

# NOVO A/S

## Annual Report 2016

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 17 March 2017



Jonas Drachmann Gram  
*Chairman of the meeting*

Tuborg Havnevej 19  
2900 Hellerup  
CVR no 24 25 76 30  
[www.novo.dk](http://www.novo.dk)

## Contents

	Page
Management Report.....	3
Management's Statement.....	11
Independent auditor's report.....	12
Statement of comprehensive income.....	14
Statement of financial position.....	15
Statement of cash flows.....	16
Statement of changes in equity.....	17
Notes to the Annual Report.....	18

## Management Report 2016

For the Annual Accounts and Review of 2016 and going forward, Novo A/S has made a number of adjustments to improve the quality of its financial reporting. Novo A/S will now present the components of its holding and investment results in three categories: the Novo Group (Novo Nordisk, Novozymes and NNIT), Life Science Investments and Financial Investments. This adjustment will enhance the visibility of the performance of each individual area.

Furthermore, while the Annual Accounts and the Review present the income statement and assets for the single year 2016, they are less representative of Novo A/S' long-term investment performance. The main reason for this is that Novo A/S is a holding and investment company, as opposed to an operating company. Novo A/S makes investments with a view to long-term returns, and we use Internal Rate of Return (IRR) as our return measure for Life Science Investments and Time-Weighted Rate of Return (TWR) as our return measure for Financial Investments. We have added a short section to the Management Report that provides an insight into Novo A/S' long-term value creation and investment performance.

### LONG-TERM VALUE CREATION AND PERFORMANCE

Given the inherent long-term nature of Novo A/S' equity stakes in the Novo Group companies, we measure the performance of the Novo Group in terms of dividends received and proceeds from the sale of any shares into the companies' share buy-back programmes.

Novo A/S' Life Science Investments and Financial Investments (together the "Investment Portfolio") are largely held on a long-term or evergreen basis, and the returns over an extended period are what drives our investment decision process. Therefore, the performance of the Investment Portfolio is assessed on the basis of its ongoing return. We consider the IRR and TWR as the appropriate measures for the performance of the Investment Portfolio, as they compare the value of investments to the entry price (plus any cash in- or out-flow associated with the investments).

The performance analyses are updated internally on a quarterly basis and will be presented externally on an annual basis, as illustrated below as of year-end 2016. For the sake of completion and comparison, the results for 2016 and 2015 are also included in the chart below.

	2016	2015	Last 5 years	Last 10 years
Income from Novo Group (Bn DKK)	7.1	4.3	-	-
Return on Life Science Investments – IRR (%)	-4%	35%	<b>21%</b>	<b>16%</b>
Return on Financial Investments – TWR (%)	8%	11%	<b>11%</b>	<b>8%</b>

Note: All returns are in DKK and reflect total returns, excluding internal cost. Return on Financial Investments pertain to the liquid assets in the portfolio.

As a leading global life science investor, Novo A/S aims to deliver long-term competitive returns and compares its performance to relevant benchmarks, as for example the MSCI World, MSCI Health Care and other relevant indices.

### 2016 RESULTS DRIVEN BY RETURNS FROM THE NOVO GROUP

The income and investment return for 2016 amounted to DKK 8.4 billion, versus a record DKK 15.8 billion in 2015. This development is largely attributed to the negative return for Life Science Investments. In contrast, Income from the Novo Group increased to the highest level ever in 2016, and Financial Investments yielded a similar return as in 2015.

All Novo Group companies continued to increase profits and dividend pay-outs, resulting in an increase of the total contribution from the Novo Group to DKK 7.1 billion, versus DKK 4.3 billion in 2015, corresponding to an increase of 67%. In 2016, Novo Nordisk paid its annual dividend in connection with the Annual General Meeting (AGM) in March 2016. Moreover, in 2016 Novo Nordisk decided to introduce an interim dividend pay-out which was paid in August 2016. Due to Novo Nordisk's introduction of an interim dividend in 2016, Novo benefited from an increase in dividends received. Going forward, Novo Nordisk will pay dividends twice annually: an interim dividend in connection with the first half-year report in August, and a final dividend in connection with the AGM in March.

In 2016, return from Life Science Investments was adversely affected by the decrease in the values of Chr. Hansen Holding A/S and Ophthotech Corp., as well as the overall drop in share prices in the life science sector, as illustrated by the MSCI World Pharmaceuticals Biotechnology & Life Sciences Index, which recorded a decrease of around 7% for the year. Therefore, a negative return of DKK -1.5 billion was realized in 2016 versus a return of DKK 8.6 billion in 2015. However, and more importantly, the returns from this business area remain strong, with the five and 10 year IRR standing at a highly attractive 21% and 16%, respectively. Despite recent volatility, today's market value of investments such as Chr. Hansen is substantially higher than Novo A/S' entry cost, resulting in this strong IRR performance.

Financial Investments contributed with a very satisfactory result of DKK 2.8 billion in 2016, thereby delivering a return in line with the average returns for the past five and 10 years of 11% and 8%, respectively. The favourable development in the shareholding in FLSmidth A/S contributed to the good performance in 2016.

DKK billion	2016	2015
Income from the Novo Group	7.1	4.3
Return from Life Science Investments	-1.5	8.6
Return from Financial Investments	2.8	2.9
<b>Income and Investment Return</b>	<b>8.4</b>	<b>15.8</b>

Note: Income from the Novo Group include dividend and income related to sales of shares in Novo Group companies, whereas the returns from Life Science Investments and Financial Investments represent realised and unrealised gains and losses during 2016.

