

NOVO NORDISK A S
Form 6-K
February 25, 2004

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

18 February 2004

NOVO NORDISK A/S

(Exact name of Registrant as specified in its charter)

**Novo Allé
DK- 2880, Bagsvaerd
Denmark**

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g-32(b):82- _____

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	1999 DKK million	2000 DKK million	2001 DKK million	2002 DKK million	2003 DKK million	Change 2002-2003	2002 EUR million	2003 EUR million
Net turnover								
Diabetes care	11,777	14,578	16,624	17,665	18,723	6%	2,374	2,516
<i>Biopharmaceuticals:</i>								
Haemostasis management (NovoSeven®)	1,313	2,270	3,096	3,621	3,875	7%	485	520
Growth hormone therapy	1,721	2,107	2,164	2,131	2,220	4%	287	298
Hormone replacement therapy	1,130	1,306	1,435	1,342	1,331	(1%)	180	178
Other	482	550	457	428	392	(8%)	57	52
Total turnover	16,423	20,811	23,776	25,187	26,541	5%	3,383	3,564
Europe	7,796	9,189	10,605	10,933	11,743	7%	1,470	1,577
North America	2,769	4,114	5,277	5,913	6,359	8%	794	854
Japan & Oceania	3,761	4,697	4,498	4,239	4,210	(1%)	569	565
International Operations	2,097	2,811	3,396	4,102	4,229	3%	550	568
Total turnover	16,423	20,811	23,776	25,187	26,541	5%	3,383	3,564
Price and volume/mix	15%	16%	17%	11%	15%			
Currency	5%	11%	(3%)	(5%)	(10%)			
Total growth	20%	27%	14%	6%	5%			
Key figures								
Operating profit (EBIT)	3,527	4,816	5,614	5,979	6,384	7%	804	857
Net financials	(178)	24	416	321	999	211%	42	135
Profit before taxation	3,349	4,840	6,030	6,300	7,383	17%	846	992
Net profit	2,001	3,087	3,865	4,095	4,858	19%	551	653
Shareholders funds	15,876	16,981	20,137	22,928	25,224	10%	3,080	3,388
Total assets	23,082	24,920	28,905	31,496	34,394	9%	4,231	4,620
Capital expenditure (net)	1,265	2,141	3,846	4,011	2,312	(42%)	539	309
Free cash flow	1,533	2,712	186	497	3,846	674%	67	517
Per share/ADR of DKK 2								
Earnings per share	5.60	8.84	11.18	11.81	14.24	21%	1.59	1.91
Earnings per share diluted	5.59	8.82	11.10	11.72	14.14	21%	1.57	1.90
Proposed dividend	1.95	2.65	3.35	3.60	4.40	22%	0.48	0.59
Quoted price at year-end for B shares	178	285	342	205	241	18%	28	32
	1999	2000	2001	2002	2003	Long-term financial targets		

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Ratios	%	%	%	%	%	%
Growth in operating profit (EBIT)	20.3	36.5	16.6	6.5	6.8	15
Growth in operating profit, three-year average	N/A	25.7	24.5	19.9	10.0	
Operating profit margin	21.5	23.1	23.6	23.7	24.1	25
Return on invested capital (ROIC)	15.3	22.0	23.1	20.1	19.1	25
Cash to earnings	76.6	87.9	4.8	12.1	79.2	
Cash to earnings, three-year average	48.4	66.5	56.4	34.9	32.0	60
Net profit margin	12.2	14.8	16.3	16.3	18.3	
Return on shareholders funds	12.6	18.8	20.8	19.0	20.2	
Equity ratio	68.8	68.1	69.7	72.8	73.3	
Change in market capitalisation	13.7	56.2	20.4	(40.4)	15.4	

Figures for 1999 are derived from the consolidated accounts of the former Novo Nordisk Group (prior to the demerger) all dividend is allocated to the continuing Novo Nordisk. Key figures and per share data are translated into EUR as supplementary information the translation is based on the currency rate at 31 December 2003 (EUR 1=DKK 7.4446).

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Lars Rebien Sørensen, president and CEO, and Mads Øvlisen, chairman of the Board of Directors.

Welcome letter

Continuing focus on operational excellence

The corporate world, and with that Novo Nordisk, faces many challenges these years, several of which are specifically related to the pharmaceutical industry. Can corporations be trusted? Public trust is of paramount importance for corporations, and especially pharmaceutical companies, who rely on public acceptance to be able to innovate and to operate.

Whom do corporations serve? Not so many years ago, we would have said the shareholders, without hesitation. But increasingly business enterprises are recognising commitments to several other stakeholders such as customers, employees, societies at large in addition to shareholders. In order to serve the long-term interest of stakeholders, companies must regard it as a core part of their business to assume a wider responsibility and consider broadly the wide range of factors which may impact its ability to generate returns over long periods of time.

To reflect this broader view, which for several years has guided the way Novo Nordisk conducts its business, at this year's Annual General Meeting the Board of Directors will ask our shareholders to amend the company's Articles of Association. After this change, the articles will specify that the company besides its financial purpose will strive to achieve its objectives in an environmentally and socially responsible way. This is the Novo Nordisk way of doing business.

Good governance is not just a fashionable topic, but a continuous process which seeks to align the way companies are controlled and managed with the ever changing societal conditions and expectations. In fact it is never a job done it is continuous hard work. In 2003 we strengthened our risk management system, we continued our work on board self-evaluation and developed a new long-term share-based incentive programme for executives to replace the existing share option-based scheme which will be presented at the Annual General Meeting.

For Novo Nordisk and for other research-based companies innovation is our biggest challenge: the ability to consistently generate new pharmaceuticals that meet significant medical needs and hence warrant the investment of capital and efforts, as well as justifying the application of break-through technologies and animal testing.

Our focus over the last few years has been on operational excellence. This has led to a strengthening of our business operations, manufacturing, staff and quality functions and an overhaul of the way we conduct our research and development activities.

We are as the first insulin supplier close to having a full insulin analogue portfolio. Our innovative insulin analogues will offer superior glucose control and convenience to people with diabetes. The insulin market thus changes from a generic market to a market of value-adding proprietary insulin.

Our search for new and improved oral therapies for type 2 diabetes continues. And we believe we have an important research pipeline in this field. However, general disappointments

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Welcome letter continued

within research into oral antidiabetic drugs have only further strengthened the importance of insulin as the ultimate drug for treating diabetes.

We have gained new knowledge about the potential use of NovoSeven® in critical life- or limb-threatening bleeds. In particular the confirmation from phase 2 clinical studies that NovoSeven® does reduce the need for blood transfusions in connection with traumatic injuries was highly promising and encouraging. Furthermore, we have taken the first steps to build a portfolio of new biopharmaceutical drugs within the areas of inflammation and cancer which hold promise for the longer term.

We have strengthened our market position, especially as a result of the roll-out of our rapid-acting (NovoRapid®/NovoLog®) and our dual-acting insulin analogue preparations (NovoMix® 30/ NovoLog® Mix 70/30). In particular our business in the US has developed nicely, and enabled us to make further investments both in our US organisation, in local manufacturing and also in expanded clinical development activities for this the world's biggest market for pharmaceuticals.

We have consolidated our European organisation with its headquarters in Switzerland, and we are accelerating our expansion in the developing part of the world.

Throughout 2003, we have tightly managed our cost base, by improving operational efficiency without sacrificing medium-to long-term growth opportunities. This has only been possible through an impressive effort, creativity and dedication from staff throughout our company. Measurement of working climate indicates that this has been accomplished without affecting employee morale. In fact morale is at an all-time high! This tells something about the quality of Novo Nordisk people.

