

THE
NOBEL
PRIZE

THE NOBEL FOUNDATION
ANNUAL REPORT

.

2018

The Nobel Foundation

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REPORT OF THE DIRECTORS

Tasks and organisation

The Nobel Foundation is a private foundation established in 1900 on the basis of the will of Alfred Nobel and the founding statutes promulgated in connection with the will. Its primary purpose is to ensure that the intentions of the will of Alfred Nobel are fulfilled.

The Foundation is responsible for ensuring that the assets made available for awarding the Nobel Prize are managed in such a way as to safeguard the economic base of the Prize and guarantee the independence of the prize-awarding institutions in their work of selecting Laureates. The Nobel Foundation is also entrusted with managing and carefully developing the trademarks and intangible assets that have been built up during the more than century-long history of the Nobel Prize.

Another central task of the Foundation is to protect the common interests of the prize-awarding institutions and represent all the Nobel institutions externally. This includes, for instance, broad informational activities aimed at disseminating knowledge about the Nobel Prize. The Nobel Foundation also oversees the Nobel Symposia, which are being organised by the Royal Swedish Academy of Sciences and the Norwegian Nobel Committee, respectively, starting in 2019.

Over the past 20–25 years, the Nobel Foundation has expanded its informational activities to such an extent that it has become necessary to form new organisations to run and develop these activities, which are not defrayed by funds from the Nobel Foundation.

During 2015 the Alfred Nobel Memorial Foundation was established. The Memorial Foundation has an overall function as the umbrella organisation for the following entities: the wholly owned limited liability companies Nobel Group Interests AB, Nobel Media AB, Nobelmuseet AB (the Nobel Museum), Nobelhuset AB in Stockholm and Nobels Fredspris – Forskning og Informasjon AS (Nobel Peace Prize – Research and Information) in Oslo, Stiftelsen Nobels Fredssenter (the Nobel Peace Center Foundation) in Oslo as well as Stiftelsen Nobel Center (the Nobel Center Foundation) in Stockholm. At the beginning of 2019, the museum activities previously carried out by the Nobel Museum were transferred to the Nobel Center Foundation. The activities will henceforth be carried out

in the form of a foundation but with the same focus. The foremost task of these organisations is to disseminate information and knowledge about the Nobel Prize and the contributions of the Nobel Laureates and to stimulate interest in science, humanism and peace efforts. For detailed presentations of the organisations and their activities, see the printed publication *The Nobel Foundation 2018 Annual Review*.

The Nobel Prize-awarding institutions – the Royal Swedish Academy of Sciences, the Nobel Assembly at Karolinska Institutet, the Swedish Academy and the Norwegian Nobel Committee – appoint fifteen members to the Trustees of the Nobel Foundation, for two calendar years at a time. Of these, the Academy of Sciences elects six representatives, and the other prize-awarding institutions three each. In addition to these members, the Academy of Sciences appoints four deputy members and each of the other prize-awarding institutions two. The Trustees elect a Chairman from among their own number. The most important task of the Trustees is to appoint the Board of Directors of the Nobel Foundation.

The Nobel Foundation is represented by a Board of Directors, which consists of seven members and two deputy members. The Board members and deputy members are selected for a period of two years at a time. From among its own members, the Board elects a Chairman, a Vice Chairman and an Executive Director. The Trustees decide whether to discharge the members of the Board from personal liability for the preceding financial year.

The Nobel Foundation's administration and accounts are examined annually by six auditors, who work together in the Council of Auditors. The Trustees appoint one of the Foundation's auditors, who is to be an authorised public accountant. The other auditors are appointed by the prize-awarding institutions, except that their Chairman is appointed by the Swedish Government. All auditors are elected for a period of one year at a time.

The Nobel Foundation owns two properties, located at Sturegatan 14 in Stockholm and Henrik Ibsens gate 51 in Oslo. The Foundation has its registered office in Stockholm but also carries out administrative activities in Oslo.

The Nobel Prize

The 2018 Nobel Laureates

Since 1901, the Nobel Prize has been awarded 590 times to 935 Laureates. Because some have been awarded the Prize twice, a total of 904 individuals and 24 organisations have received a Nobel Prize or the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. During 2018 the following Prizes were awarded:

THE NOBEL PRIZE IN PHYSICS was awarded to Arthur Ashkin, Gérard Mourou and Strickland *“for groundbreaking inventions in the field of laser physics”*.

THE NOBEL PRIZE IN CHEMISTRY was awarded to Frances H. Arnold *“for the directed evolution of enzymes”* and to George P. Smith and Sir Gregory P. Winter *“for the phage display of peptides and antibodies”*.

THE NOBEL PRIZE IN PHYSIOLOGY OR MEDICINE was awarded to James P. Allison and Tasuku Honjo *“for their discovery of cancer therapy by inhibition of negative immune regulation”*.

THE NOBEL PEACE PRIZE was awarded to Denis Mukwege and Nadia Murad *“for their efforts to end the use of sexual violence as a weapon of war and armed conflict”*.

THE SVERIGES RIKSBANK PRIZE IN ECONOMIC SCIENCES IN MEMORY OF ALFRED NOBEL was awarded to William D. Nordhaus *“for integrating climate change into long-run macroeconomic analysis”* and Paul M. Romer *“for integrating technological innovations into long-run macroeconomic analysis”*.

During 2018 the Swedish Academy came to be strongly called into question due to how its activities were carried out, and it dealt with an acute crisis of confidence. In light of this, the Nobel Foundation reached an agreement with the Swedish Academy that no Nobel Prize in Literature would be awarded in 2018.

The Prize announcement week

Starting on the first Monday in October, announcements of the 2018 Nobel Prizes began. The prize-awarding institutions announced the Nobel Prizes at press conferences that were followed by media from all over the world.