#### A 27% DECREASE IN TOTAL ASSETS BUT THE HIGHEST CASH INFLOW EVER

At the end of the year, Novo A/S' assets totalled DKK 275.7 billion, of which investments outside the Novo Group companies amounted to DKK 76.5 billion.

DKK billion	2016	2015
Novo Group	199.2	308.0
Life Science Investments	37.7	31.9
Financial Investments	38.8	37.9
<b>Total Holdings and Investment Assets</b>	<b>275.7</b>	<b>377.8</b>

Note: Shares in Novo Nordisk and Novozymes in this table reflect the value of all A and B shares based on the market value per B share at closing on 31 December 2016.

In 2016, the value of Novo A/S' holdings in Novo Nordisk and Novozymes decreased by 35% to DKK 198.0 billion, whereas the value of Novo A/S' holding in NNIT increased by DKK 0.09 billion. Novo received dividends of DKK 6.9 billion – an increase of 84% over 2015, helped by the interim dividend pay-out from Novo Nordisk in August 2016. As in 2015, we decided not to participate in Novo Nordisk's share buy-back programme in 2016. At the end of the year, we held 537,436,000 A shares and 163,814,000 B shares, equivalent to 27.5% of the share capital and 75.0% of the votes in Novo Nordisk.

As announced in January 2014, Novo A/S 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 2017, Novo A/S has informed Novo Nordisk that it does not plan to participate in the share repurchase programme. Novo A/S currently owns 27.5% of Novo Nordisk, with 25.5% being the targeted minimum and historical ownership level, and the additional 2.0%-point of the current ownership being part of the liquidity reserve of Novo A/S.

Novo A/S has the ambition to build on its position as a world-leading life science investor. This will primarily be pursued via larger investments in life science companies. To fund this strategy, Novo A/S might in the future consider reducing its holding of Novo Nordisk B-shares. Over time, this could bring the current ownership towards the minimum targeted and historical ownership level of 25.5%.

As part of Novozymes' share buy-back programme, we sold 765,000 B shares, yielding DKK 0.2 billion. At the end of the year, we held 53,743,600 A shares and 25,306,400 B shares, equivalent to 25.5% of the share capital and 70.9% of the votes in Novozymes.

The value of the Investment Portfolio increased during 2016 to DKK 76.5 billion, up from DKK 69.8 billion in 2015. This was primarily due to the allocation of significant investments in SYNLAB, a market leader in laboratory services, and in ERT, a leading clinical trial cloud platform provider, as well as increased activity within venture investments in the US. In 2016, eight of Novo A/S' venture portfolio companies undertook a public listing.

Our cash inflow from the Novo Group in 2016 amounted to DKK 7.1 billion, which is the highest inflow Novo A/S has received since its establishment. Novo A/S' cash inflows primarily comprised dividends from Novo Nordisk and Novozymes and participation in Novozymes' share buy-back programme.

In 2016, Novo A/S paid DKK 3.0 billion in dividends to the Novo Nordisk Foundation, which, in accordance with its statutes, provides grants for scientific, humanitarian and social purposes. Since 2010, the Foundation has issued more than DKK 10.0 billion in grants, primarily for public research, education, innovation, treatment, social and humanitarian purposes in Denmark and Scandinavia.

# INVESTING IN LIFE SCIENCE FOR FUTURE GROWTH

As part of Life Science Investments, we provide both seed and venture capital to development-stage companies and take significant ownership positions in well-established companies. It is Novo A/S' vision to build on its position as a world leading life science investor, with a focus on creating long-term value.

Novo divides its Life Science Investments into three distinct areas: Large Investments focuses on established companies; Novo Ventures focuses on venture investments primarily in the US and Europe; and Novo Seeds focuses on early start ups primarily in the Nordic region. By the end of 2016, Novo had DKK 37.7 billion allocated to life science investments.

## LIFE SCIENCE INVESTMENTS VALUE BY YEAR END

DKK billion	2016	2015
Large Investments	31.5	27.8
Venture Investments	5.9	3.9
Seeds Investments	0.3	0.3
<b>Total Life Science Investments</b>	<b>37.7</b>	<b>31.9</b>

# LARGE INVESTMENTS

Since 2013, more of Novo A/S' investments have been directed towards well-established, 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.

Large Investments made two major investments in 2016 – both as minority stakes with private equity firms as the controlling shareholder. The first investment was made in eResearch Technology Inc. (ERT), in which Novo A/S acquired a 30% stake with Nordic Capital as the controlling shareholder. ERT is incorporated in the US and offers software-enabled solutions for the collection of clinical data.

## LARGE INVESTMENTS

DKK billion	2016	2015
Value at the end of the year	31.5	27.8
Investments during the year	6.5	1.2
Cash proceeds during the year	0.7	2.1
Unrealised and realised gains/losses during the year	-2.1	6.6

The second investment was made in German-based SYNLAB, the European market leader in clinical laboratory services. Novo A/S initially acquired a minority equity stake of over 10% in SYNLAB and, since the initial acquisition, we have increased our holding in the company. The majority owner is the British private equity firm, Cinven, with whom our Large Investment unit has a close working relationship.

In 2016, unrealised and realised returns for Large Investments were negative, primarily due to the unfavourable development in the share prices of Chr. Hansen Holding A/S and Ophthotech Corp. In December, Ophthotech announced that FoVista® did not achieve the primary endpoint in its pivotal phase 3 study. As a consequence, the result for 2016 for Large Investments was negatively impacted. It should be noted, however, that while the share price of Ophthotech dropped significantly in 2016, the overall investments into Ophthotech have delivered a positive, albeit small return.

By the end of 2016, our Large Investments portfolio comprised 10 companies of which eight 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 (all European) and ERT and Inogen (both in the US).

