

ANNUAL REPORT

Novo Nordisk Pharmatech

2019



Novo Nordisk Pharmatech

glance

70 YEARS

Novo Nordisk Pharmatech is a global company with 70 years of extensive experience supplying ingredients and API for the biopharmaceutical and pharmaceutical industries.

HERITAGE

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.



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 million



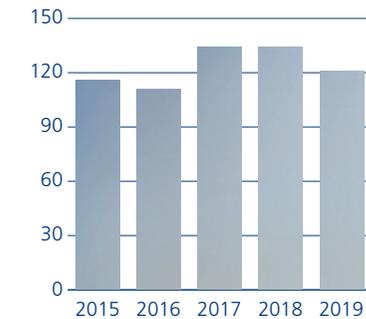
NUMBER OF FTEs

FTEs



EBIT

DKK million



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Letter from management

In 2019, we took the next steps to prepare for our future growth. We continued to invest in our systems to ensure that they are robust and secure for the future, and we initiated an investment to upgrade a facility at our site in Køge.

Our investments have largely been within IT, where security and business continuity are top of the agenda. Part of this investment includes an increase in staffing to cope with current and future challenges, and further digitalisation of our operations.

Another major area of investment was the initiation of a new multi-purpose facility to handle the downstream manufacturing of a broader portfolio of recombinant expressed proteins for the global biopharmaceutical market. This is set to continue into 2020, and we expect to take the facility into use in late 2020.

In 2019, Novo Nordisk Pharmatech opened a branch office in Singapore. The new office will head up our efforts to grow our current portfolio of products in the Asia Pacific market, as well as prepare for the launch of new products in the same area. We were happy to welcome new colleagues with local market and industry knowledge, who will help bring our sales operations closer to our customers and the markets we serve.

Sales-wise, Novo Nordisk Pharmatech had a challenging year. This was partly expected due to a major customer seeking other supply opportunities in the Quats market, as well as lower growth in North America. The sale of technical insulin was also challenged, and we were impacted by a major customer adjusting inventories, and another who postponed campaigns to 2020. Demand was therefore lower than expected, and is expected to decline further in 2020.

In 2019, 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 and goes above and beyond the expectations of both customers and authorities.

The delivery of enzymatic products to Novo Nordisk was 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 required volumes were delivered.

For R&D, 2019 was a busy year. This was characterised by a growing portfolio of products and a growing organisation tasked with meeting future market demands for ancillary materials within our current scope of business, as well as the manufacturing of regenerative medicines. 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.

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



RASMUS
HOTHER LE FEVRE
President & CEO

2019

Financial review

Revenue and EBIT development

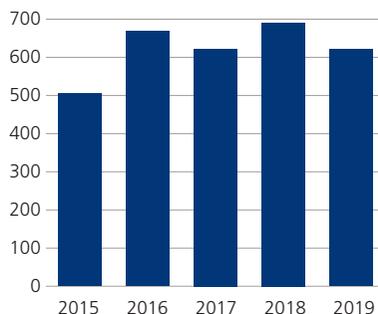
Overall revenue in Novo Nordisk Pharmatech in 2019 was DKK 621 million. This is a decrease of DKK 70 million (-10%) compared to 2018, when total sales were DKK 691 million. The main drivers of this development were:

- Sales of ALP to Novo Nordisk were DKK 19 million (-13%) lower than 2018 due to price adjustments.
- Sales of Silica to Novo Nordisk were DKK 23 million (-16%) lower than 2018 due to price adjustments partially off-set by increased volumes.
- Sales of columns were DKK 4 million (126%) higher than 2018 driven by price adjustments resulting from low production.
- Sales of insulin to the global market were DKK 1 million higher than 2018 driven by the favourable impact of the USD exchange rate and higher average selling prices, which was offset by lower volumes (KG) sold due to loss of orders from large customers.
- Sales of Quats (synthetic molecules) to the global market were DKK 31 million (-24%) lower than 2018 driven by a decrease in volumes due to the loss of a major customer.
- Sales to group companies in 2019 account for 43% of total sales vs. 45% in 2018.

