manufacturing methods for resins, as well as new types of resins for use within Novo Nordisk, as well as the industry more broadly. These are expected to be matured further for market in 2019.

The demand from Novo Nordisk for enzymatic products remains at the same high level as the previous year. Two new enzymes will undergo further development in order to be commercialised in late 2020 or early 2021. These enzymes have the potential to support Novo Nordisk, as well as the biopharmaceutical industry in general. To ensure adequate progress in R&D for the growing portfolio of development projects, the R&D organisation is expected to invest and expand further in 2019. The investment in a broader enzymatic and resin portfolio is expected to put pressure on the operating profit.

Investment in physical assets is expected to be lower than 2018 and the operating profit is expected to be in line with 2018, despite increased sales. This is due to increased investment in R&D and continued investments in IT compliance and security.

Our History milestones

Our business **model**

Novo Nordisk Pharmatech improves biopharmaceutical manufacturing by developing and supplying innovative products used in the manufacturing of biopharmaceuticals (Biopharmaceuticals are medicine based on biological molecules, such as insulin, growth hormone and blood coagulation factors). In this way, Novo Nordisk Pharmatech improves biopharmaceutical manufacturing – and makes biopharmaceuticals cheaper to produce, thereby enabling better access to medicine for patients.

Our innovation

A wide range of capabilities are available at Novo Nordisk Pharmatech within the various departments, Sales and Marketing, R&D, Manufacturing, Quality, Business Support and HR & Communication. All capabilities present in the company are critical for Novo Nordisk Pharmatech to run the business and innovate. The following "Core Capabilities" of Novo Nordisk Pharmatech are those that stand out as unique to Novo Nordisk Pharmatech, and are fundamental to the future growth of the company:

- Designing and developing silica gels: Novo Nordisk Pharmatech has a long history of continuously reducing the cost for Novo Nordisk of producing insulin by providing robust silica gel and developing processes for increasing their life time.
- Advanced microanalysis: At Novo Nordisk Pharmatech's Microanalysis Centre, a highly skilled team supports Novo Nordisk with state-of-the-art microscopy and spectroscopic support. This capability is also critical for the development of new chromatographic resins.
- Organic chemical synthesis manufacturing: Novo Nordisk Pharmatech has from the outset produced Quats by organic synthesis manufacturing and has gained solid experience within the field.
- cGMP embedded throughout the organisation: Biopharmaceutical companies are required to operate in accordance to cGMP in order to ensure patient safety. For Novo Nordisk Pharmatech to be a preferred supplier to the biopharmaceutical industry cGMP therefore is a key capability.

Novo Nordisk Pharmatech's R&D pipeline comprises several new products under development. Every new product goes through the four phases:

1. Idea phase, where the potential value of the product is analysed
2. The R&D phase, where the product is developed in the lab in close collaboration with customers
3. The tech transfer phase, where the technology is transferred to production and the production facility is built, and
4. The launch phase, where the product is introduced to the market.

"Our way of doing business":

We ensure high quality in our products by meeting the expectations and needs of our stakeholders. We strive for simplicity and never compromise on quality

The development of new products is based on the requirement from the customers and the final use of the product. Quality by design is used during development to ensure that quality is built into the product, with a high focus on product and process understanding, as well as on process control as opposed to relying on testing of the final product. From development through tech transfer to production, our Quality Management System (QMS) ensures that knowledge is handed over, thereby ensuring that employees understand both why and how to ensure quality.

It is part of our strategy to safeguard product quality and compliance, thereby safeguarding the patient.

Our QMS is based on ISO 9001 and covers processes from development to post-delivery activities. We strive for simplicity and we develop and maintain a process-oriented QMS based on our stakeholders' expectations, as well as legislation and requirements from authorities, e.g. "EU GMP vol. 4 part II", "ICH Q7" and "The Joint Good Manufacturing Practices Guide for Pharmaceuticals Excipients". The drug substance production is inspected by the Danish Medicines Agency on a regular basis and we are also inspected by the FDA. Audits from our customers are part of our quality agreements with them. Historically, the results of these inspections and audits have shown a very high level of compliance.