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

**VENTURE INVESTMENTS**

In 2016, Novo A/S continued with its high level of activity in life science venture capital investing, thus consolidating its position as a world-leading venture investor.

<b>VENTURE INVESTMENTS</b>		
DKK billion	<b>2016</b>	<b>2015</b>
Value at the end of the year	5.9	3.9
Investments during the year	2.1	1.7
Cash proceeds during the year	0.8	3.6
Unrealised and realised gains/losses during the year	0.7	1.9

Novo A/S added four public and 10 private companies to its venture portfolio; the companies are all located in the US except for two that are located in the UK. Novo A/S was a lead or co-lead investor in eight companies that went public in 2016.

Of the DKK 2.1 billion invested by Novo Ventures in 2016, DKK 1.8 billion was invested in the US and DKK 0.3 billion in Europe – DKK 1.2 billion in new companies and DKK 0.9 billion as follow-on investments in existing portfolio companies. In 2016, six of our portfolio companies were sold, eight were publicly listed. Exit proceeds totalled DKK 0.8 billion. At the end of the year, the total book value of our venture investments was DKK 5.9 billion, and the venture portfolio consisted of 52 companies, of which 39 are located in the US. The share of listed companies increased from 56% in 2015 to 64% in 2016 as a result of initial public offerings of a number of portfolio companies and new investments in listed companies.

It is the intention of Novo A/S to continue to increase the allocation of resources towards the private and public US venture market in the coming years.

**SEED INVESTMENTS**

Novo A/S runs a seed investment programme that supports early-stage life science companies, primarily in the Nordics. In addition, Novo A/S assists the Novo Nordisk Foundation in a pre-seed programme that aims to identify and support academic research with commercial potential. This programme provides managerial and strategic support to early-stage projects, and funding is given as grants in the same manner as other grants awarded by the Novo Nordisk Foundation.

Novo A/S has made a strategic decision to contribute to the strengthening of the Nordic biotech environment. We will continue to build on the success of our seed investment portfolio and make the most of the opportunities generated by the pre-seed programme, not only in the Nordic countries but also in the rest of Europe. In this way, we hope to attract international investors to the Nordic life-science sector.

<b>SEED INVESTMENTS</b>		
DKK million	<b>2016</b>	<b>2015</b>
Value at the end of the year	291	250
Investments during the year	149	75
Cash proceeds during the year	26	129
Unrealised and realised gains/losses during the year	-81	56

**FINANCIAL INVESTMENTS DELIVERS HEALTHY RETURN**

By investing in non-health care assets, Novo A/S ensures diversification, which provides a healthy relationship between risk and return on the Novo Nordisk Foundation's capital. The financial investments are also to a large extent liquid, which is important for Novo A/S in order to finance the grant-giving activities of the Novo Nordisk Foundation and to be able to support Novo Nordisk or Novozymes financially, if the need should arise.

At the end of 2016, the value of our financial portfolio (including the Novo Nordisk Foundation's share) was DKK 38.8 billion.

Since equities comprise the vast majority of the financial portfolio, the return on Financial Investments is closely linked to the performance of global equity markets. During 2016, financial markets had another strong year, resulting in a return of 8.1% on the liquid part of Financial Investments. Financial Investments has delivered a return of approximately DKK 15 billion

since its inception and a highly attractive Time-Weighted Rate of Return (TWR) of 11% and 8% has been realized over a five- and 10-year period.

#### FINANCIAL INVESTMENTS

DKK billion	2016	2015
Value at the end of the year	38.8	37.9
Unrealised and realised gains/ losses during the year	2.8	2.9

In 2016, we raised our ownership stake in the Danish engineering company, FLSmidth A/S and in the private Danish real estate company, Dades A/S.

#### INVESTMENT CRITERIA AND CSR

Corporate Social Responsibility (CSR) is an integral part of Novo A/S' value-based heritage. Novo is a wholly owned subsidiary of the Novo Nordisk Foundation. The vision of the Foundation is to contribute significantly to research and development that improve the health and welfare of people. In 2016, the Foundation awarded more than DKK 4 billion, primarily for research and diabetes treatment at public research institutions and hospitals as well as for humanitarian and social purposes.

In recent years, the Foundation has become one of the largest private contributors of funding to biomedical and biotechnological research in the Danish public sector.

Novo is responsible for managing the Foundation's assets. The mission of Novo is:

- to ensure that the Foundation receives sufficient dividends to cover its grants.
- to ensure that the Foundation obtains a competitive return on its holdings in Novo Nordisk A/S and Novozymes A/S, as well as from the other companies and financial assets in which Novo invests.
- to support the application of life sciences by investing in seed and venture portfolio companies.
- to maintain the Charter for Companies in the Novo Group

The Charter describes a shared set of values that all companies in the Novo Group must comply with. This includes that the companies must strive to make sure that company products and services make a significant difference to improving the way people live and work. It also includes continuous improvement on financial, environmental and social performance.

Novo A/S carries out extensive due diligence when we invest in new companies. In addition to financial, legal, scientific and business-related issues, our due diligence efforts establish whether a company operates according to values and principles that correspond to those of the Novo Group. A bioethical perspective helps to evaluate whether the relevant companies – in connection with clinical trials and potential use of biological material – comply with ethical standards and international conventions.

As of yet, Novo A/S' 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.

#### REPORTING ON CSR

For 2016, Novo has selected four CSR focus areas that represent the most important areas in which CSR can impact the company's overall business performance.

For each focus area, Novo reports its policies, activities and the effect of these activities. To align our CSR reporting with our overall business performance, Novo re-evaluates and, if necessary, adjusts the focus areas, policies and activities each year.