To tell about the new Nobel Prizes, a series of programmes known since 2017 under the name *Nobel Calling* took place in Stockholm. This name alludes both to the telephone calls received by new Laureates and to an invitation to the general public to join in celebrating and understanding the Laureates' contributions. At the Nobel Museum, experts from the prize-awarding institutions helped explain to school classes and the public about the discoveries that were being rewarded. The Rival Theatre was filled to capacity when three Nobel Committee members helped present a playful *Crash Course* about the year's scientific Nobel Prizes. The same day as the Peace Prize was announced, an international teachers' conference was held at the Brewery Conference Centre (Münchenbryggeriet) on the theme *Teach love and understanding*. Speakers included Nobel Laureates Leymah Gbowee, Wole Soyinka and Martin Chalfie. The day before, Wole Soyinka had held a lecture at the Stockholm Public Library. On Saturday, Chalfie and Gbowee appeared at the Nobel Museum and spoke about *Science and Human Rights*.

More than 30 events took place at various venues in the Swedish capital during the week, for example a conversation about the year's Economics Prize at Sveriges Riksbank (Sweden's central bank), an explorative talk in collaboration with the Stockholm Academic Forum, daily guided tours at the Nobel Museum about the new prizes and various events at Karolinska Institutet (a medical university), the Royal Institute of Technology and Stockholm University.

The Nobel Week in Stockholm

The Nobel Week in Stockholm featured an extensive programme in which one of the most important elements was the Laureates' Nobel lectures – the only task in exchange for the Prize mandated by the Statutes of the Nobel Foundation. The prize-awarding institutions hosted these lectures as well as the press conferences in which the Laureates participated. The Nobel lectures were broadcast live on the Nobel Prize website, Nobelprize.org.

The Nobel Foundation was responsible for carrying out the Nobel Prize Award Ceremony at the Concert Hall and the Nobel Banquet at the City Hall on December 10. Before that, on December 6, the Laureates had been welcomed to the Nobel Museum (starting on January 1, 2019, known as the Nobel Prize Museum). On December 9, a reception at the Nordic Museum was organised jointly by the Nobel Foundation and the Royal Swedish Academy of Sciences.

In addition, a broad programme was carried out. The Swedish Melanoma Association organised a much-appreciated gathering where Laureates Tasuku Honjo and James P. Allison met some 40 Swedish patients whose lives were saved with the help of immunotherapy. A number of Laureates attended the annual Nobel Prize Concert on the evening of December 8. In addition, there were various meetings with research colleagues and visits to the Laureates' respective embassies. As part of the official Nobel Week programme, on December 9 Nobel Media organised the Nobel Week Dialogue, a full-day seminar on the theme *Water Matters*, aimed at promoting a broader dialogue between researchers, decision makers and society. The Nobel Week ended on December 12 with a reception at the Nobel Foundation for all 2018 Laureates.

The Nobel Days in Oslo

Peace Prize Laureates Denis Mukwege and Nadia Murad participated during the 2018 Nobel Days in Oslo, Norway. On December 9, a press conference was held. In addition, interviews were conducted with the British Broadcasting Corporation (BBC), the Norwegian Broadcasting Corporation (NRK) and Al Jazeera during December 9 and 10. At the Nobel Prize Award Ceremony at the City Hall in Oslo, Nobel lectures were held by Denis Mukwege and Nadia Murad. The Ceremony was followed by a Nobel Banquet at the Grand Hotel. On the following day, the Nobel Peace Prize Forum took place, on the theme *How to Solve the Climate Crisis*, which examined the crisis from various perspectives and featured Al Gore (2007 Peace Prize Laureate) as the keynote speaker. On December 11, the Nobel Peace Center inaugurated the exhibition *The Body as a Battlefield*.

Nobel Symposia

The Nobel Foundation's symposium activities were initiated in 1965. Over the years they have achieved a high international standing. The symposia are devoted to areas of science where breakthroughs are occurring or deal with topics of primary cultural or social significance.

During 2017 it was decided that the Nobel Symposia will no longer be administered by the Nobel Foundation. Starting in 2019, the responsibility for funding and administering the symposia is being licensed out to the Royal Swedish Academy of Sciences and the Norwegian Nobel Committee.

Symposium activities as well as other large interdisciplinary meetings in the Nobel sphere are prepared by the Nobel Foundation's Programme Committee, which includes representatives of the prize-awarding institutions and the Nobel Foundation.

During 2018 the following Nobel Symposia took place:

NS 164

Nuclear disarmament

Organiser: Professor Olav Njølstad

Solstrand Hotel, Bergen, Norway, June 13–16, 2018

NS 165

Money and Banking

Organiser: Professor Bo Becker

Clarion Hotel Sign, Stockholm, Sweden, May 26–28, 2018

Financial management

Organisation and strategy of financial management

The objective of the Nobel Foundation's investment activities is to achieve a sufficiently high return over time to maintain the financial base of the Nobel Prize and guarantee the independence of the work of the Prize Committees in selecting the Laureates. The Foundation's asset management must take into account the various risks that exist in financial markets.

The Foundation aims to deliver a total inflation-adjusted return of at least 3.5 per cent annually. This return shall be achieved while maintaining well-balanced overall risks. Given a return at this level, the Foundation believes that it will be possible to cover its future expenses. The rising expectations imposed on a global actor like the Nobel Foundation, with its overall responsibility for the Nobel Prize and a high proportion of labour costs, create underlying cost pressure.