Strategic priorities

Improving Biopharmaceutical Manufacturing

Excellence. Multiplied
By delivering excellence at every step, we help our customers do the same – whether they're developing a cure for cancer, or a new ophthalmic. Excellence multiplied, from discovery to delivery.

We strive for perfection
Every new idea needs a great execution. By delivering on time, reducing risk and ensuring compliance, we give our customers the security they need to develop and manufacture products that make a difference.

Our ambition
To improve biopharmaceutical manufacturing through our core values; purity, reliability, consistency and quality.

Purity

We live up to our customers' uncompromising standards by providing pure, efficacious and safe products every time.

Reliability

Our secure global supply chain ensures dependable availability, precision delivery and a continuous supply of products.

Consistency

With well-established manufacturing, analytical and quality processes, we deliver constant product consistency and compliance.

Quality

Our tight control measures, assurance systems and professionalism ensure that every product supplied is of the highest possible quality.

Business segments

BIOPHARMACEUTICAL VALUE CHAIN

1 Expression → 2 Capture → 3 Modification → 4 Purification → 5 Formulation and filling

Biopharmaceutical proteins are produced by:

1. **Expression** of the protein by living cells
2. **Capture** of the protein
3. **Modification** of the protein to direct its biological function in the human body
4. **Purification** of the modified protein to remove unwanted impurities from the expression and modification steps
5. Preparing a **formulation** of the modified protein to ensure efficient and safe delivery into the human body

NOVO NORDISK PHARMATECH PRODUCTS

Insulin

Synthetic molecules

Enzymes

Purification resins

Synthetic molecules

The role of Novo Nordisk Pharmatech's products:

- Insulin's role in Expression is to make the living cells grow and divide
- Synthetic molecules are used in the capture of flu vaccines
- Enzymes are used to modify proteins
- Purification resins are used to purify peptides and proteins
- Synthetic molecules are used as preserving agents in final formulations or as an API

CSR Health, safety & environment

Health and safety

Employee health and safety are important to Novo Nordisk Pharmatech.

The company works with large amounts of chemicals, and health and safety precautions are observed in all our work tasks. This is ensured by the occupational health and safety guidelines according to OHSAS 18001.

Due to this strong emphasis on safety, Novo Nordisk Pharmatech made careful investigations into every near miss in production, laboratories and administration. In 2018, Novo Nordisk Pharmatech had two accidents with absence and work-related illness with absence.

Furthermore, Novo Nordisk Pharmatech has a focus on risk assessment, and every change in the company's production areas are risk assessed. In 2018, we made approximately 120 risk assessments. Novo Nordisk Pharmatech's focus was on improving SCC (Strictly Controlled Conditions) sampling activities in the production areas, as well as reducing heavy lifting.

At Novo Nordisk Pharmatech we have the following goals:

- We will ensure our work is well planned
- We will design our workplaces optimally
- We will think twice about the work environment before we act
- We will develop our employees
- We will remove dangerous goods where possible
- We will handle dangerous chemicals in a safe way
- We will reduce the risk of accidents and near misses through risk assessment
- We will analyse accidents, incidents and near misses
- We will communicate our stress policy
- We will work with our psychological working environment

Environment

Environmental considerations are an integrated part of our everyday work. The company is very aware that the operations of a chemical company can affect the environment, and Novo Nordisk Pharmatech is certified according to ISO 14001/2015.

The most significant impact on the environment from our activities is: Atmospheric emission of organic solvents used in the manufacturing processes and disposal of hazardous waste – mainly chemical residue from production and laboratories

Production at Novo Nordisk Pharmatech was environmentally approved by the Danish Ministry of the Environment in 2009. The Ministry oversees the company's environmental concerns, and Køge Municipality is the authority that oversees the release of wastewater into the public sewer and waste disposal system.