CSR FOCUS AREAS	WHY IS THIS IMPORTANT?	POLICIES / ASPIRATIONS	ACTIVITIES	RESULTS
Impact on society through investment activities	Novo's impact on society depends on how well it deploys its financial resources.	To leave a positive footprint on society.	Ensuring funds for the Foundation's philanthropy.  Starting new life science companies and developing the existing portfolio.  Paying taxes.	The Foundation awarded DKK 4.2 billion within its three areas of support through 340 grants, both large and small.  Novo helped start seven new companies, and we invested DKK 8.7 billion in 23 new and 41 existing portfolio companies. More than 30 new drugs and devices originating from Novo portfolio companies are on the market.  The Novo Group paid company tax amounting to DKK 6 billion in Denmark.
Responsible investment process	Novo's core business is investing. This must be conducted in a socially and environmentally responsible manner.	To be a responsible investor by incorporating CSR into our investment processes.	Integrating and documenting CSR as part of our investment processes.	All new investment opportunities have been screened for potential CSR issues (including bioethical and corporate governance issues).
Charter and Cornerstones	Novo is a value-based company. It is important to Novo's performance that all employees understand and adhere to Novo's Charter and Cornerstones.	To make sure all employees know, understand and adhere to the Charter and Cornerstone principles.	Monitoring that the organisation adheres to the Charter and Cornerstone principles.	Charter: The Novo Group companies (Novo Nordisk A/S and Novozymes A/S) each adhere to the Charter, while the portfolio companies must not act against the Charter.  Cornerstones: Each employee has discussed the Cornerstones with his/her manager as part of their annual Dialogue Discussion, which also includes job description, targets, development plan and working conditions.
Brand and employees	Novo's main non-financial operational asset is its brand and its employees.	To be a well-reputed company and a responsible and attractive employer.	All employees must help build the Novo Brand by adhering to and promoting the Novo values and culture  Assessing and redesigning the company's incentive scheme.  Conducting workplace assessments.  Collecting key figures on sick leave and training.	Novo receives informal feedback from stakeholders on an ongoing basis  In 2016, Novo's long-term incentive scheme was redesigned for implementation in 2017.  Novo collects key figures on e.g. sick leave and resources/time devoted to training. Sick leave was less than 1.95% of total working hours. Internal and external training amounted to 1.34% of total working hours.  In 2016, Novo welcomed 24 new colleagues incl. four Student Assistants. We handled more than 366 applications for vacancies, candidate profiles and unsolicited job applications.

## GOVERNANCE

Novo A/S puts great emphasis on representative ownership. We strive to have board representation in the companies in which we invest, and, through this, to 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 the companies, and keep close track of their performance. However, when it comes to daily management and more operational issues, we rely on and entrust the company's management and board.

We are keen that the companies in our portfolio observe the value-based standards defined in the Charter for Companies in the Novo Group.

## STRATEGY

Our guiding strategy is based on the commercial objectives of the Novo Nordisk Foundation.

Novo A/S will continue to be a strong owner of the companies in the Novo Group and will invest its capital in the life science sector to optimise value creation and to support development in the industry in general.

Due to our extensive experience and expertise, we are particularly well positioned to play an active role in the life sciences. We invest across the entire spectrum of life science companies, from early seed investments through to traditional



venture investments and investments in large, established companies. We have a flexible investment approach enabling us to take both minority and majority ownership stakes.

In the years to come, Novo A/S plans to further increase investments in life science companies, with a focus on US and European markets.

It is also our aim to maintain an adequate liquidity reserve, which we allocate to more traditional portfolio investments, primarily in global equities.

#### *KNOWLEDGE RESOURCES*

Novo A/S relies on highly specialised expertise, particularly within the areas of life sciences and investments. For this reason, the professional competences of our employees are of great strategic importance. We focus on training and education to allow the individual employee to increase his or her value to Novo A/S and the labour market in general.

To serve our portfolio companies with the best combination of competences, our life science teams include individuals whose professional experience has been gained inside as well as outside the Novo Group.

In addition to the Board of Directors, Novo A/S has an advisory group of external life science professionals, who provide Novo A/S with feedback and advice on life science investment projects.

#### *BUSINESS AND FINANCIAL RISKS*

Novo A/S' most important risks are related to the business risks of the two operating companies, 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 rigorous enterprise risk management approach is in place to mitigate the potential adverse impacts and protect long-term value creation. Risks that have an impact on the company's performance may materialise 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 2016, the most prominent risk that did materialise was a more challenging business environment in the US, caused by a combination of factors that put the US business under pressure. In turn, the overall R&D profile improved considerably with results of key clinical trials that were better than expected.

Novozyymes is exposed to a range of risks throughout the value chain and has implemented measures to mitigate these. Based on risk analyses, 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 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 that 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. 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 BioAg commercialisation, the new entity could also be an attractive alliance partner for Novozymes in the long term, sharing its 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, and its focus is on getting full value from the recent launch of Acceleron® B-300 SAT.

For more information about Novo Nordisk and Novozymes and their approach to risk management, please consult the companies' annual reports.

In 2016, a new financial risk framework from the Novo Nordisk Foundation has become effective. The Novo Nordisk Foundation has decided upon a number of risk tolerances regarding shortfall risk for growth in grant pay-outs, portfolio volatility, idiosyncratic risk and access to liquidity. Novo A/S and its investments must adhere to this risk framework.

More specifically, Novo A/S should allocate its capital in a way which ensures 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 invested portfolio, excluding Novo Nordisk and Novozymes, in exceptional, negative markets conditions has been defined; (iii) no single investment should represent more than a certain percentage of the invested portfolio, excluding Novo Nordisk and Novozymes; and (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 additional buffer.