The Foundation's asset management follows well-known principles in such contexts. The Board of Directors establishes the asset management framework. This includes deciding on the overall principles for asset management with respect to oversight and responsible investments. Based on an assessment of risk and return, the Board sets intervals for how large the Foundation's holdings of equities, fixed income assets, alternative assets and property funds should normally be. This has resulted in a normal portfolio strategy of 55 per cent with an interval of -15 to +10 percentage points invested in equities, 10 per cent with an interval of -10 to +45 points in fixed income assets, 10 per cent \pm 10 points in properties and 25 per cent \pm 20 points in alternative assets. These intervals normally apply, but they can be changed by the Board of Directors.

In addition to its 3.5 per cent return target, the Nobel Foundation uses a benchmark index resembling its normal portfolio to evaluate short-term outcomes. In a longer perspective, the Foundation also compares its returns with those of other public, primarily Nordic asset managers. However, it is not an explicit objective of the Foundation to generate higher returns than the benchmark index or its peer group. Instead, these comparisons are a tool for evaluating the Foundation's asset management. When making comparisons to other asset management organisations, it is important to take into account various financial conditions, which may imply both advantages and disadvantages for the Foundation's asset management.

The benchmark index consists of 55 per cent equities (44 per cent MSCI All Country World Index and 11 per cent SIX Return Index, both including dividends), 10 per cent bonds (Handelsbanken All Bond Index), 10 per cent properties (MSCI ACWI Real Estate) and 25 per cent alternative assets (HFRI Fund of Funds Composite Index).

The principles and mandates established by the Board of Directors constitute the starting point of the work of the Nobel Foundation's Investment Committee. The Committee is responsible for regularly re-assessing the principles and rules that govern asset management operations and submitting proposals for changes. In addition, the Committee makes decisions on how the intervals that the Board has set for various asset classes shall be utilised over time – so-called tactical asset allocation decisions. The Committee also decides how to apportion the Foundation's assets between continents and countries as well as currency, interest rate and credit risks.

The choice of managers for each asset class is also made by the Committee. In choosing managers, the Committee attaches importance to such factors as investment philosophy, investment process, historically achieved asset management outcomes, risk control systems, management organisation, the manager's approach to responsible investments and fees.

The ambition of the Nobel Foundation is to carry out asset management that contributes to long-term sustainable development and also in other respects to follow good ethical principles in its investment activities. For this reason, the Foundation has established special guidelines for responsible investments, which are published separately. Since 2016 the Foundation is a signatory of the United Nations Principles for Responsible Investments (PRI).

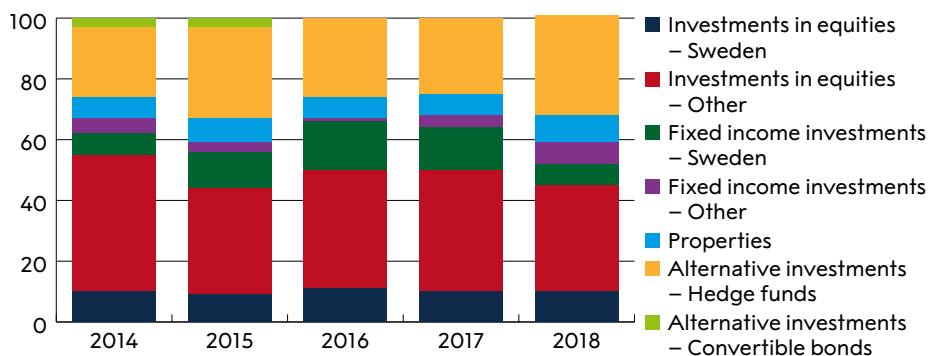
The Investment Committee itself determines what decisions it wishes to delegate to the executive management of the Foundation. Asset management is carried out with a small organisation. The Chief Investment Officer is responsible for preparing matters for decisions by the Committee, following up and executing these decisions, procuring fund managers and providing the necessary analytical and preparatory materials. The Investment Committee works without remuneration.

Overall position and profit

The market value of the Nobel Foundation's total invested capital amounted to SEK 4,338 m (4,496) at the end of 2018. Excluding the value of the Foundation's directly owned properties, investment capital amounted to SEK 4,073 m (4,263) at the end of 2018. The investment capital allocation was 44 (50) per cent equity funds and equity index futures, 9 (7) per cent property funds, 15 (17) per cent fixed income assets, 33 (26) per cent alternative assets and -1.5 (1) per cent accrued currency hedging loss.

The allocation of investment capital by asset classes diverges from reported book value because only indirectly owned properties are included under the heading "Properties" and because the allocation includes exposure from derivatives.

Allocation of capital exposures



Total return on equity including directly owned properties – growth in Foundation assets after the reversal of the overall sum of all Nobel Prizes and operating expenses – amounted to -1.4 (8.6) per cent. The year's return on investment capital was -2.1 (8.7) per cent.

Book profit for the year amounted to SEK 434.6 m (195.7). The year's improvement in profit was mainly attributable to asset management, with realised change in value during 2018 showing a net profit of SEK 483.9 m, compared to SEK 200.5 m during the preceding year. Dividends decreased from SEK 50.1 m to SEK 29.9 m.

Outflow and expenses

During 2018 the overall sum of all Nobel Prizes and operating expenses was SEK 89.6 m (102.6). This was divided among four main categories: the Prizes, SEK 36 m (45); compensation to the Prize Committees, SEK 27.4 m (27.1); the Nobel Week in Stockholm and Oslo, SEK 14.2 m (15.3); plus administration etc., SEK 12.0 m (15.1). Although operating expenses were reduced, the significantly lower expense level is primarily explained by the fact that no Nobel Prize in Literature was awarded in 2018.

In 2017 the Nobel Prize was raised from SEK 8 m to SEK 9 m per prize.

The Prize Committees are, to some extent, entitled to allocate approved compensation between years, and minor natural fluctuations may thus occur.