We are committed to the following targets, according to our environmental policy:

- We reduce our waste volume, noise impact and emissions into the air.
- We reduce our CO_2 emission.
- We run our business safely by conducting environment and risk assessments for all activities.
- We will continue to systematically minimise the environmental impact when we develop new products and processes.
- We will continue to encourage our customers to cooperate in the development of environmentally-sound products and services.
- We regularly report on environmental efforts and performance.
- We maintain an open and trustworthy dialogue with our stakeholders.
- We encourage staff environmental awareness to ensure an environmentally-sound culture

In 2015, the environmental impact from our energy consumption decreased significantly by more than 50% of carbon dioxide, compared to CO_2 emissions in 2014. This environmental improvement is due to an agreement on energy distribution, which ensures that Novo Nordisk Pharmatech is only supplied with electricity produced by windmills. The agreement was made in 2014, effective from January 2015 and remains applicable.

In 2018, this impact decreased to zero by using Biogas for our gas consumption. This is determined to create zero CO_2 emissions. Novo Nordisk Pharmatech is therefore considered a carbon neutral company in 2018.

KEY ENVIRONMENTAL DATA:	2018	2017	2016
Energy consumption (GJ)	21,007	20,774	21,161
Water consumption drinking water (m^3)	7,008	5,841	5,772
Water consumption - all (m^3)	58,155	62,396	65,425
Carbon dioxide emissions to air (Tonnes)	0	744	770
Emissions to sewer (m^3)	5,636	5,865	7,097
Discharge to recipient (m^3)	70,624	71,116	87,079
WASTE			
Hazardous waste (Tonnes)	405	494	590
Non-hazardous waste (Tonnes)	45	43	51
Accidents with absence	2	0	2
Employees	167	163	158

People

Novo Nordisk Pharmatech has continued working intensively to improve the sustainable wellbeing of our employees.

1. In 2018, Novo Nordisk Pharmatech developed and implemented a stress prevention strategy, including the training of managers and employees, a systematic approach to dialogue-based signal assessment and continuous follow-up. Results in 2017 saw a significant decrease in stress-related absence. In 2018, the focus has been on sustaining the low level of stress-related absence via wellbeing strategy implementation. The results in 2018 are satisfactory and merit continuation of current efforts.

2. Another key element was our effort to reduce overall absence levels. Through systematic dialogue and active communication of Novo Nordisk possibilities to support employees with special circumstances, we have seen a positive trend in absenteeism from 2017 to 2018. From an average absence of 4.2% in 2017, to 3.5% in 2018.

3. A third key element was to embark on an organisational culture development journey. With all managers in front, the entire organisation was activated in defining the key values of Novo Nordisk Pharmatech culture. The result has been a strong common understanding of what is now termed "NNPR United", transparency in communication on key activities in the business and greater alignment on strategic direction. The culture journey has been evaluated >4.5 on a 5-point scale.

Statement in accordance with section 99a (CSR) and section 99b (the underrepresented gender)

For compliance with reporting requirements in accordance with sections 99a and b of the Danish Financial Statement Act, please refer to the 2018 Communication on Progress report https://www.novonordisk.com/content/dam/Denmark/HQ/investors/irmaterial/annual_report/2019/NN-AR18_UK_Online.pdf

https://www.novonordisk.com/sustainable-business/performance-on-tbl/responsibility-in-the-workplace/labour-rights/diversity-and-equal-opportunities.html for the Novo Nordisk Group.

As a global company, Novo Nordisk Pharmatech strives to increase the number of international employees. In 2018, we have successfully hired eight international candidates taking up positions across the organisation spanning from senior profiles in Sales & Marketing, to interns in R&D, and Business Development. As in 2017, we continue to see international candidates among applicants for the majority of our open positions. Internationalisation remains a focus area for Novo Nordisk Pharmatech going forward. Regarding gender diversity, Novo Nordisk Pharmatech has seen a 45:55 split between men and women hired in 2018, and a 50:50 split regarding resignation (total across all job groups).