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

## THE FUTURE

Novo A/S' financial prospects are partly dependent on the results of Novo Nordisk and Novozymes. For further information on the outlook for 2017 for these two companies, please consult their annual reports.

Although pricing and healthcare reforms are adding pressure to the life science industry, we believe that the underlying long-term trends are 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.

At their Annual General Meetings, Novo Nordisk and Novozymes approved dividends for 2016 of DKK 4.6 per share and DKK 4.0, respectively. Consequently, Novo will receive DKK 3.5 billion in March from the two companies. In August, Novo will receive additional interim dividends from Novo Nordisk.

## Five year summary

DKK million	2016	2015	2014	2013	2012
Income from Novo Group companies	7,142	4,271	3,666	5,203	6,321
Return from investment activities	1,225	11,487	9,864	5,658	3,923
Operating profit	8,155	15,375	13,460	10,814	10,211
Net profit for the year	7,121	14,848	13,460	10,784	10,211
Proposed dividend	13	3,008	4,715	2,745	1,949
Equity	67,062	62,949	52,816	42,101	33,266
Total assets	80,971	74,390	54,630	42,412	33,360

## Financial ratios

Equity ratio	83%	85%	97%	99%	100%
Employees	41	34	30	27	30

## Management's Statement

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Novo A/S for the financial year 1 January – 31 December 2016.

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 2016 of the Company and of the results of the Company operations and cash flows for 2016.

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, 17 March 2017

### Executive Management



Kasim Kutay  
CEO



Peter Haahr  
CFO

### Board of Directors



Sten Scheibye  
Chairman



Göran A. Ando



Jeppe Christiansen



Steen Riisgaard



Per Wold-Olsen

## Independent Auditor's Report

To the Shareholder of Novo 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 2016, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016 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 A/S for the financial year 1 January - 31 December 2016, 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'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 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, 17 March 2017

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 37 77 12 31



Kim Fuchsel

State Authorised Public Accountant



Tue Stensgård Sørensen

State Authorised Public Accountant

## Statement of comprehensive income

1 January to 31 December

DKK million	Note	2016	2015
Income from Novo Group companies	2	7,142	4,271
Return from Life Science Investments	3	-1,534	8,592
Return from Financial Investments	4	2,758	2,895
Costs	5,6,7	-212	-383
<b>Operating profit</b>		<b>8,155</b>	<b>15,375</b>
Novo Nordisk Foundation's share of return of joint investment portfolio		-1,000	-527
<b>Profit before tax</b>		<b>7,155</b>	<b>14,848</b>
Income tax expense	8	-34	0
<b>Total comprehensive income/Net profit for the year</b>		<b>7,121</b>	<b>14,848</b>
<b>Proposed distribution of profit</b>			
Proposed dividend		13	3,008
Retained earnings		7,108	11,840
		<b>7,121</b>	<b>14,848</b>

## Statement of financial position

Year end 31 December

DKK million	Note	2016	2015
<b>Assets</b>			
Novo Group companies	9	4,422	4,429
Life Science Investments	10	37,670	31,950
Financial Investments	11,12	38,078	36,787
<b>Total non-current assets</b>		<b>80,170</b>	<b>73,166</b>
Amounts owed by affiliated companies		7	4
Other receivables		99	141
Cash at bank		695	1,079
<b>Total current assets</b>		<b>801</b>	<b>1,224</b>
<b>Total assets</b>		<b>80,971</b>	<b>74,390</b>
<b>Equity and liabilities</b>			
Share capital		500	500
Retained earnings		66,562	62,449
<b>Total equity</b>		<b>67,062</b>	<b>62,949</b>
Joint investment portfolio Novo Nordisk Foundation		13,573	10,742
Trade payables		23	12
Amounts owed to affiliated companies		7	2
Tax payables		41	32
Other liabilities		45	22
Other provisions	13	220	631
<b>Total current liabilities</b>		<b>13,909</b>	<b>11,441</b>
<b>Total liabilities</b>		<b>13,909</b>	<b>11,441</b>
<b>Total equity and liabilities</b>		<b>80,971</b>	<b>74,390</b>
Financial instruments and financial risk factors	12		
Contingent liabilities/assets	14		
Related party transactions and ownership	15		
Subsidiaries and associates	16		

## Statement of cash flows

1 January to 31 December

DKK million	2016	2015
<b>Net profit</b>	<b>7,121</b>	<b>14,848</b>
Adjustment for non-cash items	-339	-11,322
Contribution from the Novo Nordisk Foundation to the joint investment portfolio	2,900	11,215
Repayments to the Novo Nordisk Foundation from the joint investment portfolio	-1,070	-1,000
Sale of shares relating to Life Science Investments	1,182	4,930
Purchase of shares relating to Life Science Investments	-8,723	-3,238
Sale of shares relating to Financial Investments	18,935	12,190
Purchase of shares relating to Financial Investments	-17,786	-22,223
Paid tax	-1	-1
<b>Cash flow before change in working capital</b>	<b>2,219</b>	<b>5,399</b>
<b>Change in working capital</b>		
Changes in accounts with affiliated companies	2	-2
Changes in other receivables	42	-1
Changes in other liabilities	34	-10
<b>Cash flow from operating activities</b>	<b>2,297</b>	<b>5,386</b>
<b>Investment activities</b>		
Proceeds from sale of shares in Novo Group	240	536
Purchase of shares in Novo Group	-	-797
Loans to subsidiaries	-	-66
Repayment of loans from subsidiaries	87	1,205
<b>Cash flow from investment activities</b>	<b>327</b>	<b>878</b>
<b>Financing activities</b>		
Bank loan (bridge financing)	-	-1,071
Dividends paid	-3,008	-4,715
<b>Cash flow from financing activities</b>	<b>-3,008</b>	<b>-5,786</b>
<b>Net cash flow</b>	<b>-384</b>	<b>478</b>
Cash and cash equivalents at the beginning of the year	1,079	601
<b>Cash and cash equivalents at the end of the year</b>	<b>695</b>	<b>1,079</b>