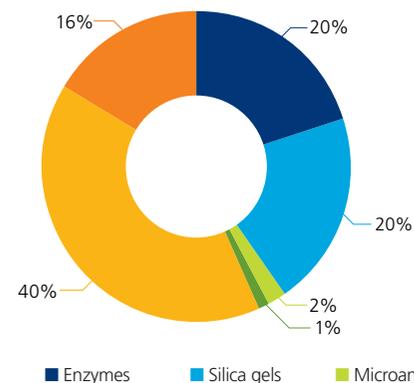
The split and development of product sales

SALES DEVELOPMENT

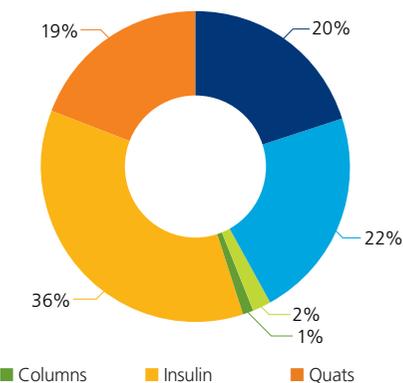
DKK million



SALE PRODUCT GROUP 2019



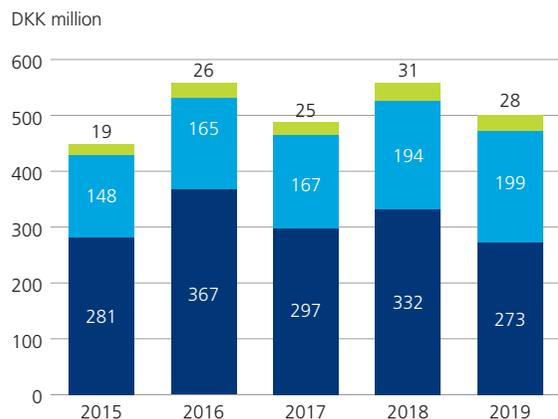
SALE PRODUCT GROUP 2018



Total costs in Novo Nordisk Pharmatech were lower than 2018, primarily due to lower raw material costs, driven by lower Quats sales, production and inventory revaluation. Capacity costs increased in line with expectations in 2019, due to a continued focus on new business development improved IT systems and security. This has been partially offset by lower depreciations due to large asset write downs made in 2018.

COST

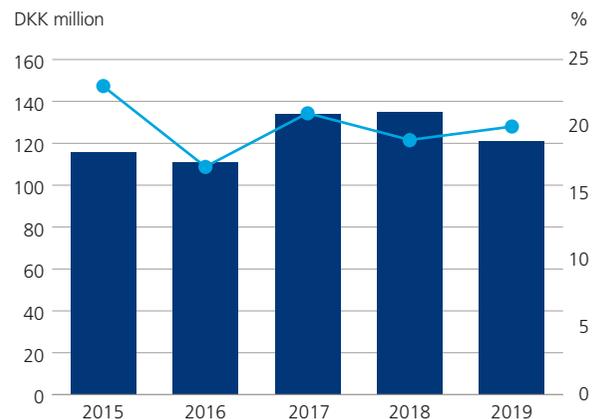
- Raw material costs
- Capacity costs
- Depreciations



Net operating profit for 2019 was DKK 97 million, decreasing from DKK 105 million in 2018. The decrease in net operating profit is mainly driven by lower revenue on sales of synthetic molecules (2019: 102 million compared to 2018: 131 million). This has been partially offset by lower raw material costs.

EBIT

- EBIT (left)
- EBIT margin (right)



TOTAL EBIT MARGIN IS
19.5%

Financial highlights

KEY FIGURES (DKK 1.000)

	2019	2018	2017	2016	2015
Result					
Revenue	620,992	690,700	622,436	669,077	505,233
Gross profit/loss	273,462	283,278	263,449	237,950	228,049
Profit/loss before financial income and expenses	121,142	134,241	133,554	110,928	115,550
Net financials	2,292	1,790	(1,333)	896	4,559
Net profit/loss for the year	97,298	105,268	103,665	87,367	92,104
Balance					
Balance sheet total	809,391	760,808	676,372	653,833	618,589
Equity	691,519	614,221	528,953	468,288	400,921
Cash Flow					
Investments in property, plant and equipment	30,782	64,210	25,440	15,563	42,557
Average number of employees					
	184	170	163	158	150
Ratios					
Gross margin ¹	44.0	41.0	42.3	35.6	45.1
Profit margin ²	19.5	19.4	21.5	16.6	22.9
Return on assets ³	15.0	17.6	19.7	17.0	18.7
Solvency ratio ⁴	85.4	80.7	78.2	71.6	64.8
Return on equity ⁵	14.9	18.4	20.8	20.1	25.0