Supporting the local community

To celebrate World Diabetes Day November 14, 2018, Novo Nordisk Pharmatech collaborated with the local Køge Diabetes Association and Køge Library to create an awareness event covering three lectures; two given by diabetes patients on living with diabetes and one given by a doctor on healthy living. Also, the local Køge Diabetes Association was present to create awareness of the disease.

On November 27, 2018, Novo Nordisk Pharmatech employees volunteered at a local Volley tournament, creating awareness about healthy lifestyles and hosting activity stations for 2nd grade children from schools throughout Køge Municipality.

In order to support the academic environment of Denmark and a strong, knowledge-based and innovative culture of Novo Nordisk Pharmatech, we have scaled up the quantity of internships and master thesis projects. In 2018, we have continuously had 5–7 internships/master thesis projects generating knowledge for Novo Nordisk Pharmatech and vital experience for the students. To support youth education, Novo Nordisk Pharmatech offered one-week internships to three elementary school students. This process is integrated in the HR yearly wheel and remains a prioritised activity for the future.

Risk management

Managing risk is central to the business in Novo Nordisk Pharmatech A/S, as it is critical for us to protect our assets, our employees, and the business of our customers. It is the responsibility of the management board to review the overall risk exposure of the company. For this purpose, a risk assessment process is in place, where relevant risks are identified and assessed on a frequent basis. On the basis of this assessment, mitigation plans are evaluated twice a year, and subsequently reported to the Board of Directors as a standard agenda item at Board meetings.

Risks are assessed based on the likelihood of events, as well the potential impact of events on our business to reach short and long-term objectives. This assessment is anchored in the strategic planning process presented to and approved by the Board of Directors on an annual basis.

The top two risks for Novo Nordisk Pharmatech A/S in 2018 were identified as:

1. Anti-corruption and Bribery

As Novo Nordisk Pharmatech A/S operates in a global market, we also adhere to the highest standards of business ethics in our dealings with external parties. All relevant employees receive mandatory e-learning training, as well as training from legal experts in order to counter corruption and/or bribery attempts. Our operating model is to use distributors in global markets, and our distributors are trained and contractually obliged to uphold the same standards.

2. Health & Safety

Our production processes involve chemicals that are potentially hazardous to the health and safety of our employees as well as the local environment. Therefore, we are continuously investing to mitigate the risk of adverse situations in this area. A major focus in 2018 was to upgrade the access security and physical security of our site. Furthermore, we are continuously reviewing our environmental mitigation plans to ensure we are equipped to deal with abnormal climate situations – for example, the aftermath of flooding or heavy rain as we are situated close to sea level.

Financial Statements

Management's review

Company Information

Activity:	Supply of ingredients and active pharmaceutical ingredients for the biopharmaceutical and pharmaceutical industries.
Board of Directors:	Henrik Wulff, Chairman Claus Steensen Sølje Ulla Grove Sidelmann Søren Thor Jensen Henrik Dvinge Joachim Juel Hagemeister
Executive Management	Rasmus Hother le Fevre
Location:	Køge
CVR no:	13 24 61 49
Address:	Københavnsvej 216, 4600 Køge
Financial calendar:	1 January – 31 December
Auditor:	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup
Share capital:	DKK 10,000,000

Shareholder
Novo Nordisk Pharmatech A/S is 100% owned by:

Novo Nordisk A/S
Novo Alle
2880 Bagsværd

Consolidated financial statements

The financial statement of the company is part of the consolidated financial statements of Novo Nordisk A/S and finally in the consolidated financial statements of Novo Nordisk Foundation.

The consolidated financial statements of Novo Nordisk A/S may be obtained at the following web address:
www.novonordisk.com

The consolidated financial statements of Novo Nordisk foundation may be obtained at the following address:

Novo Nordisk Fonden
Tuborg Havnevej 19
DK- 2900 Hellerup

Management's Statement

The Executive and Board of Directors have today approved the Annual Report of Novo Nordisk Pharmatech A/S for the financial year 1 January – 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, The Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and the results of the Company operations for 2018.