Our financial performance in 2003 was, considering the adverse currency environment, satisfactory. We saw significant growth in operating profit in local currencies, but the weak invoicing currencies, particularly the US dollar and Japanese yen, reduced growth rates based on Danish kroner results significantly. Our hedging practices retained earnings short term but it is clear that the current currency environment is very challenging for European-based companies if it persists longer term.

We are very pleased to note that the shareholders, who have loyally supported the company in 2003, were rewarded with an appreciation of Novo Nordisk's share price.

On the cover of this report we asked the question 'What does being there mean to you?' Being there is our promise, and in the *Annual Review 2003* we have given examples of what being there means to Novo Nordisk. We value all our stakeholders' opinions and so invite readers to tell us what this means to you. E-mail your thoughts and ideas to beingthere@novonordisk.com.

Mads Øvlisen, chairman of the Board of Directors Lars Rebien Sørensen, president and CEO

Management report

Financial performance

Operating profit increased by 7% to DKK 6,384 million in 2003 and net profit increased by 19% to DKK 4,858 million. Sales in local currencies increased by 15% compared to 2002. Measured in Danish kroner sales increased by 5% to DKK 26,541 million in 2003. The performance in local currencies per therapy area was as follows:

Diabetes care sales increased by 16%.
In biopharmaceuticals:

Haemostasis management sales increased by 20%.

Growth hormone therapy sales increased by 13%.

Hormone replacement therapy sales increased by 5%.

Business highlights

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Novo Nordisk's business events and highlights from the year are as follows:

Research and development

Several development milestones have been met over the past year and expansion of collaborations within research continued.

Liraglutide, also known as NN2211, achieved Clinical Proof of Concept (CPoC).

The US Food and Drug Administration issued an Approvable Letter for insulin detemir (Levemir®).

The European Union's Committee for Proprietary Medicinal Products (CPMP) issued a positive opinion on NovoSeven® for prevention of bleeding during invasive procedures in people with factor VII deficiency, and treatment of Glanzmann's thrombasthenia. Late in the year NovoSeven® obtained CPoC for use in victims of traumatic injury. And in January 2004, CPoC was obtained for the use of NovoSeven® in connection with liver transplantation.

The European Agency for the Evaluation of Medicinal Products (EMA) approved Norditropin® SimpleXx® for treatment of children born small for gestational age.

To expand the portfolio of potential new biopharmaceutical drugs Novo Nordisk entered into a collaboration agreement with ZymoGenetics for the preclinical development of inter-leukin-21 (IL-21), a potential cancer therapy.

Novo Nordisk acquired the North American rights from Zymo-Genetics to develop drugs targeting the Interleukin-20 receptor, and thereby a potential therapy against severe psoriasis. Novo Nordisk now holds global rights for this application.

Development of the North American market

Solid insulin sales growth in North America in 2003 is to a large extent driven by the penetration of Novo Nordisk's insulin analogues, in particular NovoRapid® (NovoLog® in the US). The launch of NovoMix® 30 (NovoLogMix® 70/30 in the US) in the disposable delivery device FlexPen® in late 2002 is underpinning this growth. Insulin analogues now comprise more than one-third of Novo Nordisk's total insulin sales in North America.

The growth opportunities for Novo Nordisk in the US remain significant and Novo Nordisk is therefore increasing its sales force in the US by approximately 150 new sales representatives. The focus of these sales representatives will be key strategic products including NovoLog®, NovoLogMix® 70/30 and FlexPen®.

The development of sales of NovoSeven® in North America was very positive, and several clinical studies are ongoing to

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support the expansion of the use of NovoSeven® into areas of critical and life- or limb-threatening bleeds.

Sales of Norditropin® SimpleXx® for treatment of short stature continue to expand strongly.

Regarding Novo Nordisk's HRT portfolio in the US, in July 2003 Novo Nordisk assumed US marketing rights for Activella® and Vagifem® back from Pfizer.

Consolidation in Europe

Novo Nordisk has consolidated its organisation in Europe, managed out of the headquarters in Zurich, Switzerland. Under difficult political market conditions Novo Nordisk managed to grow the business significantly in all major areas: in diabetes care with the continued penetration of NovoRapid® and NovoMix® 30, with NovoSeven® and with Norditropin® SimpleXx®.

Expansion in Latin America

The Brazilian anti-trust authorities granted final approval of Novo Nordisk's acquisition of Biobrás in 2003. The decision by the Administrative Council of Economic Defence (CADE) came approximately 18 months after Novo Nordisk acquired the majority of the shares in the Brazilian pharmaceutical company.

Investments

The total investments in facilities during 2003 amounted to 2.3 billion Danish kroner, which was necessitated by the increasing demand for the company's products.

Production for regulatory approval has started at the bulk insulin factory in Kalundborg, Denmark, which is expected to begin producing insulin for consumer use in 2004. With a total investment of about 2.5 billion Danish kroner the factory will be Novo Nordisk's primary supplier of insulin and insulin analogues.

Novo Nordisk began a 1 billion Danish kroner (135 million euros) expansion of its factory in Chartres, France. The factory produces FlexPen® and Penfill®. It is Novo Nordisk's largest production facility outside Denmark.

Novo Nordisk intends to invest more than 200 million US dollars (1.2 billion Danish kroner) in a new production plant in Brazil, as an expansion of the former Biobrás facility, with the project initiation taking place in the first half of 2004.

Corporate governance

Developments in 2003 and proposals for 2004 are as follows:

Articles of Association

In order to serve the long-term interest of the shareholders, at the Annual General Meeting in March 2004 the Board of Directors will propose an amendment to the company's Articles of Association to specify that the company will strive to conduct its activities in a financially, environmentally and socially responsible way.

Board of Directors

In March 2003, Sten Scheibye, CEO of Coloplast A/S, was elected as member of the Board of Directors. At the same time Niels Jacobsen and Jørgen Wedel were re-elected to the Board.

Shareholder-elected board members have historically served a three-year term and could be re-elected. At the Annual General Meeting in March 2004 the Board of Directors will propose that the term of office is reduced to one year in order to facilitate a more flexible succession process. Continuity will still be ensured as the proposal will not affect the possibility of being re-elected.

Audit Committee

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The Board has historically worked without permanent committees. However, in line with international trends and in accordance with the Sarbanes-Oxley Act in the US the Board will in March 2004 establish an Audit Committee, which will be responsible for a number of predefined tasks such as the oversight of the external auditors and procedures for handling complaints regarding financial reporting matters.

Long-term share-based incentive programme

As from 2004 the grant of share options as long-term benefit to senior management will be replaced by a new performance-based incentive programme where Novo Nordisk B shares will annually be allocated to a bonus pool when predefined overall business-related targets have been achieved. The maximum annual allocation of shares to the bonus pool will be capped. The shares in the bonus pool will be paid out to the executives following a three-year vesting period.

Dividends and share repurchase

At the Annual General Meeting on 16 March 2004, the Board of Directors will propose a dividend for 2003 of DKK 4.40 per share of DKK 2, an increase of 22% compared to 2002 and corresponding to a pay-out ratio of 30.6%. No dividend will be paid on the company's holding of own shares.

During 2003 Novo Nordisk repurchased own shares worth DKK 1.6 billion corresponding to 7,230,000 B shares and thereby completed the share repurchase programme announced in August 2002.