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)





Novo Nordisk
Pharmatech AS

Outlook 2020

2020 will be a challenging and exciting year for Novo Nordisk Pharmatech

We expect to see the first results from our new local sales office in Singapore. After a challenging 2019, we anticipate growth in the sales of both Quats and insulin, despite increased competition from low cost manufacturers and generic biopharmaceutical manufacturing processes without the need for insulin in the cell culture. We expect a healthy underlying growth in the global biopharmaceutical industry.

Demand for purification resins is expected to be stable in 2020. We will continue to increase our efforts and investments in R&D to develop better resins for the future needs of the global biopharmaceutical market.

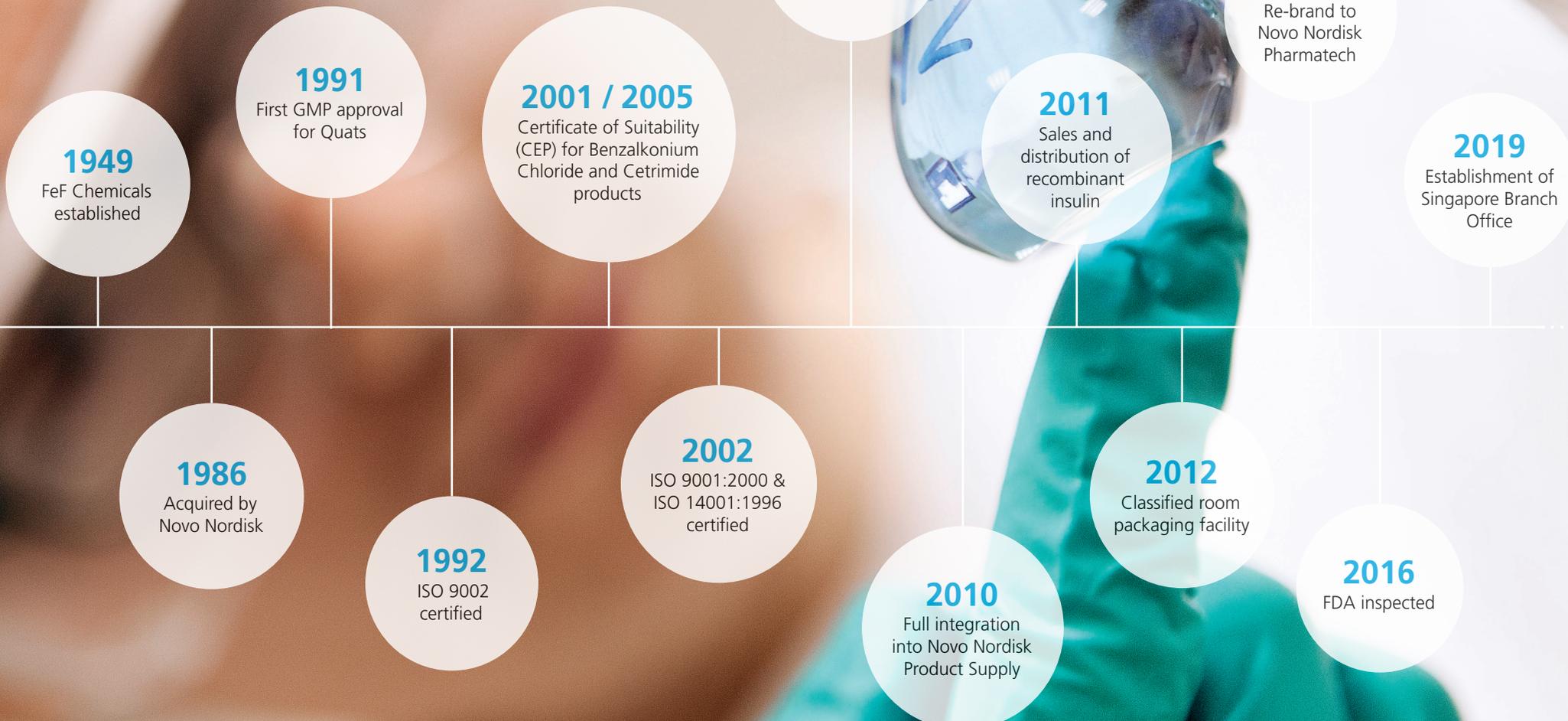
We will continue our efforts and investments in a new multipurpose facility to handle a more diverse enzymatic product portfolio. This will enable us to serve the Novo Nordisk demand of materials to the production of newly launched products within diabetes care. This facility is expected to fuel the longer-term growth of Novo Nordisk Pharmatech.