During the year, a new agreement was signed with Sveriges Riksbank, thereby increasing cost compensation to the Nobel Foundation from SEK 5.9 m to SEK 10.0 m. The intention is that in the future, the Riksbank will compensate the Nobel Foundation in an amount equivalent to one sixth of the Foundation's expenses for awarding five Nobel Prizes and one Prize in Economic Sciences in Memory of Alfred Nobel.

The expenditure ratio – the total amount for all Nobel Prizes and operating expenses as a percentage of the market value of the Foundation's equity on January 1 – was 2.0 (2.5) per cent in 2018.

The investment portfolio

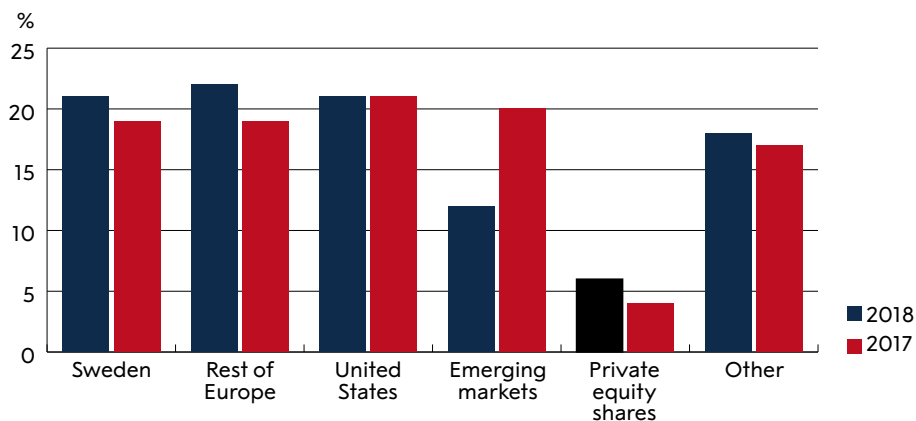
The total market value of investment capital (total invested capital excluding directly owned properties) amounted to SEK 4,073 m (4,263). Return on investment capital was –2.1 per cent, compared to –5 per cent for benchmark indices. During the past five years, investment capital rose by 42 per cent. This is 13 per cent better than the benchmark indices, which rose by 29 per cent. The Nobel Foundation also compares itself to a group of long-term Swedish investors, many of them pension companies and national pension funds. In this comparison, the Foundation was among those with the best returns in the past five years.

The primary reason why profit was stronger than benchmark indices during 2018 was lower exposure to equities and thus a lower risk level than the normal portfolio. Profit on the Foundation's property and hedge fund holdings was also significantly better than their respective benchmark indices, while investments in fixed income instruments and equity funds did not perform quite as well as their respective indices. Including currency hedging, equity funds contributed –2.2 per cent to overall profit, fixed income investments contributed 0.1 per cent, property funds 0.0 per cent and alternative investments 0.1 per cent.

Investments in equities

The market value of the Foundation's investments in equities, together with exposure to equity index futures, totalled SEK 1,809 m (2,122). Investments in equities accounted for 44 (50) per cent of investment capital at year-end 2018. The market value of private equity funds amounted to SEK 105 m (75).

Geographic allocation of equities

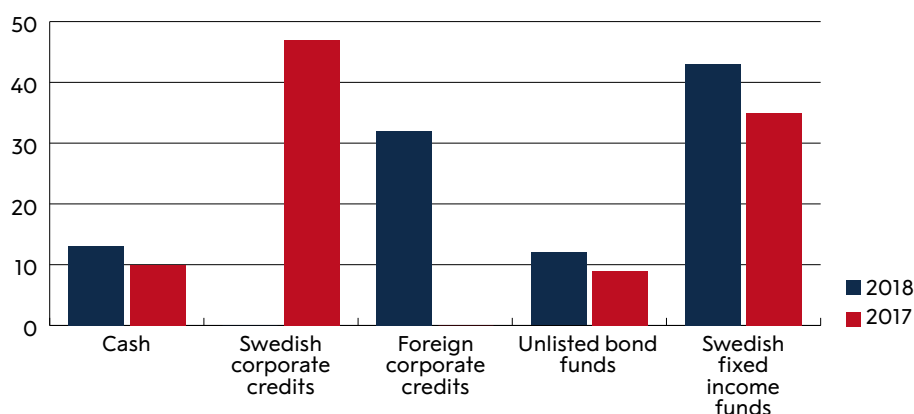


Most of the world's stock exchanges fell during 2018. The value of the Nobel Foundation's total equities portfolio including currency hedges changed by -5.7 ($+13.9$) per cent. This was somewhat weaker than its benchmark indices¹, which changed by -4.7 ($+14.5$) per cent. The somewhat weaker profit was explained primarily by effects related to currency hedging. Before currency hedging, the equities portfolio performed in line with its benchmark indices. The year's return on private equity funds was 17.1 (2.0) per cent in Swedish kronor, but the latest valuation of these funds was made on September 30, 2018.

Fixed income investments

The market value of the Foundation's fixed income assets including cash adjusted for exposure to equity index futures amounted to SEK 611 m (729). Liquid assets amounted to SEK 86 m (34). In addition, there was an accrued loss from currency hedging.

Allocation of fixed income securities



The return on the Foundation's fixed income investments amounted to 0.2 (1.9) per cent during the year. This was lower than the benchmark index², which rose by 1.0 (0.4) per cent. The main reason for this lower return was that the Foundation had a higher percentage of corporate credits and shorter duration than the benchmark index. The return on fixed income securities was the same calculated before currency hedging. The year's return on private market bond funds was 9.6 (10.3) per cent in Swedish kronor.