At the end of 2003, and as of 5 February 2004, Novo Nordisk A/S and its wholly-owned affiliates owned 16,542,841 of its own B shares corresponding to 4.66% of the total share capital.

Long-term financial targets

The long-term financial targets of Novo Nordisk were defined and communicated to the stock market in 2001:

Operating profit (EBIT) growth of 15% per annum

Operating margin (EBIT margin) of 25%

Return on invested capital (ROIC) of 25% per annum

Cash to earnings ratio of 60% as a three-year average.

The targets, defined as reported results measured in Danish kroner, were selected to ensure management focus on long-term growth of the business, transformation of results into cash and a significant improvement in return on invested capital. The pursuit of these long-term targets will support the creation of a competitive shareholder return. As demonstrated by the moderate growth in operating profit in both 2002 and 2003 the development in the exchange rates can have significant impact on the reported growth in operating profit in an individual year. In fact, if Novo Nordisk's main invoicing currencies remain at their current level it is unlikely that in 2004 Novo Nordisk will be able to meet its 15% operating profit growth target. The company's view is, however, that the 15% growth target is a re-

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Management report

alistic target which Novo Nordisk will be able to meet in most years, based on the performance of the recurring business and assuming that currencies are relatively stable. In other words, the company's ability to deliver on the target in a particular year will be impacted by significant changes in currency exchange rates or events of a non-recurring nature.

Outlook 2004

Novo Nordisk will with effect from 1 January 2004 prepare financial statements using International Financial Reporting Standards (IFRS). The change from historically applied Danish Generally Accepted Accounting Principles (Danish GAAP) will ensure that Novo Nordisk complies with the EU requirement for listed companies of adopting IFRS before the end of 2005.

The guidance in this outlook section is provided using IFRS accounting principles. The adoption of IFRS will have no significant impact on the reported operating profit growth, the balance sheet or the operating free cash flow, but for reference Novo Nordisk has included a comment to the IFRS-based guidance, indicating the comparable guidance if Danish GAAP had been applied for 2004. Please refer to pages 51-53 for further details of the consequences of this change on the 2002 and 2003 financial statements.

Expectations of a strong demand for insulin products in general and the continued market penetration of the Novo Nordisk insulin analogue portfolio, combined with the expectations of increasing NovoSeven® and Norditropin® SimpleXx® sales, underpin the expectations of a double-digit percentage point growth in sales for 2004 measured in local currencies. However, if the current level of Novo Nordisk's major currencies remains throughout the year, the sales growth measured in DKK is expected to be high single-digit. The expected sales growth for 2004 would have been similar if Danish GAAP had been applied for 2004.

For 2004, operating profit growth measured in local currencies and excluding the impact from non-recurring items is expected to be in line with Novo Nordisk's long-term target of growing operating profit by 15%. However, the operating profit for 2004 measured in Danish kroner is expected to be at the level of 2003, reflecting a significant negative currency impact and a lower level of non-recurring income in 2004 compared to 2003. The expected development in operating profit from 2003 to 2004 would have been similar if Danish GAAP had been applied.

As Novo Nordisk has hedged expected cash flows for 2004 in relation to US dollars, Japanese yen and British pounds, the negative influence from the depreciation of those main currencies versus DKK on operating profit will be partly offset by currency hedging gains included in net financials.

Novo Nordisk's reported Net financials will be impacted by the change in accounting policies to IFRS as from 2004 and onwards. The key change will be that Novo Nordisk's share of the profit & loss in both ZymoGenetics Inc and Aradigm Corporation in the future will be recorded as Share of profit and loss in associated companies included in Net financials. Historically, using Danish GAAP Novo Nordisk's share of net losses have been included in Research and development costs. Given the conversion to IFRS, Novo Nordisk expects Net financials in 2004 to provide an income of DKK 250 million, reflecting

A financial income, net (excluding Novo Nordisk's share of loss & profit in associated companies) to be around DKK 450 million; primarily reflecting the impact of the forward contracts hedging future cash flows; and

A negative impact from its share of profit & loss from associated companies of around DKK 200 million, reflecting expectations of net losses in ZymoGenetics Inc and Aradigm Corporation.

The expected Net financials for 2004 would have been an income of DKK 650 million if Danish GAAP had been applied for 2004. This higher level of expected Danish GAAP Net financials is partly reflecting two elements: the historic treatment of Novo Nordisk's share of losses in associated R&D companies as being included in R&D costs, and the ability to defer the recording of income related to currency options hedging future cash flows to the period in which the cash flow is realised.

For 2004 Novo Nordisk expects the tax rate to be 33%, 1 percentage point lower than the tax rate realised in 2003. The expected tax rate for 2004 would have been similar if Danish GAAP had been applied for 2004.

Novo Nordisk plans to invest around DKK 3 billion in fixed assets in 2004, and depreciations and amortisation are expected to be realised at the level of DKK 1.8 billion. The expected investments and depreciations and amortisation for 2004 would have been similar if Danish GAAP had been applied for 2004.

The free cash flow is expected to be around DKK 3 billion. The expected free cash flow for 2004 would have been similar if Danish GAAP had been applied for 2004.

Forward-looking statement

The above contains forward-looking statements as the term is defined in the US Private Securities Litigation Reform Act of 1995. Forward-looking statements provide our expectations or forecasts of future events such as new product introductions, product approvals and financial performance. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, and other words and terms of similar meaning in connection with a discussion of future operating or financial performance.

Such forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations and it may cause any or all of our forward-looking statements here or in other publications to be wrong. Factors that may affect future results include interest rate and currency exchange rate fluctuations, delay or failure of development projects, production problems, unexpected contract breaches or terminations, government-mandated or market-driven price decreases for Novo Nordisk's products, introduction of competing products, Novo Nordisk's ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws and related interpretation thereof, and unexpected growth in costs and expenses.

Risks and uncertainties are further described in reports filed by Novo Nordisk with the US Securities and Exchange Commission (SEC) including the company's Form 20-F, which was filed on 27 March 2003. Please also refer to the section "Financial risk factors and financial risk management" in this *Annual Financial Report 2003*. Novo Nordisk is under no duty to update any of the forward-looking statements or to conform such statements to actual results, unless required by law.

6 MANAGEMENT REPORT

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Novo Nordisk is a healthcare company and a world leader in diabetes care. The company has the broadest diabetes product portfolio in the industry, including the most advanced products within the area of insulin delivery systems.

In addition, Novo Nordisk has a leading position within areas such as haemostasis management, growth hormone therapy and hormone replacement therapy. Novo Nordisk manufactures and markets pharmaceutical products and services that make a significant difference to patients, the medical profession and society.

With headquarters in Denmark, Novo Nordisk employs approximately 18,800 full-time employees in 69 countries, and markets its products in 179 countries. Novo Nordisk's B shares are listed on the stock exchanges in Copenhagen and London. Its ADRs are listed on the New York Stock Exchange under the symbol NVO. For more information, visit novonordisk.com.