In our opinion, Management's review includes a true and fair account of the matters addressed in the Review.

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

Køge, 1 March 2019

Executive Management:

Rasmus Hother le Fevre
CEO

Board of Directors:

Henrik Wulff
Chairman

Joachim Juel Hagemeister

Henrik Dvinge

Ulla Grove Sidelmann

Søren Thor Jensen

Claus Steensen Sølje

Independent Auditor's Report

To the Shareholders of Novo Nordisk Pharmatech A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018, and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Novo Nordisk Pharmatech A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, 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's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, in our view, Management's Review 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 Management's Review.

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 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, 1 March 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mads Melgaard
State Authorised Public Accountant
mne34354

Conrad Mattrup Lundsgaard
State Authorised Public Accountant
mne34529

Financial Statements 2018

Accounting policies

Basis of preparation

The financial statements included in this Annual Report have been prepared in accordance with the provisions of the Danish Financial Statement Act applying to large enterprises of reporting class C. The principal accounting policies set out below have been applied consistently for the years presented.

The accounting policies, as set out below, have been consistently applied for the full financial year and for the comparative figures.

Cash flow statement is not included under reference to Danish Financial Statement Act §86, section 4 as Novo Nordisk Pharmatech A/S is included in the consolidated financial statement of Novo Nordisk.

All amounts are stated in DKK 1,000.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities, measured at fair value or amortised cost, are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions, as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised when it is probable that future economic benefits associated with the item will flow to Novo Nordisk Pharmatech and the cost of the item can be measured reliably.

Liabilities are recognised when it is probable that future economic benefits associated with the item will flow from Novo Nordisk Pharmatech and the liability can be measured reliably.

Initially assets and liabilities are recognised at cost price and subsequently measured as described below.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is the original cost price with deduction of payments and adjusted for the accumulated depreciation of the difference between cost price and the nominal value. Hereby any adjustment to market rate is allocated over the lifetime.

At measurement, any loss or risk expected before balance sheet date is included and confirmed at the balance sheet date.

Leases

All lease contracts are operational lease commitments. Payments on operational lease commitments are measured in the income statement as per the leasing period.

Foreign currencies

Transactions in foreign currencies have been measured at the rate of the transaction date. Gains and losses arising from the transaction date to the payment date are measured in the income statement as a financial income or expense.

Receivables, debt and other monetary items in foreign currencies which have not been settled on the balance date are measured at the currency rate of the balance date. The differences from the rate of the balance date and the rate of the transaction date is measured in the income statement as a financial income or expense.

Corporate tax and deferred tax

The company takes part in group taxation with the owner Novo Nordisk A/S and other Danish group enterprises. The tax of the group taxation with the owner and the group enterprises is allocated to the companies in accordance with the taxable income. The Danish companies in the group taxation are part of the on account taxation.

Tax on the year's net profit consist of actual tax and deferred tax and is measured in the income statement directly in accordance with the profit of the year and to the equity in accordance with transactions on the equity.

Actual tax payments and tax receivables are measured in the balance as a receivable if prepaid tax exceeds actual tax and as a liability if prepaid tax is less than the actual tax.

Deferred tax arise from temporary differences between the accounting and taxable value of assets and liabilities using the liability method. Deferred tax is not recognised on temporary differences from non-tax deductible depreciation on goodwill and other items where temporary differences, except for company takeovers, have arisen at the time of acquisition without impact on profit or taxable income. In the situations where the taxable value can be measured after alternative tax rules, deferred tax is measured in accordance with the planned use of the assets and amortisation of the liability respectively.

Deferred tax assets including the taxable value of carried taxable losses are measured at the value, which the assets are expected to be realised by either offsetting in future taxable profit or by offsetting deferred tax liabilities within the same legal entity and the same jurisdiction.