¹ 80% MSCI All Countries net (half of it currency hedged) + 20% SIX RX

² Handelsbanken All Bond Index

Alternative investments

The market value of the Foundation's alternative investments, of which 100 per cent consisted of hedge funds, amounted to SEK 1,355 m (1,058). Hedge funds accounted for 33 (25) per cent of total investment capital at year-end. The Foundation had holdings in five hedge funds with different strategies. There were also three holdings that were in the process of final redemption. During 2018, the hedge fund portfolio including currency hedging rose in value by 0.6 (4.8) per cent, while the corresponding figure for the benchmark index³ was a change of -6.5 (+6.0) per cent in Swedish kronor. The hedge fund portfolio before currency hedging rose by 11 per cent while the benchmark index rose by 3.9 per cent in terms of Swedish kronor.

Properties

The market value of the Foundation's holdings in property and infrastructure funds amounted to SEK 363 m (291). This accounted for 9 (7) per cent of the investment capital. The Foundation has holdings in nine property and infrastructure funds. During 2018, the value of property fund holdings including currency hedges changed by -0.7 (+10.0) per cent in Swedish kronor, while the benchmark index⁴ changed by -10.0 (+9.4) per cent. The property fund portfolio before currency hedging rose by 9.7 per cent while the benchmark index changed by -0.1 per cent in terms of Swedish kronor.

The market value of directly owned properties amounted to SEK 265 m (234). This refers to the two properties in Stockholm and Oslo which the Foundation owns. They were appraised at 6.1 (5.2) per cent of total capital.

Currency hedging

At year-end 2018, the Foundation's net investment capital was allocated among SEK 3,416 m (3,325), USD 46 m (52), EUR -2 m (7) and SEK 264 m (439) worth of other currencies. Most foreign fixed income and alternative investments and about half of exposure to equities are normally currency hedged.

At year-end 2018, the amount of underlying currency forward contracts was USD 206 m, EUR 72 m and JPY 800 m. At year-end, the value of these contracts was SEK -64 m (+63) or -1.5 (+1.5) per cent of the balance sheet.

³ HFRI Fund of Funds Composite Index (synthetically hedge to SEK)

⁴ MSCI ACWI Real Estate Index (synthetically hedged to SEK)

Allocation of profit for the year

Profit for the year before appropriations totalled SEK 434.6 m (195.7), of which SEK 483.9 m (200.5) consisted of realised change in value. In accordance with its Statutes, the Foundation is adding SEK 86.6 m (75.3) to restricted equity in order to safeguard the inflation-adjusted value of its equity over time. In its accounts, the Foundation must make a provision to restricted capital either in an amount equal to the year's inflation calculated on the basis of the market value of the Foundation's equity or equal to one tenth of total annual returns. The former alternative applies to the 2018 provision. The above allocation has been taken into account in preparing the balance sheet.

Change in equity

	Restricted equity	Unrestricted equity	Total
Amount on January 1	2,308,468	619,386	2,927,855
Capitalisation	86,609	-86,609	-
Reported income for the year		434,600	434,600
The year's Nobel Prizes		<u>-36,000</u>	<u>-36,000</u>
Amount on December 31	2,395,077	931,378	3,326,455

Financial report

Income Statement (amounts in SEK 000)

	Note	2018	2017
<i>Asset management</i>			
Interest income		3,617	11,084
Dividends		29,921	50,126
Realised change in value	1	483,876	200,454
Less direct external asset management costs	2	<u>-29,218</u>	<u>-8,442</u>
Reported profit, asset management		488,196	253,222
<i>Operating expenses</i>			
Compensation to Prize Committees		-27,408	-27,079
Central administration	3	-11,809	-13,951
The Nobel Week in Stockholm and Oslo		-14,215	-15,345
Symposium activities		-164	-1,170
Other expenses		<u>-</u>	<u>-24</u>
	4	-53,596	-57,569
Reported book profit/loss for the year before appropriations		434,600	195,653

Allocation of profit/loss for the year

Capitalisation, restricted equity		86,609	75,293
Capitalisation, unrestricted equity		<u>347,991</u>	<u>120,360</u>
		434,600	195,653
The year's Nobel Prizes		<u>-36,000</u>	<u>-45,000</u>
The year's change in book value of equity		398,600	150,653
The year's change in unrealised surplus values	5	<u>-549,799</u>	<u>107,858</u>
The year's change in market value of equity		-151,199	258,511
Adjustment for inflation	6	<u>-86,609</u>	<u>-75,293</u>
Inflation-adjusted change in equity	6	-237,808	183,218

Balance Sheet (amounts in SEK 000)

	Note	Dec 31, 2018	Dec 31, 2017
Assets			
Fixed assets			
<i>Tangible fixed assets</i>			
	7		
Buildings and land		1,396	1,396
Equipment		<u>560</u>	<u>685</u>
		1,955	2,080
<i>Financial fixed assets</i>			
Miscellaneous long-term holdings of securities	8	<u>3,199,908</u>	<u>2,571,430</u>
		3,199,908	2,571,430
Total fixed assets		3,201,863	2,573,510
Current assets			
<i>Current receivables</i>			
Prepaid expenses and accrued income	9	6,560	2,972
Other current receivables	10	<u>3,581</u>	<u>3,686</u>
		10,141	6,658
<i>Short-term investments</i>			
Miscellaneous short-term investments	11	<u>36,977</u>	<u>373,991</u>
		36,977	373,991
<i>Cash and bank balances</i>		134,295	33,894
Total current assets		181,413	414,544
Total assets		3,383,276	2,988,054

Balance Sheet (amounts in SEK 000)