Research and development pipeline

Phase	Compound	Indication	Description
Phase 1 The substance is tested on a limited number of healthy volunteers	NN344	Type 1 and 2 diabetes	A soluble, long-acting human insulin analogue for treatment of diabetes, with long duration of action and a very predictable response.
	NN2501	Type 2 diabetes	An oral tablet for the treatment of type 2 diabetes, which inhibits excessive hepatic glucose production.
Phase 2 The substance is tested on a limited number of patients in short-term treatment	Liraglutide (NN2211)	Type 2 diabetes	A once-daily, long-acting derivative of the natural human hormone GLP-1 for treatment of type 2 diabetes. Liraglutide has been shown to lower blood glucose with little or no risk of inducing hypoglycaemia, and is expected to affect appetite regulation leading to weight management. Liraglutide may also have beta-cell regenerative capacity. Liraglutide has completed phase 2.
	Balaglitazone (NN2344)	Type 2 diabetes	A potent insulin sensitiser for the treatment of type 2 diabetes, which increases glucose uptake in the peripheral tissue.
	NovoSeven®	Critical bleeding	Clinical programme aimed at regulatory filing of new indications for NovoSeven®. The project aims to position NovoSeven® as the world's first haemostatic agent for critical bleeds.
	ASIS	Acute Respiratory Distress Syndrome	A project focused on using Active Site Inhibited Seven (ASIS) for the treatment of Acute Respiratory Distress Syndrome (ARDS)
	Growth hormone therapy (NN1620)	Complicated fractures	A project focused at using growth hormone for treating complicated fractures.
Phase 3 The substance is tested on a large number of patients in long-term treatment	AERx® iDMS (NN1998)	Type 1 and 2 diabetes	The AERx® insulin Diabetes Management System is a delivery system for administering insulin to people with type 1 and 2 diabetes by inhalation.
	NovoMix® 50 and 70 (NN1185)	Type 1 and 2 diabetes	Premixed formulations of the rapid-acting insulin analogue, insulin aspart. Provide a combined rapid- and intermediate-acting insulin effect (at the ratio of 50/50 or 70/30)

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Submitted for registration

Following clinical trials, applications for registration are submitted to the authorities in the countries where marketing approval is sought

Levemir
(insulin detemir,
NN304)

Type 1 and 2
diabetes

A soluble basal insulin analogue with neutral pH, providing a more predictable action profile and offering a longer duration of action compared to conventional basal insulin. Levemir offers clinical advantages by providing more consistent and predictable blood glucose levels leading to improved glycaemic control, lower risk of hypoglycaemia, especially at night, and no undesirable weight gain – a common side effect of other basal insulins.

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Risk management

Like in all other industries, doing business in the pharmaceutical industry involves risks. Consequently, Novo Nordisk strives towards having a risk management system in place where all significant risks are identified, assessed and managed.

Novo Nordisk has defined risk as: Any event that could have a significant negative impact upon our ability to meet our objectives. In this context the main objective is defined as Novo Nordisk's ability to pursue the Vision and the long-term financial targets.

Risk management process

Novo Nordisk has recently established a consolidated risk reporting system. Key risks identified in the organisation are continuously monitored and reported through an evaluation process and through committees and line management to the senior management. The evaluation is performed on two parameters, the risk's potential impact and by the likelihood of it occurring (both measured before and after mitigating actions). Regular feedback is provided by senior management to the appointed risk owners to ensure that Novo Nordisk focuses on the most important risks.

The figure below is a high-level illustration of the risk reporting system.

Senior management

Risk evaluation. Regular feedback (green arrows) is provided by senior management via committees and line management to the appointed risk owners to ensure that Novo Nordisk focuses on the most important risks.

Committees and line management business risk evaluation

The evaluation is based on various factors for example by the risk's potential impact and by the likelihood of it occurring.

Organisation

Key risks (red arrows) are identified in the organisation and are continuously monitored and reported through an evaluation process.

In the future Novo Nordisk expects to link the risk management system with the Balanced Business Scorecard.

Risk factors

Novo Nordisk faces both general business risks and industry-related risks. In both cases materialisation of key risks could potentially mean that realised profits could differ significantly from the forward-looking statements made by Novo Nordisk. In order to be able to manage key risks in Novo Nordisk, the following high-level risk areas have been identified:

corporate ethics and human resources

development of new drugs

manufacturing and quality

competition

security, litigation and financial risks.

Corporate ethics and human resources

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One of Novo Nordisk's corporate values is to be socially responsible. Thus, the company seeks to limit or reduce any risks to the environment arising from its activities. This requires an efficient use of resources, reducing emissions and waste, as well as compliance with environmental laws and relevant requirements. Risk assessments also include an evaluation of suppliers' social and environmental performance, regardless of where they operate.

In a global business world with intense competition for talented people, the ability to attract and retain talented individuals remains a precondition for Novo Nordisk's ability to pursue its vision. Therefore Novo Nordisk offers employees innovative and challenging jobs, training, coaching and development, and industry competitive remuneration.

Stem cell research is an example of risks related to corporate ethics. In 2003 the Danish government encouraged a debate to clarify the ethical issues prior to legislation on stem cell research. There was a risk that Novo Nordisk might not be able to pursue its research in this field, which is currently the most promising approach to finding a cure for type 1 diabetes. The company played an active role in the ethical and scientific clarification, publicly communicated its position on these issues and made clear its commercial interests. Subsequently, the Danish Parliament decided to allow research on human embryonic stem cells.

Development of new drugs

Developing new drugs involves substantial risks for a pharmaceutical company. Delays or failure to obtain approval from regulatory authorities could have a significant impact on Novo Nordisk's ability to reach its long-term financial targets. Consequently, the progress of promising drug candidates until

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they reach marketing approval is subject to ongoing risk assessment. The business risk inherent in an approval process can be illustrated by Novo Nordisk's long-acting insulin analogue, Levemir, where the regulatory authorities in Europe asked for additional preclinical work to be carried out before potentially granting a positive opinion, which is expected to eventually lead to the launch of Levemir in selected markets in 2004.

Patents and other proprietary rights are important in order to develop and maintain Novo Nordisk's competitive position. The risk of Novo Nordisk infringing other companies' patents or brands, as well as other companies' potential attempts of infringement of Novo Nordisk's patents and brands are closely monitored, and if necessary actions are initiated.

Manufacturing and quality

Novo Nordisk has concentrated the major part of its manufacturing capacity in a few sites in Denmark. Though the production sites are located in areas historically free of natural disasters, the geographical concentration and the derived inherent risk requires extra planning from a contingency perspective. This contingency planning includes implementing preventive measures against adverse events and precautionary inventory management. Further expansion of the production capacity is based on careful risk assessments taking several issues into account; like concentration of production, availability of sufficiently skilled work force and currency risk. In 2003, Novo Nordisk has announced new investment projects in production facilities outside Denmark, for example in Brazil and France.

An example of a risk within this area is the ongoing regulatory approval of our new insulin bulk production facility in Kalundborg, Denmark, where regulatory approval is a precondition for Novo Nordisk's long-term ability to supply insulin to market.

Meeting quality standards for manufacturing processes is a precondition for being competitive. Quality therefore establishes a minimum threshold that companies need to meet to fulfil regulatory requirements and customer expectations.

Competition

The markets in which Novo Nordisk is operating are highly competitive. If, for example, new and more effective treatment regimes for diabetes were introduced by a competitor the impact on Novo Nordisk's sales could be significant. In addition, a competitive market could lead to market-driven or government-mandated price decreases. In Japan, for example, government-mandated price reductions have been initiated every second year. Both competition and price are risks that can have a significant impact on Novo Nordisk's ability to reach the long-term financial targets. Consequently, Novo Nordisk monitors economic and competition development as well as price control initiatives in all significant markets.

Increasing parallel trade with Novo Nordisk's products inside the European Union from low-price markets, like Spain and Greece, to higher priced markets, like Germany and the UK, may impact the profitability of the company. Possibilities for reducing this risk are few except for raising awareness regarding the potential quality defects of products being re-shipped and repacked by other manufacturers than the original manufacturer.