Changes in deferred tax following changes in tax rates are measured in the income statement.

Income Statement

Revenue
Sale of goods and services is recognised in the income statement if delivery and risk have been transferred to the buyer before the balance sheet date. The revenue is measured excluding vat and after rebate associated with the sale.

Revenue from goods sold is recognised when all of the following conditions are met:

- Novo Nordisk Pharmatech has transferred the significant risks and rewards of ownership of the goods to the buyer
- Novo Nordisk Pharmatech retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Expenses for raw materials and consumables
Expenses for raw materials and consumables include the use of raw materials and consumables associated with the revenue for the year.

Other external expenses
Other external expenses include indirect production expenses and expenses for buildings, sales, distribution, administration etc. Other external expenses also include research and development expenses not meeting the criteria for capitalisation, including expenses for maintenance of the existing product portfolio.

Staff expenses
Staff expenses include wages and salaries as well as staff related expenses other than production related salaries.

Management incentive programme
Executive management participate in Novo Nordisk A/S's incentive programme. Novo Nordisk A/S bears the cost.

Depreciation and Impairments
Depreciation and impairments include the depreciation and impairments of plant, property and equipment for the year.

Other operating income and expenses
Other operating income and expenses comprise items secondary to the primary activities of the company including gain/loss on intangible assets and property, plant and equipment.

Financial income and expenses
Financial income and expenses include interest, realised and unrealised currency adjustments as well as interests associated with the prepayment of taxes.

Balance Sheet

Property, plant and equipment
Property, plant and equipment are measured at cost price with deduction of accumulated impairments and depreciation.

Depreciation is provided under the straightline method over the estimated useful lives of the assets as follows:

Buildings: 50 years
Plant and machinery: 8–16 years
Other equipment: 3–10 years

Intangible assets
Expenses incurred in connection with the development of software are recorded at cost less accumulated amortisation in the balance sheet to the extent that it is estimated that there is a connection between costs incurred and future earnings.

The amortisation of development costs is based on an estimate of the financial useful life of the individual projects and is calculated on a straight line basis over 5 years.

Development projects, which do not qualify for recognition in the balance sheet, are recognised in the income statement as costs in the year of acquisition.

Finished development projects are reviewed at the time of completion and on an annual basis to determine whether there is any indication of impairment. If this is indicated, an impairment test is carried out for the individual development projects. For development projects in progress, however, an annual impairment test is always performed. The impairment test is performed on the basis of various factors, including future use of the project, the fair value of the estimated future earnings or savings, interest rates and risks.

Impairment of fixed assets
The carrying amount of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount and the asset is written down to its lower recoverable amount. This impairment test is performed on an annual basis for development projects in progress irrespective of any indication of impairment.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. Cost comprises direct production costs such as raw materials, consumables and labour as well as indirect production costs (IPC). Production costs for work in progress and finished goods include IPC such as employee costs, depreciation, maintenance etc.

If the expected sales price less completion costs to execute sales (net realisable value) is lower than the carrying amount, a writedown is recognised for the amount by which the carrying amount exceeds its net realisable value.

Receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for doubtful trade receivables.

Prepayments
Prepayments are payments made concerning subsequent financial years.

Debt
Debt to banks, suppliers etc. is measured at amortised cost price or lower net realisable value which in most situations corresponds to the nominal value. Prepayments are payments made concerning subsequent financial years.

Deferred income
Deferred income comprises payments received in respect of income in subsequent years.