## Statement of changes in equity

DKK million	Share capital	Retained earnings	Total
<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>2015</b>			
<b>Equity at the beginning of the year</b>	<b>500</b>	<b>52,316</b>	<b>52,816</b>
Net profit for the year		14,848	14,848
Dividends paid		-4,715	-4,715
<b>Equity at the end of the year</b>	<b>500</b>	<b>62,449</b>	<b>62,949</b>

Share capital	No.	Nominal value DKK million
A share capital (shares of DKK 1)	115,400,000	115
B share capital (shares of DKK 1)	384,600,000	385
Total share capital at 31 December	500,000,000	500

Any share amount of DKK 1 of the A share capital carries 10 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 5 years.

Paid dividend per share equals DKK 6.02 (2015: DKK 9.43)

## Notes to the Annual Report

### 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 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and Danish disclosure requirements for annual reports for large enterprises ("regnskabsklasse C stor")

Novo A/S has adopted the new standards, amendments to standards and interpretations that are effective for the financial year 2016. None of the changes have affected recognition, measurement or disclosure in the Financial Statements, nor are they expected to have any future impact.

In addition to the above, IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. None of these are expected to have a significant impact on recognition and measurement in the annual report.

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

#### Changes in accounting policies

In 2016 the accounting policies for our financial assets has been changed. The change is a result of the management's decision to have Novo A/S's external reporting aligned more with our internal reporting. Management believes that the change will result in the financial statements providing reliable and more relevant information about the financial performance of the company.

Previously Novo A/S investments were classified in categories based on the degree of control i.e. subsidiaries, associates and other investments. Going forward Novo A/S presents investments in accordance with the company's investment strategy in the three new categories: Novo Group companies, Life Science Investments and Financial Investments. Following the change subsidiaries in the category "Life Science Investments" will no longer be measured at cost but at fair value. The presentation of comparative figures have been adjusted in accordance with the new categories. The change in accounting policies had only an immaterial effect on the measurement of the investments at 31 December 2015 and therefore measurement has not been changed retrospectively.

In accordance with the Danish Financial Statements Act, the company has disclosed the additional disclosure requirements for companies in reporting class C Large instead of reporting class B previously. The implementation has not had an effect on the comprehensive income or financial position in the current and comparative figures.

#### Critical accounting policies

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

#### Investments in Novo Group

Investments in the category Novo Group 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 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' in the company's statement of comprehensive income.

## Notes to the Annual Report

### 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.

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 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 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.

## Notes to the Annual Report

### Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Novo A/S 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.

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 the security not trade in an active market it is initially booked and held at cost in the first 12 months succeeding the investment, unless any material events occur within this timeframe; Beyond the 12 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 12 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:
  - A) 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 multiples approach;
  - B) 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;
  - C) 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.

### 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 A/S does not apply hedge accounting which is why value adjustments are recognised directly in the statement of comprehensive income under Return from Financial investments

## Notes to the Annual Report

### 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 A/S is covered by the tax rules concerning compulsory joint taxation, as a result of which the company is jointly taxed with its Danish subsidiaries. Provision is made for tax using the full allocation method.

### Administration costs

Administration costs comprise the costs of the company's administrative functions, including 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.

## Notes to the Annual Report

### 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 A/S 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 A/S 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 =  $\text{Equity} / \text{Total liabilities and equity} \times 100$

## Notes to the Annual Report

DKK million 2016 2015

### Note 2 - Income from Novo Group

Dividend received from Novo Nordisk	6.592	3.506
Dividend received from Novozymes	279	245
Dividend received from NNIT A/S	38	0
Gain from sale of shares in Novozymes	233	520
<b>Total result for the year</b>	<b>7.142</b>	<b>4.271</b>

### Note 3 - Return from Life Science Investments

Realised gain and return for the year, net	346	2.756
Appreciation to fair value, net	-1.879	5.836
<b>Total result for the year</b>	<b>-1.534</b>	<b>8.592</b>

### Note 4 - Return from Financial Investments

Realised gain and return for the year, net	1.740	582
Appreciation to fair value, net	1.019	2.313
<b>Total result for the year</b>	<b>2.758</b>	<b>2.895</b>

### Note 5 - Costs

Costs regarding Life Science Investments	189	156
Incentive fees	-65	159
Costs regarding Financial Investments	10	10
Other Costs	78	58
	<b>212</b>	<b>383</b>

### Note 6 - Fee to statutory auditors

Statutory audit	0,6	0,6
Tax advisory service	1,2	5,5
Other services	0,8	8,3
<b>Total fee to statutory auditors</b>	<b>2,6</b>	<b>14,4</b>

## Notes to the Annual Report

DKK million	2016	2015
<b>Note 7 - Employee costs</b>		
Wages and salaries	95	75
Incentive fees paid	346	167
Incentive fees change in provision	-411	-11
Pension costs, defined contribution plans	12	13
Other employee costs	7	6
<b>Total employee costs</b>	<b>49</b>	<b>250</b>
<i>Allocation in the statement of comprehensive income:</i>		
Costs regarding Life Science Investments, incl. incentive fees	-9	206
Costs regarding Financial Investments	6	6
Other costs	52	38
	<b>49</b>	<b>250</b>
<i>Hereof remuneration to Executive Management:</i>		
Salaries and cash-based incentives	7	10
Pension	1	2
	<b>8</b>	<b>12</b>

Severance payment of DKK 23 million 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 0.3 million of his remuneration to the CEO position.