Security, litigation and financial risk

As a pharmaceutical company Novo Nordisk is dealing with both confidential and sensitive information. Inappropriate access and unauthorised change of this information could have negative consequences for Novo Nordisk. Consequently, procedures for access to important data and access to IT systems are established and closely monitored.

Novo Nordisk is involved in various legal proceedings, including patent infringement suits and various other matters. Risks related to these legal proceedings are monitored closely. An example of such a risk is an ongoing dispute with Polish customs authorities who, in parallel with similar disputes with other large international pharmaceutical importers, have claimed misstatement of Novo Nordisk customs value for imported products in the period from 1999 and until the end of 2001.

As a company with global operations, foreign exchange risk is the principle financial risk factor within Novo Nordisk and as such has a significant impact on the profit and loss account. On a 1-2 year horizon, Novo Nordisk protects itself against currency fluctuations by using financial hedging instruments, whereby the impact on the financial result from foreign exchange fluctuation is reduced and postponed. In the long term Novo Nordisk's approach to currency risk management is to establish a better match between the sources of income and location of assets and activities in general.

The management of financial risk has been centralised in Novo Nordisk. The overall objectives and policies for Novo Nordisk's financial risk management are outlined in the Treasury Policy, which covers foreign exchange, investments, financing and credit risk on financial

counterparts.

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Environmental and social discussion

Novo Nordisk manages its business with the Triple Bottom Line approach – a commitment to balance concerns for society and the environment with economic growth.

This discussion focuses on Novo Nordisk's environmental and social results from 2003. This information is deemed to be material for Novo Nordisk's future business. For a complete status on performance, progress, positions and strategic initiatives, please refer to the *Sustainability Report 2003*. This report has been prepared in accordance with the Global Reporting Initiative's Guidelines and assured according to the AA1000 Assurance Standard – the emerging global standards for best practice sustainability reporting.

Linking business targets to sustainability goals

A set of twenty top-level indicators help track performance over time. They relate to six strategic areas: living our values, access to health, our employees, our use of animals, eco-efficiency and compliance, and economic contribution. The indicators have been defined through consultation with stakeholders, while methods of measuring and targets are set by Novo Nordisk's management.

Living our values

The annual employee survey, eVoice, measures how well the vision and values are perceived to be anchored in daily business practices. Regular independent facilitations assess compliance with the Novo Nordisk Way of Management. In 2003, 99% of identified corrective actions were accomplished.

Social and environmental responsibility extends throughout the supply chain. By 2003, suppliers covering 31% of the total value of Novo Nordisk's purchases have been evaluated through a self-assessment questionnaire, with respect to basic labour rights and environmental management. In total 87.6% reported that they had satisfactory performance. No major violations were reported. From 2004 the programme will expand to other business areas and will include audits.

Access to health

Novo Nordisk has built its strategy for improved access to diabetes care on the World Health Organization's (WHO) key priorities: national healthcare strategies, national healthcare capacity, best possible pricing and additional funding. Major activities in 2003 include a collaboration with the University of Oxford and WHO to create the Oxford Vision 2020, and a partnership with the UK's National Health Service and the University of Oxford to establish the Oxford Centre for Diabetes, Endocrinology and Metabolism, which combines basic and clinical research with patient care and medical training. Novo Nordisk's National Diabetes Programme assists governments in implementing strategies for improved diabetes care, and Novo Nordisk's affiliates have launched more than 130 initiatives in their local markets. Novo Nordisk, the WHO and the International Diabetes Federation (IDF) drafted a Declaration of Africa on Diabetes, with a commitment to prepare an action plan.

In 2003 the best possible pricing scheme for Least Developed Countries (LDC) was offered to the 49 LDC countries. Sixteen of these countries chose to purchase insulin under this scheme.

Our employees

As of 2002, health and safety data are collected for the entire organisation. Through a focus on prevention, the frequency of occupational injuries continues to decrease; in 2003 the rate was 5.4% as compared to 8.9% in 2002. To support the internationalisation of Novo Nordisk and to better reflect the increasing diversity in societies, all business units are engaged in Novo Nordisk's equal opportunities programme. In 2003, 89% of the targets defined in local action plans were met.

Our use of animals

Novo Nordisk's goal is to reduce, refine and replace animal experiments and to improve animal welfare. In 2003, the number of animals purchased fell by 10.9%. In collaboration with the Danish Animal Welfare Society Novo Nordisk has built a new state-of-the-art facility for rodents and a new rabbit facility, designed to encourage natural behaviour and minimise stress.

Eco-efficiency and compliance

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A five-year environmental strategy identifies eight focus areas, the most challenging being climate change. With ISO 14001 now fully implemented at major production sites, systematic management and data collection supports new, innovative approaches.

Since 2000, Novo Nordisk has optimised its eco-productivity by 28% for water and 53% for energy consumption. This is a measure of the ability to produce more with less and a main environmental target. In 2003, improvements achieved were 10% for water and 24% for energy both well above targets.

Economic contribution

Examining the interactions between the company and its key economic stakeholders, the footprint model provides a better understanding of Novo Nordisk's local and global contributions to society. A cash value distribution shows money flows between the company and its customers, suppliers, employees, investors and the public sector and investments for future growth.

Protecting Intellectual property rights

Benchmarking Novo Nordisk's patent activity is one way to measure the company's relative level of innovation and relative ability to produce assets through which it can derive value. A benchmark study in 2003 concluded that Novo Nordisk has the highest patent activity and productivity compared to its peer group. A revised patent strategy boosts patenting of processes, formulations and new medical indications.

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Net profit increased by 19% to DKK 4,858 million from DKK 4,095 million in 2002. The result is significantly better than the expected growth of close to 10%, which was outlined at the start of the year and this despite a continued negative currency impact over the course of the year. The main reason for exceeding initial expectations is better than expected operational performance both in terms of sales and costs supported by a higher level of non-recurring income.

The reported sales growth in 2003 is the result of a solid underlying growth in sales reflecting a continued successful penetration of the diabetes care market with the insulin analogue portfolio as well as increased sales of NovoSeven[®]. However, the development in foreign exchange rates has had a significant negative impact on Novo Nordisk reported sales and operating profit growth. In February 2003 it was clear that if the foreign exchange rates remained at the then prevailing level versus the Danish krone for the rest of 2003 a negative impact on growth in sales of approximately 8 percentage points could be expected. During the year the major invoicing currencies for Novo Nordisk, especially the US dollar and Japanese yen, continued to decrease in value versus the Danish krone and ended at an even lower level, thus further reducing the reported growth rates.

For 2003 sales ended at DKK 26,541 million corresponding to a growth of more than 5% over 2002 of DKK 25,187 million. In local currencies sales increased 15%, leaving the negative impact on sales growth from foreign exchange rates at approximately 10 percentage points. The higher than expected negative impact on sales from the currency development mainly relates to the average value of the US dollar and Japanese yen being 17% and 10%, respectively, lower than the average value in 2002.

The sales of insulin analogues showed strong growth in all regions, most notably in North America and Europe. Overall the sales of insulin analogues have lived up to our aggressive expectations in 2003 and have therefore been a key driver of sales growth. Total sales of insulin and insulin delivery systems grew by 17% in local currencies, thereby exceeding Novo Nordisk's ambition of at least 10% underlying growth in insulin sales.

NovoSeven[®] continued to show strong growth rates in 2003 and was thereby also a key sales growth driver. Overall NovoSeven[®] in local currencies grew by 20% reflecting solid growth rates within all regions.