Income Statement 1 January – 31 December

Profit

	2018	2017	Note
NET PROFIT FOR THE YEAR			
Revenue	690,700	622,436	1
Change in inventories of finished goods and work in progress	(54,393)	(3,256)	
	636,307	619,180	
Expenses for raw materials and consumables	(277,238)	(293,310)	
Other external expenses	(75,791)	(62,421)	2
Gross profit/loss	283,278	263,449	
Staff expenses	(111,020)	(104,980)	3
Depreciation, amortisation and impairments of assets	(30,972)	(24,915)	7, 8
Other operating expenses	(7,045)	0	
Profit/loss before financial income and expenses	134,241	133,554	
Financial income	4,705	7,198	4
Financial expenses	(2,915)	(8,531)	5
Profit/loss before tax	136,031	132,221	
Tax on profit/loss for the year	(30,763)	(28,556)	6
Net profit/loss for the year	105,268	103,665	

Balance Sheet **31 December**

Assets

	2018	2017	Note
FIXED ASSETS			
Intangible assets			
Development projects	4,801	7,306	7
Intangible assets	4,801	7,306	
Property, plant and equipment			
Land and buildings	157,439	168,418	8
Plant and machinery	129,963	85,413	
Other fixtures and fittings, tools and equipment	0	190	
Property, plant and equipment in progress	19,949	24,632	
Property, plant and equipment	307,351	278,653	
Fixed assets	312,152	285,959	
CURRENT ASSETS			
Inventories	241,327	313,319	9
Receivables			
Trade receivables	61,799	64,757	
Receivables from group enterprises	143,415	8,145	
Other receivables	2	3,044	
Prepayments	2,113	1,148	10
Receivables	207,329	77,094	
Current assets	448,656	390,413	
Assets	760,808	676,372	

Liabilities and equity

	2018	2017	Note
EQUITY			
Share capital	10,000	10,000	11
Retained earnings	584,221	498,953	
Proposed dividend	20,000	20,000	
Equity	614,221	528,953	
PROVISIONS			
Provision for deferred tax	27,600	30,484	6
Provisions	27,600	30,484	
SHORT-TERM DEBT			
Trade payables	28,867	7,685	
Payables to group enterprises	55,550	78,298	
Corporation tax	4,372	7,252	6
Other payables	30,198	23,700	
Short-term debt	118,987	116,935	
LIABILITIES AND EQUITY	760,808	676,372	
Contingent liabilities			12
Related parties and ownership			13

Changes to Equity

CHANGES TO EQUITY

	Share capital	Retained earnings	Proposed dividend for the year	Total
Equity 1 Jan. 2018	10,000	498,953	20,000	528,953
Paid dividend			(20,000)	(20,000)
Net profit for the year		85,268	20,000	105,268
Equity 31 Dec. 2018	10,000	584,221	20,000	614,221

Notes to the financial statement

Notes 1–5

1. SEGMENT INFORMATION

	2018	2017
Exports	379,122	352,275
Group	311,578	270,161
	690,700	622,436

The geographical split follows the split of the business, as the segment Owner covers Denmark and the segment Export primarily covers the revenue to the rest of the world.

2. REMUNERATION TO AUDITOR

No information is provided with reference to the Danish Financial Statement Act §96 section 3.

3. STAFF EXPENSES

	2018	2017
Wages and salaries	100,471	95,040
Pensions	9,500	8,860
Other social security expenses	1,049	1,080
	111,020	104,980

Including remuneration to the Executive and Board of directors of DKK 2.3 million compared to DKK 2.2 million in 2017.

Wages and salaries	2,042	1,969
Pensions	154	151
Other social security expenses	136	137
	2,332	2,257
Average number of employees	170	163

4. FINANCIAL INCOME

Interest received from group enterprises	713	271
Other financial income	3,992	6,927
	4,705	7,198

5. FINANCIAL EXPENSES

Interest paid to group enterprises	(51)	(96)
Other financial expenses	(2,864)	(8,435)
	(2,915)	(8,531)

Notes to the financial statement

Notes 6–7

6. TAX ON PROFIT/LOSS FOR THE YEAR

	Corporation tax	Deferred tax	Total tax for the year
1 January 2018	7,252	30,484	
Adjustments concerning prior years	261	1,363	1,624
Current tax for the year	33,386	(4,247)	29,139
Settlement re: 2017 tax	(7,513)		
Prepaid tax for the year	(29,014)		
31 December 2018	4,372	27,600	30,763