Besides investments in new physical assets, we will continue to upgrade our IT infrastructure to make it more robust and secure for future demands.

Overall sales are expected to decline further in 2020 due to the investment in and rebuild of our enzymatic production facilities despite expected growth within Quats and Insulin. As a consequence the operating profit is expected to be lower than realised in 2019.

Novo Nordisk Pharmatech has adopted the Novo Nordisk environmental strategy 'Circular for Zero', launched in 2019. The strategy builds on a long tradition of improving the environmental performance of the company, where for example, all energy consumption has been converted to renewable sources. In 2020, the company will continue this journey by further reducing waste from its operations.

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



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



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 conditions are incorporated in all our work tasks. This is ensured by the occupational health and safety according to OHSAS 18001. Novo Nordisk Pharmatech continued this work in 2019, when the transition towards the new ISO45001 standard for occupational health and safety began.

Due to the high focus on safety, Novo Nordisk Pharmatech made careful investigations into every near miss in production, laboratories and administration. In 2019, Novo Nordisk Pharmatech had one accident 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 2019, we made approximately 98 risk assessments. The focus was on simplifying the workplace assessment work and securing a flow of closing workplace assessment points.

At Novo Nordisk Pharmatech we have the following goals:

- We will ensure our work is well planned
- We will design our working places optimally
- We will think about the working environment before we act – think twice
- We will develop our employees
- We will remove the dangerous goods, if we can
- 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 production at Novo Nordisk Pharmatech was environmentally approved by the Danish Ministry of the Environment in 2009. The Danish Ministry of the Environment 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 volumes, noise impacts and emissions into the air
- We reduce our CO₂ emissions
- We run our business safely by conducting environment and risk assessments for all activities
- We will continue to systematically minimize the environmental impact when we develop new products and processes
- We will continue to encourage our customers to co-operate 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

Novo Nordisk Pharmatech has been a CO₂ neutral company since 2018. This environmental improvement is due to an agreement (from 2015) on energy distribution, which ensures that Novo Nordisk Pharmatech is only supplied with renewable energy, produced by windmills. In 2018, another agreement was

made regarding our gas consumption, which now comes from Biogas. This means that Novo Nordisk Pharmatech has zero CO₂ emissions from energy consumption.

In 2019, Novo Nordisk Pharmatech committed to the Novo Nordisk Circular for Zero environmental strategy. This means the company will strive to have zero environmental impact by 2030. In 2019, Novo Nordisk Pharmatech implemented Circular for Zero by carrying out awareness and idea-generating workshops with every department within the company. Furthermore, the company established local Circular for Zero 2025 targets, which will be followed and worked with the coming years.

KEY ENVIRONMENTAL DATA:	2019	2018	2017
Energy consumption (GJ)	22,017	21,007	20,774
Water consumption drinking water (m ³)	4,859	7,008	5,841
Water consumption – all (m ³)*	71,210	58,155	62,396
Carbon dioxide emissions to air (Tonnes)	0	0	744
Emissions to sewer (m ³)	6,062	5,636	5,865
Discharge to recipient (m ³)*	96,974	70,624	71,116
WASTE			
Hazardous waste (Tonnes)**	624	405	494
Non-hazardous waste (Tonnes)	45	45	43
Accidents with absence	1	2	0
Employees	184	170	163

* The 2019 increase in groundwater consumption is due to a new water-distribution system, which uses groundwater for cooling. The water-distribution system has also contributed to a lower consumption of drinking water. The increase in discharge to recipient is connected to this.

** The 2019 increase in hazardous waste is due to a higher level of waste generated from cleaning of the company's sewer systems.