	Note	Dec 31, 2018	Dec 31, 2017
Equity and liabilities			
Equity			
<i>Restricted equity</i>		2,395,077	2,308,468
<i>Unrestricted equity</i>		<u>931,378</u>	<u>619,386</u>
Total equity		3,326,455	2,927,855
Liabilities			
Accounts payable		10,176	10,535
Accrued expenses and prepaid income	12	2,825	2,831
Other liabilities	13	<u>43,820</u>	<u>46,833</u>
Total liabilities		56,820	60,199
Total equity and liabilities		3,383,276	2,988,054

Cash flow statement (amounts in SEK 000)

	2018	2017
Cash flow from asset management	488,196	253,222
Operating expenses, excluding depreciation	<u>-53,354</u>	<u>-57,301</u>
Cash flow from operations	434,842	195,921
Change in portfolio funds	-290,897	-146,853
Other changes in assets and liabilities	-7,544	-3,736
The year's Nobel Prizes	<u>-36,000</u>	<u>-45,000</u>
Cash flow for the year	100,401	332
Liquid funds on January 1	<u>33,894</u>	<u>33,562</u>
Liquid funds on December 31	134,295	33,894

Accounting principles

The Annual Report has been drawn up in compliance with the Annual Accounts Act.

Receivables have been reported at the amount the Foundation expects to be paid. Current receivables and liabilities in foreign currencies have been valued at the year-end exchange rate. Other assets and liabilities have been reported at cost.

Depreciation is based on the original costs of property, plant and equipment and is distributed over their estimated economic life. Computers are depreciated in three years, other equipment in five years. Property write-downs occur only if the value of the properties has permanently fallen below their book value.

In addition to the amount reported as direct external asset management costs, when it comes to the Foundation's unit trust (equity mutual fund) holdings, such costs are subtracted directly from the asset value of the holding.

Securities have been valued at cost or market value, whichever is lower, for the entire securities portfolio including administrative properties. When securities are sold, their cost is calculated according to the averaging method, i.e. at the average cost of all securities holdings of the same class. Gains and losses from the sale of securities are reported in the income statement as realised change in value.

The Foundation enters into currency forward contracts to hedge certain exchange rate changes. At maturity, the gain or loss on the forward contracts is reported.

The market value of certain alternative investments is affected by the fact that reporting from funds occurs with a certain time lag.

Interest is allocated among time periods on the basis of effective acquisition interest rate, which means that interest income for the period consists of coupon interest and change in accrued cost.

The Foundation has chosen to divide up its operating expenses by function. These sub-items are reported on a net basis.

Notes to the Financial Statements

(amounts in SEK 000)

Note 1

Realised change in value

	2018			2017		
	Gains	Losses	Net amount	Gains	Losses	Net amount
Fixed income investments	10,136	1,930	8,206	4,745	2,043	2,702
Equities/fund units	<u>638,670</u>	<u>163,000</u>	<u>475,670</u>	<u>286,987</u>	<u>89,235</u>	<u>197,752</u>
	648,806	164,930	483,876	291,732	91,278	200,454

Note 2

Direct external asset management costs

This item in the income statement includes certain external asset management costs (fixed and variable), discounts and taxes. In addition, there are indirect external asset management fees. The year's asset management profit of –2.1 per cent is calculated after all external asset management costs.

Note 3

Central administration

	2018	2017
Salaries and pensions, including social insurance expenses	8,690	8,438
Fees, including social insurance expenses	2,675	2,242
Travel expenses	392	150
Other personnel expenses	287	259
Office administration	1,532	1,663
Expenses for premises	2,051	1,932
Depreciation	69	76
Exchange rate differences	79	303
Other administrative expenses	<u>513</u>	<u>526</u>
	16,288	15,589
Outcome, Stockholm property	–1,950	–1,290
Outcome, Oslo property	963	1,077
Cost compensation from Sveriges Riksbank	<u>–3,492</u>	<u>–1,425</u>
	11,809	13,951

Note 4

Salaries, fees and social insurance expenses

	Board of Directors and Executive Director		Other employees	
	2018	2017	2018	2017
Salaries and fees	2,234	2,180	6,533	6,341
Social insurance expenses	385	391	3,201	3,093
– of which pension expenses	0	0	1,142	1,102

The average number of employees was 12 (11), of whom 10 (9) were women. The Board of Directors has two female members. In keeping with the Nobel Foundation's pension policy, a reverse salary sacrifice arrangement applies to the Executive Director. This is completely cost-neutral to the Foundation.

Note 5

The year's change in unrealised surplus values

<i>Equity</i>	Dec 31, 2018	Dec 31, 2017	<i>Change</i>
Market value	4,290,282	4,441,481	–151,199
Less book value	<u>–3,326,455</u>	<u>–2,927,855</u>	<u>–398,600</u>
Surplus value	963,827	1,513,626	–549,799

Note 6

Inflation-adjusted equity

<i>Market value, Dec 31, 2017</i>	4,441,481
Inflation adjustment	86,609
Inflation-adjusted equity	4,528,090
Inflation-adjusted change in equity	–237,808
<i>Market value, Dec 31, 2018</i>	4,290,282
Of which, since Dec 31, 1995*:	
Inflation adjustment	904,645
Change in inflation-adjusted value	1,229,524

*) The first year of these calculations was 1996

The inflation adjustment is made using the average value of the Swedish Consumer Price Index in 2018 compared to its average value in 2017, which amounted to an adjustment of 1.95 per cent.