<b>Average number of full-time employees (no.)</b>	<b>41</b>	<b>34</b>
--	-----------	-----------

### Board of Directors' remuneration

DKK thousands	<b>2016</b>			<b>2015</b>		
	Board fee	Committee work	Total	Board fee	Committee work	Total
Sten Scheibye	1,500		1,500	1,500		1,500
Göran Ando	500	325	825	500	250	750
Jeppe Christiansen	500		500	500		500
Per Wold-Olsen	500	425	925	500	350	850
Steen Riisgaard	500		500	500		500
	<b>3,500</b>	<b>750</b>	<b>4,250</b>	<b>3,500</b>	<b>600</b>	<b>4,100</b>

Committee work consists of Novo Advisory Group.

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



## Notes to the Annual Report

DKK million 2016 2015

### Note 8 - Income taxes

#### Computation of effective tax rate

Statutory tax rate	22.0%	23.5%
Non-taxable income less non-deductible expenses	-22.0%	-18.7%
Deductible dividend	0.0%	-4.8%
<b>Effective tax rate</b>	<b>0.0%</b>	<b>0.0%</b>

For Danish tax purposes, Novo A/S is assessed jointly with all Danish subsidiaries. Novo A/S is the administrative body in relation to the joint taxation. Danish group companies are jointly liable for corporation tax on the consolidated taxable income.

The joint taxation paid DKK 6,057 million (DKK 6,393 in 2015) as income tax related to current year, and received DKK 1,068 million (DKK 658 million in 2015) in taxes regarding the previous year.

### Note 9 - Novo Group holdings

Cost at the beginning of the year	4,429	3,648
Additions during the year	-	797
Disposals during the year	-7	-16
<b>Carrying amount at the end of the year</b>	<b>4,422</b>	<b>4,429</b>

### Note 10 - Life Science Investments

Cost at the beginning of the year	18,426	18,569
Additions during the year, net	7,599	-398
Transfer between Financial Investments and Life Science Investments	-	255
<b>Cost at the end of the year</b>	<b>26,025</b>	<b>18,426</b>
Value adjustments at the beginning of the year	13,524	7,686
Appreciation to fair value, net	-1,879	5,836
Transfer between Financial Investments and Life Science Investments	-	2
<b>Value adjustments at the end of the year</b>	<b>11,645</b>	<b>13,524</b>
<b>Fair value at the end of the year</b>	<b>37,670</b>	<b>31,950</b>
<b>Fair value measurement hierarchy</b>		
Active market data	21,844	20,468
Directly or indirectly observable market data	-	-
Not based on observable market data	15,826	11,482
	<b>37,670</b>	<b>31,950</b>
<b>Change in values not based on observable market data</b>		
At the beginning of the year	11,482	10,141
Additions during the year	7,510	2,785
Disposals during the year	-2,089	-1,736
Change in hierarchy due to investments that completed an IPO during the year	-1,969	-
Gains through profit or loss	892	292
	<b>15,826</b>	<b>11,482</b>

## Notes to the Annual Report

DKK million	2016	2015
<b>Note 11 - Financial Investments</b>		
Cost at the beginning of the year	27,488	16,977
Additions during the year, net	272	10,766
Transfer between Financial Investments and Life Science Investments	-	-255
<b>Cost at the end of the year</b>	<b>27,760</b>	<b>27,488</b>
Value adjustments at the beginning of the year	9,299	6,988
Appreciation to fair value, net	1,019	2,313
Transfer between Financial Investments and Life Science Investments	-	-2
<b>Value adjustments at the end of the year</b>	<b>10,318</b>	<b>9,299</b>
<b>Fair value at the end of the year</b>	<b>38,078</b>	<b>36,787</b>
<b>Fair value measurement hierarchy</b>		
Active market data	33,294	30,599
Directly or indirectly observable market data	2,391	3,850
Not based on observable market data	2,393	2,338
	<b>38,078</b>	<b>36,787</b>
<b>Change in values not based on observable market data</b>		
At the beginning of the year	2,338	644
Additions during the year	738	1,733
Disposals during the year	-706	-45
Gains through profit or loss	23	6
	<b>2,393</b>	<b>2,338</b>
<b>Allocation of Financial Investments</b>		
Short term bonds	6,142	5,856
Corporate credits and emerging market bonds	5,896	5,615
Equities	23,096	22,978
Private equity and real estate investments	2,944	2,338
	<b>38,078</b>	<b>36,787</b>

## Notes to the Annual Report

### 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	<b>2016</b>		<b>2015</b>	
	Contract amount	Market value 31 December	Contract amount	Market value 31 December
USD/DKK	4,173	-207	3,776	17
JPY/DKK	65	5	278	-17
CHF/DKK	27	0	27	0
GBP/DKK	286	-2	0	0
	<b>4,551</b>	<b>-204</b>	<b>4,081</b>	<b>0</b>

The forward exchange contracts fall due in 2017 and 2018.

#### Financial risk factors

##### Currency exposure

Currency exposure arises when Novo A/S 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 1,114 million (2015: DKK 1,338 million). 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 131 million (2015: DKK 105 million).

Novo A/S' 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 A/S' 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 A/S invests in bonds and high interest bonds.

Novo A/S' 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 166 million (2015: DKK 87 million).