People

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

1. In 2017, 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. The results in 2017 showed a significant decrease in stress-related absence. In 2018, we saw satisfactory results, so continued our efforts. In 2019, we revitalized the strategy with the retraining of managers and employees and can see – at the end of 2019 – a stress-related absence level close to zero.
2. We revitalized the dialogue-based approach to prevention of regular short-term absence. The result has been a continuous positive trend throughout 2019. Our end of year absence level is 4.2%
3. We have changed our performance management approach to focus on behaviour. Behavioural targets have been implemented for all employees to address performance on strategic and/or operational targets, with an emphasis on collaboration and development. Behavioural targets have been designed from NN Way, NNPR United Culture and NNPR Leadership Principles.

As a global company, Novo Nordisk Pharmatech strives to increase the number of international employees. In 2019, we successfully hired nine international candidates. The new employees took up positions across the organization, spanning senior profiles in Sales & Marketing to interns in R&D, and Business Development. As in 2018, we continue to see international candidates among applicants for the majority of our open positions. Internationalization remains a focus area for Novo Nordisk Pharmatech going forward.

Regarding diversity in gender, Novo Nordisk Pharmatech has experienced a 55/45 split between males and females hired in 2019. The total balance between males and females employed is 50/50. In the board of directors an equal split between gender is fulfilled, as one out of four elected board members are female. For remaining management levels at Novo Nordisk Pharmatech an equal split of gender is also obtained (45% female, 55% male) and no actions are needed to fulfill the group policy for the underrepresented gender.

Supporting the local community

To celebrate World Diabetes Day on 14 November 2019, Novo Nordisk Pharmatech collaborated with the local Køge Diabetes Association and Køge Library to create an awareness event. The local Køge Diabetes Association was present at the library to create awareness of the disease and the risk factors. Novo Nordisk Pharmatech created the opportunity for Køge citizens to learn more about living with the disease from two lecturers, who both live with Diabetes. Lectures were also given by a doctor and health expert as part of the event.

On 26 November 2019, Novo Nordisk Pharmatech employees volunteered at a local volleyball tournament to strengthen awareness about healthy lifestyles, and hosted activity stations for second grade students from schools throughout Køge Municipality.

To support the academic environment of Denmark and a strong, knowledge-based and innovative culture at Novo Nordisk Pharmatech, we continuously take in internships and master thesis projects. In 2019, 5-7 internships/master thesis projects generated knowledge for Novo Nordisk Pharmatech and vital experience for the students.

To support the education of youth, Novo Nordisk Pharmatech offered one-week internships for three elementary school students. This process is integrated in the HR yearly wheel and remains a prioritised activity for the future.







Marketed products

Insulin and Future development

Novo Nordisk Pharmatech is a leading global supplier of high-quality ingredients for the biopharmaceutical industry. Our recombinant Insulin has been a critical raw material of the upstream process of large-scale manufacturing of cutting-edge biologics, such as therapeutic antibodies, recombinant proteins and vaccines for the last 2 decades. The majority of the current blockbuster drugs are depending on our Insulin but within the next decade, patents on some of these are scheduled to expire in the EU and US, which will open the space to new biosimilars entering the market. In addition, new technologies such as highly-performing chemically defined CHO media allow high productivity in the absence of supplements such as Insulin. We will need to strategically work closely with both big pharma and smaller upstarts to secure presence and growth within new molecules in early development.

On the other hand, regenerative medicine is an important growth segment. Stem cells, cell and gene therapy and CAR-T are the main therapeutic segments which are estimated to reach \$13 billion by 2025 at a double-digit annual growth rate, with more than 400 programs have already entered clinical development. Sourcing of ancillary material for these advanced therapy medicinal products (ATMPs) is critical for quality, consistency and supply chain continuity. Our strategic focus will be to target this attractive market not only with Insulin but also with new products we are developing to specific tailor the need of these customers, both in upstream and downstream processes of ATMPs.

Quats

Novo Nordisk Pharmatech is the leading supplier of cGMP Quaternary Ammonium Compounds (Quats) for a wide range of applications. Our Benzalkonium Chloride, Cetrimide and Cetrimonium Bromide (CTAB) products act either as preservatives or active ingredients in many ophthalmic, nasal, oral and topical drugs and in a variety of solutions, ointments and creams. They can also be used as lysing or precipitating agents in vaccine production.