Note 7
Tangible fixed assets
Buildings and land

Properties

Humlegården 15, Sturegatan 14, Stockholm (tax value 59,400)
The Norwegian Nobel Institute, Henrik Ibsens gate 51, Oslo
(no tax value due to tax exemption)

	Dec 31, 2018	Dec 31, 2017
<i>Buildings</i>		
Cost, January 1/December 31	20,148	20,148
Depreciation and write-downs, January 1/ December 31	<u>-19,129</u>	<u>-19,129</u>
	1,019	1,019
<i>Land</i>		
Cost, January 1/December 31	<u>377</u>	<u>377</u>
	377	377
Value of buildings and land, December 31	1,396	1,396
Market value, directly owned properties	264,645	233,770
Equipment		
Cost, January 1	13,415	13,308
Purchases	<u>116</u>	<u>107</u>
Accumulated cost, December 31	13,531	13,415
Depreciation, January 1	-12,730	-12,462
Depreciation for the year	<u>-241</u>	<u>-268</u>
Accumulated depreciation, December 31	-12,971	-12,730
Value of equipment, December 31	560	685
The year's depreciation was apportioned as follows:		
Central administration	-69	-76
The Nobel Week in Stockholm and Oslo	<u>-172</u>	<u>-192</u>
	-241	-268

Note 8

Miscellaneous long-term holdings of securities

	ISIN	Book value	Market value
<i>Miscellaneous equities</i>			
Profi I Fastigheter Sverige AB		<u>0</u>	<u>169</u>
		0	169
<i>Unit trusts (equity mutual funds)</i>			
Handelsbanken Europafond Index	SE0000624421	332,767	373,948
Handelsbanken Svenska Småbolag	SE0000356065	949	1,269
Handelsbanken Sverige OMXSB Index	SE0003788587	249,859	383,473
Partners Capital Condor III		14,199	16,511
Partners Capital Condor IV		8,400	19,743
Stewart Inv Asia Pac Ldrs B Acc EUR	GB00B2PDRX95	167,242	214,723
Blackrock MSCI US Equity Index ESG Screened Fund B		333,463	342,023
The Column Group III		30,060	37,670
Alpinvest Secondaries Fund VI		22,945	24,998
Guard Cap Global Equity	1E00BSJCNS13	226,449	218,806
Innovation Endeavors III LP		6,685	5,696
Skandia Japan Exponering	SE0000810764	<u>130,061</u>	<u>114,186</u>
		1,523,079	1,753,047
<i>Property funds</i>			
Carlyle Realty III (USA)		0	41,516
Carlyle Realty IV (USA)		9,717	17,817
Carlyle Realty VII (USA)		45,968	57,189
Aberdeen Property Investors (Europe)		25,550	1,381
Aberdeen Property Investors (Asia)		17,033	3,671
Global Infrastructure Partners 2		683	73,468
Global Infrastructure Partners III		85,691	101,440
EQT Infrastructure III		<u>56,662</u>	<u>65,886</u>
		241,306	362,370

Hedge funds

D E Shaw		12	352
Tudor BVI Global		101	152
Viking Global Equities III		283,320	358,458
Nektar	SE0000886871	70,818	82,438
Millennium International		217,511	400,968
Two Sigma Spectrum		257,427	400,105
AQR Style Premia Offshore Fund		99,648	110,906
Alternative Liquidity Fund		<u>7,147</u>	<u>1,344</u>
		935,985	1,354,723

*Fixed income investments
(maturity longer than one year)*

Öhman bonds		224,327	225,389
Bluebay Direct Lending Fund II		72,372	72,661
Proventus		2,086	2,444
M&G Total Return Credit Inv.	LUO895902640	<u>200,754</u>	<u>193,808</u>
		499,539	494,301

Note 9

Prepaid expenses and accrued income

	Dec 31, 2018	Dec 31, 2017
Accrued interest income	1,399	1,966
Other items	<u>5,161</u>	<u>1,006</u>
	6,560	2,972

Note 10

Other current receivables

	Dec 31, 2018	Dec 31, 2017
Nobel Week	998	884
Tax claim	1,138	1,041
Account settlement, Karolinska Institutet	1,345	1,389
Account settlement, Prize Committees	88	335
Miscellaneous receivables	<u>12</u>	<u>37</u>
	3,581	3,686

Note 11
Miscellaneous short-term investments

<i>(maturity shorter than one year)</i>	<i>Book value</i>	<i>Market value</i>
Öhman bonds	28,179	28,026
Azelio	125	125
Liquidity in managed portfolios	8,673	8,673
Market value, currency hedge		<u>-63,971</u>
	36,977	-27,147

Note 12
Accrued expenses and prepaid income

	Dec 31, 2018	Dec 31, 2017
Accrued expenses, Nobel Week	1,133	737
Accrued salaries, including holiday pay liability	377	260
Statutory payroll charges and special employer contribution	536	537
Accrued fees	267	192
Rents paid in advance	86	113
Other items	<u>425</u>	<u>992</u>
	2,825	2,831

Note 13
Other liabilities

	Dec 31, 2018	Dec 31, 2017
Debts, Nobel Laureates	41,528	45,227
Account settlement, Prize Committees	1,750	1,223
Miscellaneous liabilities	<u>542</u>	<u>383</u>
	43,820	46,833

Note 14
Assets pledged and contingent liabilities

	Dec 31, 2018	Dec 31, 2017
Assets pledged	Inga	Inga
Contingent liabilities		
Investment obligations, unlisted holdings	401,903	457,708
<i>This is capital committed (but not yet disbursed) to property and infrastructure funds as well as private equity funds and corporate debt.</i>		

Stockholm, April 3, 2019

Carl-Henrik Heldin
Chairman

Göran K. Hansson
Vice Chairman

Sara Danius

Tomas Nicolin

Thomas Perlmann

Berit Reiss-Andersen

Lars Heikensten
Executive Director

Auditors' report

To the Trustees of the Nobel Foundation,
Swedish organisation ID 802002-4462

Report on the annual accounts

Opinions

We have audited the accounts of the Nobel Foundation related to the year 2018.