Operating profit increased to DKK 6,384 million, an increase of 7% compared to DKK 5,979 million in 2002. Measured in local currencies the growth in operating profit increased close to 30% thereby exceeding the 20% initially indicated in the outlook for the year. The main reason is a strong operational performance both in terms of sales and costs supported by a higher level of non-recurring income. When adjusted for these non-recurring items and the negative impact from decreasing foreign exchange rates Novo Nordisk was able to significantly exceed its long term target of growing operating profit by 15%.

Operating margin increased slightly to 24.1% up from 23.7% in 2002 reflecting better operational performance. A negative impact from the currency development reduces the positive impact from better operational performance and a higher level for non-recurring income in 2003 than in 2002.

Novo Nordisk continuously hedges the cash flows for the

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main invoicing currencies to limit the short term negative impact on both earnings and cash flow arising from fluctuations in foreign exchange rates. As a consequence the negative impact from the decreasing value of the foreign exchange rates on operating profit is to a large extent countered by hedging gains. With the exchange rates remaining the same as they were in the beginning of February 2003 it was expected that hedging gains at the level of DKK 600 million would be realised for the full year, but due to the decreasing value especially of the US dollar and Japanese yen during the year hedging gains of DKK 927 million were realised in the accounts for 2003.

With the effective tax rate decreasing to 34% down from 35% in 2002, net profit increased to DKK 4,858 million up 19% compared to DKK 4,095 million in 2002. Thereby the increase in net profit significantly exceeded the expectations of growing net profit towards 10%. Earnings per share (diluted) increased from DKK 11.72 to DKK 14.14 in 2003, corresponding to a growth of 21%.

Total net capital expenditure for property, plant and equipment in 2003 was realised at DKK 2.3 billion somewhat lower than initially anticipated for the year (DKK 3.5 billion). The primary reasons being changed timing for a number of projects, where a higher proportion of resources are now expected to be realised during 2004.

Return on invested capital (ROIC) ended at 19% down from 20% in 2002. As a large proportion of Novo Nordisk's assets are denominated in Danish krone or Euro, ROIC is very sensitive to fluctuations in foreign exchange rates. The lower value of currencies in 2003 compared to 2002 therefore has a significant negative impact on ROIC corresponding to approximately 3 percentage points.

The cash to earnings ratio for 2003 ended at 79% up from 12% in 2002. This is higher than initially anticipated and is primarily related to the lower than expected investment level and a reduction in the average number of credit days for trade debtors.

Sales development by segments

For the year 2003 Novo Nordisk met the initially stated sales target of growing reported sales by more than 5% despite a continued negative impact from Novo Nordisk's main invoicing currencies during the year. Sales increased by 15% measured in local currencies. Growth was realised both within the diabetes care and the biopharmaceuticals segments primarily driven by innovative and strategically important products like NovoRapid®, NovoMix® 30, NovoSeven® and Norditropin® SimpleXx®.

Novo Nordisk sales derive from two segments, diabetes care and biopharmaceuticals. The diabetes care segment is composed of insulin analogues, human insulin & insulin-related products and oral antidiabetic products. The biopharmaceuticals segment consists of haemostasis management (NovoSeven®), growth hormone therapy (Norditropin® and Norditropin® SimpleXx®) and other products (hormone replacement therapy HRT, GlucaGen® and other products).

The diabetes care segment

Sales of diabetes care products grew by 16% measured in local currencies compared to 2002 and by 6% measured in Danish kroner to DKK 18,723 million. Sales of insulin analogues accounted for close to 60% of the growth within the diabetes care segment in 2003 measured in local currencies.

Sales of insulin analogues, human insulin and insulin-related products

Sales of insulin analogues, human insulin and insulin-related products increased by 17% measured in local currencies and by 8% to DKK 17,283 million measured in Danish kroner. All regions contributed to growth both measured in local currencies and in Danish kroner.

Sales of insulin analogues increased by 137% measured in local currencies and by 115% in Danish kroner to DKK 2,579 million in 2003. Novo Nordisk's market share continued to increase in 2003 now constituting more than 20% of the world market for insulin analogues. Solid growth rates were realised in all regions with North America as the primary growth driver followed by Europe. North America and Europe accounted for more than 80% of the growth in sales of insulin analogues. Growth in sales of insulin analogues continues to outperform the rest of the diabetes care segment and now constitutes close to 15% of Novo Nordisk's total diabetes care sales.

North America

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Sales in North America increased by 37% in local currencies in 2003 and by 15% measured in Danish kroner, reflecting an average depreciation of the US dollar by 17%. The market share of insulin in the US continued to increase also in 2003 and close to one-third of the insulin used in the US is now provided by Novo Nordisk.

The sales growth and market share gain in North America is primarily driven by NovoLog® and reflecting market share gains in the retail segment. Increasingly, however, also NovoLog® Mix is adding to the growth, underpinned by the US launch of

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NovoLog® Mix in vials during 2003 following the initial US launch of NovoLog® Mix in FlexPen® in late 2002. Insulin analogues now constitute more than one-third of Novo Nordisk's total insulin sales in North America.

Approximately 31% of insulin sales in the US were sold in a device. This compares to 28% in 2002 and underlines the potential in upgrading the US market to more advanced delivery systems.

The growth opportunities in the US remain significant. The continued US roll-out of Novo Nordisk's portfolio of insulin analogues provides significant growth opportunities. The business platform has furthermore been solidified by an improved reimbursement status for Novo Nordisk's strategic insulin products amongst Pharmacy Benefit Managers and Managed Care Organisations. On this background Novo Nordisk has decided to increase the diabetes care sales force in the US by around 150 to total more than 800. Focus of these sales representatives will be key strategic products like NovoLog®, NovoLog® Mix and FlexPen®.

Europe

Sales in Europe increased by 13% in local currencies in 2003 and by 10% measured in Danish kroner, reflecting a depreciation of especially the British pound and the Polish zloty.

Growth in Europe is driven by a continuing strong penetration of both NovoRapid® and NovoMix® within the short-acting and premixed segments, which constitute some 70% of the European market. The growth of the insulin analogues has been supported by Novo Nordisk's portfolio of new devices including FlexPen®, which has been very well received by the patients.

However, also in 2003 the sales growth was dampened by price-focused healthcare reforms in a number of markets and an increased level of parallel trade. Towards the end of the year a minor increase in product inventory by wholesalers and patients was observed in a few countries on the back of expectations of changes to the co-payment systems.

Japan & Oceania

Sales in Japan & Oceania increased by 11% in local currencies in 2003 and by 2% measured in Danish kroner, reflecting a depreciation of the Japanese yen.

In Japan, NovoRapid® continued to capture market share. The launch of NovoMix® 30 in Japan in December 2003 established Novo Nordisk as the only company in Japan with both a short-acting and premixed analogue. In Japan the short-acting and premixed market constitutes some 80% of the insulin market.

Further, Novo Nordisk is now leading the conversion towards disposable devices, which constitutes about one-third of the market up from one-fourth in 2002. This accelerated conversion towards disposable devices is based on the high acceptance of the newest delivery systems FlexPen® and InnoLet®.

International Operations

Sales within International Operations increased by 18% in local currencies in 2003 and by 3% measured in Danish kroner, reflecting a depreciation of especially the Brazilian real, the Turkish lira and the Chinese yuan.