Specification of deferred tax	2018	2017
Trade receivables	397	(48)
Property, plant and equipment	8,160	7,115
Land and buildings	10,710	10,871
Indirect production cost	8,333	12,546
Deferred tax	27,600	30,484

7. INTANGIBLE ASSETS

	Development projects
Cost at 1 January 2018	12,524
Cost at 31 December 2018	12,524
Impairment losses and depreciations at 1 January 2018	5,218
Amortisation for the year	2,505
Impairment losses and depreciations at 31 December 2018	7,723
Carrying amount at 31 December 2018	4,801

Notes to the financial statement

Notes 8

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Other fixtures and fittings tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2018	211,507	302,135	7,252	24,632	545,526
Additions for the year	21	45,649	0	18,540	64,210
Disposals for the year	(9,253)	(17,669)	(2,384)	0	(29,306)
Transfers for the year	0	23,223	0	(23,223)	0
Cost at 31 December 2018	202,275	353,338	4,868	19,949	580,430
Impairment losses and depreciations at 1 January 2018	43,089	216,722	7,062	0	266,873
Depreciations and impairments for the year	5,054	23,223	190	0	28,467
Reversal of impairment and depreciations of sold assets	(3,307)	(16,570)	(2,384)	0	(22,261)
Impairment losses and depreciations at 31 December 2018	44,836	223,375	4,868	0	273,079
Carrying amount at 31 December 2018	157,439	129,963	0	19,949	307,351

Notes to the financial statement

Notes 9–13

9. INVENTORIES

	2018	2017
Raw materials and consumables	145,618	163,218
Work in progress	0	4,729
Finished goods and goods for resale	95,709	145,372
	241,327	313,319

10. PREPAYMENTS

Prepayments consist of payments made for subsequent years and concern insurance premiums, servicing of microscopes, IT licences, marketing events and service contracts.

11. EQUITY

The share capital consists of shares at DKK 1,000 or multiples hereof.
There have been no changes to share capital in the last five years.

	2018	2017
DISTRIBUTION OF PROFIT		
Retained earnings	85,268	83,665
Dividend	20,000	20,000
Distribution of profit	105,268	103,665

12. CONTINGENT LIABILITIES

Lease and purchase obligations
Leasing and purchase obligations concerning cars, equipment and raw materials

	2018	2017
Within 1 year	43,681	31,703
Between 2 and 5 years	77,852	22,366
	121,533	54,069

Contingent liabilities
Novo Nordisk Pharmatech A/S, Novo Nordisk A/S and its Danish subsidiaries are jointly taxed with the Danish companies in the Novo A/S Group. The joint taxation also covers withholding taxes in the form of dividend tax, royalty tax and interest tax. The Danish companies are jointly and individually liable for the joint taxation since 2014. Any subsequent adjustments to income taxes and withholding taxes may lead to a larger liability. The tax for the individual companies is allocated in full on the basis of the expected taxable income.

13. RELATED PARTIES

Controlling interest

Novo Nordisk Foundation	Parent foundation
Novo Holdings A/S	Intermediate parent company
Novo Nordisk A/S	Immediate parent company

Other related parties

Rasmus Hother le Fevre	Executive Director

Board of directors

Henrik Ehlers Wulff	Chairman
Ulla Grove Sidelmann	
Claus Steensen Sølje	
Søren Thor Jensen	
Henrik Dvinge	
Joachim Juel Hagemeister	

Transactions
All group internal transactions are on market terms.

Novo Nordisk Pharmatech A/S is a leading global supplier of high-quality ingredients for the biopharmaceutical and pharmaceutical industries. The company has attracted an extensive roster of leading pharmaceutical companies through unsurpassed product quality, manufacturing and quality control, regulatory documentation, precision delivery and a comprehensive risk mitigation strategy.

For more information, visit novonordiskpharmatech.com

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