##### Market risk (share price)

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

Novo A/S' policy is to place up to 80% of the securities in share-based assets. The share quotation risk is not hedged through derivatives. An increase of 5 % in the MSCI world index would, other things being equal, result in an increase in the value of the portfolio of DKK 1,160 million (2015: 1,825 million).

## Notes to the Annual Report

DKK million	2016	2015
<b>Note 13 - Other provisions</b>		
Provision for incentive fees at the beginning of the year	631	642
Paid during the year	-346	-167
Appreciation during the year, net	-65	156
<b>Provision for incentive fees at the end of the year</b>	<b>220</b>	<b>631</b>

An incentive scheme has been agreed for all employees subject to the meeting of certain targets.

Furthermore, incentive schemes applies for certain employees and middle managers in Novo A/S engaged in Novo's life science investment activities. Subject to the precondition of a minimum yield of the invested capital and cover of costs in connection with the investments, so-called Incentive Fees are disbursed to the employees calculated as a percentage of the return. In relation to realized and unrealized gains Novo A/S has made provisions of DKK 220 million (DKK 631 million in 2015) for obligations in connection with the incentive schemes. In relation to realized gains DKK 28 million is expected to be paid in 2017. The present incentive scheme will be phased out over the next three years and a Long Term Incentive Programme (LTIP) has been agreed with certain employees and middle managers engaged in Novo's life science investment activities. Payout of up to six month salary is subject to the preconditions of a minimum of invested capital, exit proceeds and a minimum yield of the of value.

## Note 14 - Contingent liabilities/assets

### Contingent assets

In connection with Novo A/S 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	2,080	2,085
--	-------	-------

### Contingent liabilities

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

Contractual obligations related to Life Science Investments	1,269	1,717
Contractual obligations related to Financial Investments	586	1,290
<b>Total contingent liabilities</b>	<b>1,855</b>	<b>3,007</b>

## Notes to the Annual Report

DKK million

2016

2015

### Note 15 - 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 A/S 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.

For information on the remuneration to the management of Novo A/S please refer to Note 7 "Employee costs".

In 2016 and 2015 Novo A/S had the following transactions and outstanding balances with:

#### Novo Nordisk Foundation

Sale of services	14	8
Novo Nordisk Foundation's share of Joint investment portfolio	13,573	10,742
Novo Nordisk Foundation's share of result from joint investment portfolio	1,000	527

#### The Novo Nordisk Group

Purchase of NNIT shares	0	797
-------------------------	---	-----

#### Novo Ventures 1 A/S

Short-term facility for investment in Alta BioPharma Partners, L.P., Clarus Lifesciences III, L.P. and SFJ Pharmaceuticals IX L.P. at 31 December	168	51
---	-----	----

#### Novo Ventures (US), Inc.

Purchase of services	49	29
----------------------	----	----

#### Other subsidiaries and associates

Loans to other subsidiaries	1,306	3,931
Loans to associates	839	0
Contingent liabilities regarding commitments to associates	586	1,290

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 management of Novo A/S, 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 A/S 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

## Notes to the Annual Report

### Note 16 - Subsidiaries and associates

Listed by investment category and secondarily degree of control. Percentage of shares owned is disclosed.

#### Novo Group

##### Subsidiaries

Novo Nordisk A/S, Denmark	27.5%
Novozymes A/S, Denmark	25.5%
NNIT A/S*, Denmark	25.5%

#### Life Science Investments

##### Subsidiaries

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%

##### Associates

Acesion Pharma ApS, Denmark	44%	IO Biotech ApS, Denmark	30%
Adenium Biotech ApS**, Denmark	53%	KalVista Pharmaceuticals Ltd., USA	29%
Affinicon ApS, Denmark	49%	Karus Therapeutics Ltd., United Kingdom	23%
Allakos Inc., USA	29%	Merozyme Therapeutics AB, Sweden	20%
Avilex Pharma ApS**, Denmark	72%	MinervaX ApS, Denmark	50%
Battersea Biotech, LLC, USA	33%	NMD Pharma ApS, Denmark	32%
Biosyntia ApS, Denmark	46%	Nuvelution Pharma, Inc., USA	30%
Carbylan Therapeutics, Inc., USA	30%	Orexo AB, Sweden	28%
Cardeas Pharma Corp., USA	28%	Orphazyme ApS, Denmark	36%
Cell Medica Switzerland Ltd, Switzerland	28%	PCOVERY ApS, Denmark	35%
Ceterix Orthopaedics Inc., USA	28%	Reapplix ApS, Denmark	21%
Chr. Hansen Holding A/S, Denmark	26%	Reata Pharmaceuticals Inc., USA	30%
Cianna Medical, Inc., USA	37%	Rgenix Inc., USA	26%
Colucid Pharmaceuticals, Inc., USA	20%	RSPR Pharma AB, Sweden	24%
Denator AB, Sweden	27%	Spruce Biosciences, Inc., USA	51%
Epsilon-3 Bio Ltd., United Kingdom	26%	Symphogen A/S, Denmark	21%
E-scape Bio, Inc., USA	23%	Tarsa Therapeutics, Inc., USA	32%
Forendo Pharma Oy, Finland	23%	Tioma Therapeutics, Inc., USA	22%
Galecto Biotech AB, Sweden	21%	Unchained Labs, Inc., USA	34%
Galera Therapeutics, Inc., USA	21%	Vantia Ltd.***, United Kingdom	70%
Hoba Therapeutics ApS, Denmark	43%	Veloxis Pharmaceuticals A/S, Denmark	42%
Inthera Bioscience Ltd., Switzerland	27%		

#### Financial Investments

##### Associates

Dades A/S, Denmark	44%
--------------------	-----

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

\*\* Novo A/S cannot exercise control.

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