Novo Nordisk continues the roll-out of insulin analogues in International Operations, as NovoRapid® was launched in nine countries during 2003 thereby bringing the total number of countries in which NovoRapid® has been launched in International Operations to 28. Moreover, NovoMix® has now been launched in 25 countries and is showing solid development in key markets. Also Novo Nordisk's insulin delivery systems continued to penetrate the markets within International Operations, as approximately 46% of the insulin sales were sold in devices compared to 41% in 2002. Sales in 2003 were negatively impacted by the unstable political situation in the Middle East, as well as the negative development in some emerging market currencies.

Sales of oral antidiabetic products

Sales of oral antidiabetic products declined by 1% measured in local currencies. Even though the underlying demand remains positive, a general lowering in North America of the wholesalers' inventory levels during the year has affected growth in sales negatively. The weakening of the US dollar resulted in a decline in sales measured in Danish kroner of 12% to DKK 1,440 million.

The biopharmaceuticals segment

Sales within the biopharmaceuticals segment increased by 14% in local currencies compared to 2002 and by 4% measured in Danish kroner to DKK 7,818 million.

Sales of haemostasis management (NovoSeven®)

Sales of NovoSeven® increased by 20% in local currencies compared to 2002. Measured in Danish kroner sales increased by 7% to DKK 3,875 million. Sales growth for NovoSeven® was primarily driven by solid operational performance in North America followed by Europe.

A number of factors contributed to the NovoSeven® sales growth in 2003. Due to the high penetration within spontaneous bleeds for congenital inhibitor patients the predominant part of the growth within the inhibitor segment has been generated by acquired haemophilia and usage of NovoSeven® in connection with elective surgery. Treatment of spontaneous bleeds for congenital inhibitor patients remains the largest area of use. Moreover, sales are perceived to have been positively affected by increased investigational use of NovoSeven®.

Sales of growth hormone therapy (Norditropin® and Norditropin® SimpleXx®)

In local currencies sales of human growth hormone products increased by 13% compared to 2002. Measured in Danish kroner sales increased by 4% to DKK 2,220 million; more than 90% of sales are realised through sales of Norditropin® SimpleXx®, liquid growth hormone in a dedicated device.

Sales outside Japan increased by 22% in local currencies or 14% in Danish kroner, driven by continued market penetration by Norditropin® SimpleXx®, in North America, International Operations and Europe. Close to 65% of total growth hormone sales are realised outside Japan.

In Japan, sales measured in local currency increased by 1% whereas sales measured in Danish kroner decreased by 9%, negatively impacted by the 10% depreciation of the Japanese

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yen versus the Danish krone. Positive market growth has counteracted an impact of the government-mandated reduction in reimbursement prices from April 2002.

The first disposable delivery device containing liquid human growth hormone, NordiFlex[®], was launched by Novo Nordisk in Denmark in the fourth quarter of 2003. NordiFlex[®] leverages on the competences Novo Nordisk has gained from the development of FlexPen[®], which has been very well received by people with diabetes.

Sales of other products

Sales of other products within the biopharmaceuticals segment, which predominantly consists of hormone replacement therapy (HRT)-related products, grew by 5% in local currencies and decreased by 3% in Danish kroner. Other sales, the largest part being sales of GlucaGen[®] for use in connection with gastrointestinal motility inhibition, increased by 4% measured in local currencies. Measured in Danish kroner sales decreased by 8% to DKK 392 million, primarily reflecting the depreciation of the Japanese yen.

Sales of hormone replacement therapy (HRT) products increased by 5% in local currencies compared to 2002. Measured in Danish kroner sales decreased by 1% to DKK 1,331 million. Sales in the second half of 2003 were positively impacted by the change in the US distribution set-up for Novo Nordisk's HRT products and by a continued market share increase for the low-dose HRT products Activella[®] and Vagifem[®]. In the regions outside North America, sales have decreased by 17% measured in Danish kroner, broadly in line with the contraction in the overall HRT market. The general market contraction is caused by the early termination in mid-2002 of the US Women's Health Initiative (WHI) study combined with the negative findings in the British Million Women Study.

The dispute between Pfizer and Novo Nordisk in relation to Pfizer's early termination of the outlicensing agreement (originally established by Pharmacia and Novo Nordisk) for certain HRT products in the US has been settled. The parties have agreed not to disclose the settlement terms, but Novo Nordisk will record a minor non-recurring income in licence fees and other operating income in 2004.

In the US, Novo Nordisk has now partnered with a contract sales organisation which will promote the HRT portfolio, and Novo Nordisk will direct the contract sales force comprising some 100 sales representatives to a target audience of 18,000 physicians. Activella[®] and Vagifem[®] have continued to perform well in the US market despite a lack of active detailing effort during the second half of 2003.

Costs, licence fees and other operating income

The production costs increased by 12% to DKK 7,439 million leaving the gross margin at 72.0%, a decrease from 73.7% in 2002. This development is due to the negative impact from the lower average 2003 exchange rates for a number of the major invoicing currencies compared to 2002, as the majority of production costs are realised in Danish kroner or euros. Additionally, production costs in 2003 included costs related to impairment of assets and inventory adjustments. Underlying gross margin continued to show a positive development reflecting continued productivity improvements and a more favourable product mix.

Total non-production-related costs increased by 2% to DKK 13,839 million – significantly below the sales growth. The development in costs reflects the impact from the depreciation of major currencies versus the Danish krone, but also prudence in management of the overall cost base.

In total, licence fees and other operating income amounted to DKK 1,121 million in 2003 compared to DKK 994 million in 2002. In 2003, licence fees and other operating income included significant income related to the settlement of a patent dispute with Aventis in January 2001, of which the major part has been taken into account in the fourth quarter of 2003. Moreover, the fourth quarter included income related to the accounting effect of ZymoGenetics' secondary public offering of new shares.

Net financials and tax

Net financials showed a net income of DKK 999 million in 2003 compared to DKK 321 million in 2002. Foreign exchange hedging gains especially related to the hedging of the US dollar, the Japanese yen and the British pound contributed with DKK 927 million in 2003 compared to DKK 311 million in 2002.

The effective tax rate for 2003 was 34%, down from 35% in 2002, leading to a total tax expense of DKK 2,525 million in 2003.

Capital expenditure

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Total net capital expenditure for property, plant and equipment in 2003 was realised at DKK 2.3 billion – somewhat lower than initially anticipated for the year. The primary reason is changed timing for a number of projects, where a higher proportion of resources is now expected to be realised during 2004. This changed timing can primarily be related to optimisation of the existing production facilities, enabling Novo Nordisk to initiate ongoing capacity investments with a slightly later timing than originally expected; this without jeopardising Novo Nordisk's ability to deliver to the market.

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Main ongoing investments during 2003 were the expansion of the FlexPen® production facilities in Hillerød, Denmark, and a new dedicated purification facility for insulin detemir in Kalundborg, Denmark.

Free cash flow

The free cash flow for 2003 was realised at DKK 3,846 million up from DKK 497 million in 2002. This is higher than initially anticipated and is primarily related to the lower than expected investment level and a reduction in the average number of credit days for trade debtors.

Shareholders funds

Total shareholders funds were DKK 25,224 million at the end of 2003, equalling 73.3% of total assets, compared with 72.8% at the end of December 2002. Please refer to page 21 for further elaboration hereof.

Financial risk factors and financial risk management

Novo Nordisk has centralised management of the Group's financial risks. The overall objectives and policies for Novo Nordisk's financial risk management are outlined in the Novo Nordisk Treasury Policy, which is approved by the Board of Directors. The Treasury Policy consists of the Foreign Exchange Policy, the Investment Policy, the Financing Policy and the Policy regarding Credit Risk on Financial Counterparts and includes a description of allowed instruments and risk limits.