During the past three years, we have intensively increased our global presence, both by opening a branch office in Singapore, and by appointing local distributors and agents. Our current partners are representing us in Canada, USA, Brazil, India and several APAC, CEE and European countries. During the coming year, we plan to continue expanding our presence in Latin America as well as the CIS Region.

We will continue improving our product documentation for specific applications. We also see an increase in regulatory expectations, to guarantee patient safety in today's expanding global market. Our customers see us as the market leader in the industry, and we will continue to match and outperform the requirements for the local markets.

Risk management

Managing risk is central to the business in Novo Nordisk Pharmatech, 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 as 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 in 2019 were identified as:

1. Anti-corruption and Bribery

As Novo Nordisk Pharmatech 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 2019 was to upgrade the access security and physical security of our site.

3. Environmental

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.

4. Commercial risks

As part of annual budgeting and follow up, we build in expectations to market development short term, mid term and long term.

For the Quats market, we see an underlying short term increase in the market, but long term a trend away from using preservation chemicals in final products, and end customers are looking for alternatives to this. This can threaten the long term growth of our Quats business.

For the technical insulin market, we do see a long term trend towards using chemically defined growth media instead of e.g. e-coli based growth media, where insulin is needed, and this can also threaten the long term growth of our insulin business.

5. Human rights

Novo Nordisk Pharmatech follows the Group policy for human rights in the Novo Nordisk group. Due to the nature of our business, our suppliers and distribution set-up it is our assessment that human rights is not a significant risk and therefore no mitigating actions are put into place.





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 2019.

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 2019 of the Company and the results of the Company operations for 2019.

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, 18 March 2020

Executive Management:

Rasmus Hother le Fevre
CEO

Board of Directors:

Henrik Wulff
Chairman

Ulla Grove Sidelmann

Claus Steensen Sølje

Søren Thor Jensen

Henrik Dvinge

Joachim Juel Hagemeister

Independent Auditor's Report

To the Shareholders of Novo Nordisk Pharmatech

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019, and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Novo Nordisk Pharmatech for the financial year 1 January – 31 December 2019, 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, 18 March 2020
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 2019

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 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.

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

	2019	2018	Note
NET PROFIT FOR THE YEAR			
Revenue	620,992	690,700	1
Change in inventories of finished goods and work in progress	10,431	(54,393)	
	631,423	636,307	
Expenses for raw materials and consumables	(283,630)	(277,238)	
Other external expenses	(74,331)	(75,791)	2
Gross profit/loss	273,462	283,278	
Staff expenses	(124,313)	(111,020)	3
Depreciation, amortisation and impairments of assets	(27,846)	(30,972)	7, 8
Other operating expenses	(161)	(7,045)	
Profit/loss before financial income and expenses	121,142	134,241	
Financial income	4,728	4,705	4
Financial expenses	(2,436)	(2,915)	5
Profit/loss before tax	123,434	136,031	
Tax on profit/loss for the year	(26,136)	(30,763)	6
Net profit/loss for the year	97,298	105,268	

Balance Sheet 31 December

Assets

	2019	2018	Note
FIXED ASSETS			
Intangible assets			
Development projects	2,297	4,801	7
Intangible assets	2,297	4,801	
Property, plant and equipment			
Land and buildings	154,747	157,439	8
Plant and machinery	123,448	129,963	
Other fixtures and fittings, tools and equipment	12,716	0	
Property, plant and equipment in progress	21,718	19,949	
Property, plant and equipment	312,629	307,351	
Fixed assets	314,926	312,152	
CURRENT ASSETS			
Inventories	211,500	241,327	9
Receivables			
Trade receivables	52,947	61,799	
Receivables from group enterprises	224,435	143,415	
Corporation tax	3,525	0	6
Other receivables	390	2	
Prepayments	1,668	2,113	10
Receivables	282,965	207,329	
Current assets	494,465	448,656	
Assets	809,391	760,808	

Liabilities and equity

	2019	2018	Note
EQUITY			
Share capital	10,000	10,000	11
Retained earnings	481,519	584,221	
Proposed dividend	200,000	20,000	
Equity	691,519	614,221	
PROVISIONS			
Provision for deferred tax	32,501	27,600	6
Provisions	32,501	27,600	
SHORT-TERM DEBT			
Trade payables	11,094	28,867	
Payables to group enterprises	39,138	55,550	
Corporation tax	0	4,372	6
Other payables	35,139	30,198	
Short-term debt	85,371	118,987	
LIABILITIES AND EQUITY			
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. 2019	10,000	584,221	20,000	614,221
Paid dividend			(20,000)	(20,000)
Net profit for the year		(102,702)	200,000	97,298
Equity 31 Dec. 2019	10,000	481,519	200,000	691,519

Notes to the financial statement

Notes 1–5

	2019	2018
1. SEGMENT INFORMATION		
Exports	348,565	379,122
Group	272,427	311,578
	620,992	690,700

The geographical split follows the split of the business, as the segment group 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.