In our judgement, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018 and of its financial results and cash flows for the year according to the Annual Accounts Act. The Report of the Directors is consistent with the other parts of the annual accounts.

Basis for statements

We have conducted the audit according to International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. The responsibility of the auditors according to these standards is described in more detail in the sections entitled *The responsibility of the authorised public accountant* and *The responsibility of the unqualified auditors*.

We are independent in relation to the Foundation according to generally accepted auditing standards in Sweden and as authorised public accountants have otherwise fulfilled our professional ethical responsibilities according to these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

The responsibility of the Board of Directors

The Board of Directors bears responsibility for preparing annual accounts that provide a true and fair view according to the Annual Accounts Act. The Board is also responsible for such internal controls that it deems necessary to prepare annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board is responsible for the assessment of the ability of the Foundation to continue as a going concern. It discloses, as applicable, matters that may affect the Foundation's ability to continue as a going concern and to use the going concern basis of accounting. The going concern basis of accounting is not, however, applied if the Board intends to liquidate the Foundation, to cease operations or has no realistic alternative but to do so.

The responsibility of the authorised public accountant

My objective is to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to submit an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted according to ISAs and generally accepted auditing standards in Sweden 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 influence the economic decisions that users make on the basis of these annual accounts.

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit.

I also:

- identify and assess the risks of material misstatement of the annual accounts, 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 my 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 controls.
- obtain an understanding of the Foundation's internal controls relevant to my 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 Foundation's internal controls.
- evaluate the appropriateness of accounting principles used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- conclude on the appropriateness of the Board's use of the going concern basis of accounting in preparing the annual accounts. I also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast

significant doubt on the Foundation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify my opinion about the annual accounts. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause a foundation to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

I must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. I must also inform the Board of significant audit findings, including any significant deficiencies in internal controls that I have identified.

The responsibility of the unqualified auditors

Our responsibility is to conduct an audit in accordance with the Swedish Auditing Act and thereby according to generally accepted auditing standards in Sweden. Our objective is to achieve a reasonable degree of assurance that the annual accounts have been prepared in accordance with the Annual Accounts Act and that the annual accounts provide a fair view of the Foundation's financial results and position.

Report on other legal and statutory requirements

Opinion

In addition to our audit of the annual accounts, we have also audited the Board of Directors' administration of the Nobel Foundation during the year 2018.

We have not found that any member of the Board has taken any action or been guilty of any negligence that may give rise to liability to the Foundation.

Basis for opinion

We have conducted the audit according to generally accepted auditing principles in Sweden. Our responsibility according to these standards is described in more detail in the sections entitled *The responsibility of the authorised public accountant* and *The responsibility of the unqualified auditors*. We are independent in relation to the Foundation according to generally accepted auditing standards in Sweden and have otherwise fulfilled our professional ethical responsibilities according to these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

The responsibility of the Board of Directors

The Board bears responsibility for the administration of the Nobel Foundation according to the Foundations Act and the Foundation's Statutes.

The responsibility of the auditors

Our objective concerning our audit of the administration of the Foundation, and thereby our opinion, is to obtain audit evidence to assess, with a reasonable degree of assurance, whether the Board of Directors, in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the Foundation.
- in any other way has acted in contravention of the Foundations Act, the Nobel Foundation's Statutes or the Annual Accounts Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted according to generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the Foundation.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgement, with risk and materiality as the starting point. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Foundation's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Stockholm, April 3, 2019

Jonas Björck
Chairman

Lars Bergström

Catharina Larsson

Tomas Riad

Bettina Banoun

Jonas Svensson
Authorised Public Accountant

Organisational structure

Trustees of the Nobel Foundation

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Professor Siv Andersson
Professor Stefan Claesson
Professor Per Delsing
Professor Tore Ellingsen
Professor Dan Larhammar
Professor Sven Lidin

Deputy Trustees:
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Professor Olle Inganäs
Professor Anne L'Huillier
Professor Kerstin Lidén

Elected by the Nobel Assembly at Karolinska Institutet

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Professor Klas Kärre
Professor Anna Wedell

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Elected by the Swedish Academy

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Deputy Trustees:
Professor Kristina Lugn
Professor Göran Malmqvist

Elected by the Norwegian Nobel Committee

Ms Anne Enger
Professor Henrik Syse
Dr Asle Toje

Deputy Trustees:
Mr Thorbjørn Jagland
Professor Olav Njølstad

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Professor Göran K. Hansson, Vice Chairman
Secretary General of the Royal Swedish Academy of Sciences

Dr Lars Heikensten,
Executive Director

Professor Sara Danius
Permanent Secretary of the Swedish Academy

Mr Tomas Nicolin, MSc

Professor Thomas Perlmann
*Secretary of the Nobel Assembly at Karolinska Institutet
ad of the Nobel Committee for Physiology or Medicine*

Mrs Berit Reiss-Andersen
Chair of the Norwegian Nobel Committee

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Investment Committee

Mr Tomas Nicolin, MSc, Chairman

Professor Magnus Dahlquist

Dr Lars Heikensten

Professor Carl-Henrik Heldin

Mr Kent Janér

Mr Sven Nyman

Ulrika Bergman, Chief Financial Officer

Auditors

Dr Jonas Björck
Chairman

appointed by the Swedish Government

Mr Jonas Svensson
Authorised Public Accountant

elected by the Trustees of the Nobel
Foundation

Professor Lars Bergström

elected by the Royal Swedish Academy of
Sciences

Professor Catharina Larsson

elected by the Nobel Assembly at
Karolinska Institutet

Professor Tomas Riad

elected by the Swedish Academy

Bettina Banoun

elected by the Norwegian Nobel
Committee

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