Novo Nordisk hedges commercial exposure only and consequently does not enter into speculative positions. Novo Nordisk uses a fully integrated Treasury Management System to manage all financial positions. All positions are marked to market based on real-time quotes and risk is assessed using generally accepted standards.

Foreign exchange risk management

Foreign exchange risk is the principal financial risk factor within Novo Nordisk and as such has a significant impact on the profit and loss account and the balance sheet.

The most of Novo Nordisk's sales are in the major currencies EUR, USD, JPY and GBP, while a predominant part of production, research and development costs is in DKK. As a consequence Novo Nordisk's foreign exchange risk is in decreasing order most significant in USD, JPY and GBP, leaving out the EUR for which the exchange risk is regarded as low, due to the Danish fixed rate policy vis-à-vis the EUR.

A 5% change in USD, JPY and GBP versus DKK will have an impact of approximately DKK 210 million, DKK 130 million and DKK 75 million on operating profit, respectively. In addition, USD-related currencies will have an impact of DKK 50 million.

The overall objective of the foreign exchange risk management is to limit the short-term negative impact on earnings and cash flows from exchange rate fluctuations, thereby increasing the predictability of the financial result.

Novo Nordisk hedges existing assets and liabilities in major currencies, as well as future expected cash flow up to 24 months forward. Currency hedging is based upon expectations of future exchange rates and takes place using mainly foreign exchange forwards and foreign exchange options matching the due date of the hedged item. Expected future cash flows are continuously assessed using historical inflows, budgets and monthly sales forecasts. Hedge effectiveness is assessed on a regular basis.

In 2003 USD depreciated against DKK by 16% while JPY and GBP both depreciated by 7%. During the year the hedging levels have been maintained at relatively high levels and at year-end Novo Nordisk had covered the foreign exchange exposure on the balance sheet together with 20 months of expected future cash flows in USD. For JPY and GBP the similar cover was 15 months and 8 months of future expected cash flows respectively.

Novo Nordisk hedges invested equity in major foreign affiliates only. Equity hedging takes place using long-term cross currency swaps. At year-end hedged equity investments made up 61% of the Group's JPY equity and 13% of the Group's USD equity.

Interest rate risk management

Changing interest rates affect Novo Nordisk's profit and loss account as well as the balance sheet. Novo Nordisk is mainly

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exposed to interest rate risk through interest-bearing assets and liabilities.

The overall objective of the interest rate risk management is to limit the negative impact on earnings and on the balance sheet from interest rate fluctuations.

Excess liquidity is primarily invested in short-term, high-rated, liquid bonds denominated in DKK or EUR or in money market deposits likewise in DKK or EUR. The interest rate risk of the investments is managed based on duration measured against a predefined benchmark outlined in the Investment Policy.

The market value of the bond portfolio has been more or less unaffected by the lower interest rates throughout the year, due to a low duration on the bond portfolio. The 2 year yield for DKK has dropped from 3.15% to 2.75% in 2003.

Novo Nordisk ensures availability of required liquidity through a combination of cash management, highly liquid investment portfolios and uncommitted as well as committed facilities.

Novo Nordisk's cash and cash equivalents at the end of 2003 were DKK 2,669 million compared to DKK 1,234 million in 2002. In addition to cash and cash equivalents Novo Nordisk has undrawn committed credit facilities of DKK 8,7 billion at the end of 2003 compared to DKK 8 billion in 2002.

Counter-party risk management

The use of money-market deposit and financial instruments gives rise to counter-party exposure. To manage and limit this exposure, Novo Nordisk only enters into financial instruments with financial counterparts having a satisfactory long-term credit rating. Money-market deposits are only entered into with financial counterparts having a satisfactory short-term credit rating.

The counter-party exposure is calculated based upon the net market values of off-balance sheet instruments, and the notional amounts of short-term on balance sheet instruments.

Equity price risk management

Novo Nordisk has very limited strategic investments in both listed and non-listed companies and is at year-end consequently not exposed to significant equity risk. In addition hereto, Novo Nordisk holds investments in a limited number of listed companies which are considered as associated companies. These companies are measured at intrinsic value and hence, Novo Nordisk's profit and loss account is not directly affected by changes in share prices.

Interest rate portfolio	Market value DKK million	Duration years
Bond	1,810	0.71
Money-market deposits	654	0.03
Other cash at hand	608	0.00
	3,072	0.42
Total interest-bearing assets		
Short-term debt	975	0.03
Long-term debt	754	1.76
	1,729	0.79
Total interest-bearing liabilities		
Net interest-bearing assets	1,343	

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Counter-party exposure, end 2003 (long-/short- term rating)*	Aa1/ P1 DKK million	Aa2/ P1 DKK million	Aa3/ P1 DKK million	NR/ P1 DKK million	Total exposure DKK million
Money market deposits	0	620	10	24	654
Financial instruments	235	316	508		1,059
Total exposure	235	936	518	24	

* Long- and short-term credit ratings from Moody's Investors Service

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The Annual Financial Report does not include the Annual Accounts of the Parent Company, Novo Nordisk A/S. The Annual Accounts of the Parent Company, Novo Nordisk A/S, have been prepared in a separate document, which can be obtained upon request from Novo Nordisk A/S and is available at novonordisk.com.

The Annual Accounts of the Parent Company, Novo Nordisk A/S, form an integral part of the complete Annual Financial Report. The complete Annual Financial Report including the Annual Accounts of the Parent Company, Novo Nordisk A/S, will be filed with Erhvervs- og Selskabsstyrelsen where a copy also can be obtained.

The accounting policies of Novo Nordisk will be changed as of 1 January 2004 to comply with the requirements under International Financial Reporting Standards (IFRS).

Disclosure of Profit and loss account, Balance sheet and notes in the Annual Financial Report has been adjusted and prepared to fulfil IFRS requirements in most areas.

In the section Adoption of IFRS 2004 (unaudited) is shown the effect of adopting the IFRS standards in effect as of 31 December 2003 on the Group's assets, liabilities, shareholders' funds, financial position, results and cash flows on the years 2002 and 2003.

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Table of Contents**Consolidated profit and loss account**

DKK million	Note	2003	2002	2001
Net turnover	4	26,541	25,187	23,776
Production costs	5,6	7,439	6,633	5,979
Gross profit		19,102	18,554	17,797
Sales and distribution costs	5,6	7,799	7,479	7,215
Research and development costs	5,6,15	4,193	4,139	3,970
Administrative expenses	5,6,7	1,847	1,951	1,865
Licence fees and other operating income (net)	8	1,121	994	867
Operating profit		6,384	5,979	5,614
Share of profit in associated companies	6,15	12	27	49
Financial income	9	1,214	475	499
Financial expenses	10	227	181	132
Profit before taxation		7,383	6,300	6,030
Income taxes	11	2,525	2,205	2,165
Net profit		4,858	4,095	3,865
Earnings per share (DKK)	12	14.24	11.81	11.18
Earnings per share diluted (DKK)	12	14.14	11.72	11.10

Table of Contents**Consolidated balance sheet**

DKK million	Note	31 Dec 2003	31 Dec 2002
ASSETS			
Intangible fixed assets	13	220	240
Tangible fixed assets	14	16,828	16,205
Investments in associated companies	15	1,009	1,202
Other fixed asset investments	15		