	2019	2018
3. STAFF EXPENSES		
Wages and salaries	112,701	100,471
Pensions	10,603	9,500
Other social security expenses	1,009	1,049
	124,313	111,020

Including remuneration to the Executive and Board of directors of DKK 2.3 million compared to DKK 2.3 million in 2018.

Wages and salaries	1,991	2,042
Pensions	158	154
Other social security expenses	126	136
	2,275	2,332
Average number of employees	184	170

4. FINANCIAL INCOME

Interest received from group enterprises	1,109	713
Other financial income	3,619	3,992
	4,728	4,705

5. FINANCIAL EXPENSES

Interest paid to group enterprises	(12)	(51)
Other financial expenses	(2,424)	(2,864)
	(2,436)	(2,915)

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 2019	4,372	27,600	
Adjustments concerning prior years	(181)	(190)	(371)
Current tax for the year	21,416	5,091	26,507
Settlement re: 2018 tax	(4,191)		
Prepaid tax for the year	(24,941)		
31 December 2019	(3,525)	32,501	26,136

Specification of deferred tax	2019	2018
Trade receivables	(102)	397
Property, plant and equipment	9,614	8,160
Land and buildings	11,303	10,710
Indirect production cost	11,686	8,333
Deferred tax	32,501	27,600

7. INTANGIBLE ASSETS

	Development projects
Cost at 1 January 2019	12,524
Cost at 31 December 2019	12,524
Impairment losses and depreciations at 1 January 2019	7,723
Depreciations for the year	2,504
Impairment losses and depreciations at 31 December 2019	10,227
Carrying amount at 31 December 2019	2,297

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 2019	202,275	353,338	4,868	19,949	580,430
Additions for the year	1,965	2,055	6,538	20,224	30,782
Disposals for the year	0	(21,902)	0	0	(21,902)
Transfers for the year	0	12,036	6,419	(18,455)	0
Cost at 31 December 2019	204,240	345,527	17,825	21,718	589,310
Impairment losses and depreciations at 1 January 2019	44,836	223,375	4,868	0	273,079
Depreciations and impairments for the year	4,657	20,444	241	0	25,342
Reversal of impairment and depreciations of sold assets	0	(21,740)	0	0	-21,740
Impairment losses and depreciations at 31 December 2019	49,493	222,079	5,109	0	276,681
Carrying amount at 31 December 2019	154,747	123,448	12,716	21,718	312,629

Notes to the financial statement

Notes 9–13

	2019	2018
9. INVENTORIES		
Raw materials and consumables	103,533	145,618
Work in progress	4,058	0
Goods in transit	1,827	0
Finished goods and goods for resale	102,082	95,709
	211,500	241,327

10. PREPAYMENTS

Prepayments consist of payments made for subsequent years and concern insurance premiums, servicing of microscopes, IT licences, marketing costs and canteen costs.

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.

	2019	2018
DISTRIBUTION OF PROFIT		
Retained earnings	(102,702)	85,268
Dividend	200,000	20,000
Distribution of profit	97,298	105,268

12. CONTINGENT LIABILITIES

Lease and purchase obligations

	2019	2018
Leasing and purchase obligations concerning cars, equipment and raw materials		
Within 1 year	20,369	43,681
Between 2 and 5 years	60,469	77,852
	80,838	121,533

Contingent liabilities

Novo Nordisk Pharmatech, 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 Wulff	Chairman
Ulla Grove Sidelmann	
Claus Steensen Sølje	
Søren Thor Jensen	
Henrik Dvinge	
Joachim Juel Hagemester	

Transactions

All group internal transactions are on market terms.

Novo Nordisk Pharmatech 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](http://www.novonordiskpharmatech.com)

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**Novo Nordisk
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