

05.02.2004

Novo Nordisk A/S  
Att.: Executive Management  
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## **Management letter on assurance of the Sustainability Report 2003**

As a result of our assurance engagement, we have provided an independent statement in Novo Nordisk Sustainability Report 2003 (the Report). This letter intends to inform management of key observations and recommendations as a secondary outcome of our engagement. Executive Management should appreciate that there are certain limitations to the use of this management letter as described in appendix section 1.

We find the 'Novo Nordisk Way of Management' a strong foundation and a suitable basis for a comprehensive Triple Bottom Line approach, both in terms of vision, values and principles and in terms of structures, governance and methodology. As such, this is also an appropriate basis for our assurance engagement.

We see an increased senior management level involvement in Triple Bottom Line issues. The high attention paid to TBL programs is generally delivering good progress on the integration of these programs into business processes. Embedding TBL aspects into everyday business activities is also generally recognized by leaders and employees as a key element in achieving the necessary progress, as set out in specific objectives and quantified targets. The TBL-project portfolio in Stakeholder Relations continues to be very ambitious, progressive and relevant (in the context) by any benchmark.

The Report is part of Novo Nordisk's annual reporting, and the approval of the Report by the Board of Directors and the Executive Management demonstrates the weight and priority given to business sustainability aspects.

The Report is well structured to focus on the relevance of TBL aspects to the business and stakeholders through an integrated approach. As programs for prevention activities expand, it is a point of consideration for future Reports whether to establish a clearer distinction between activities of diabetes prevention and disease management.

We have outlined further comments and recommendations in attached appendix which is an integral part of this letter. In general, we note that in virtually all areas and aspects where we have a recommendation, the subject is already dealt with by Novo Nordisk in the form of a program, an action item, or, in a few cases, a decision to further assess the rationale.

As such, a key challenge for Novo Nordisk is to continue to live up to its own high level of ambition. Novo Nordisk has set for itself clear evidence of defined targets, work programs, and responsibilities to enable it to assess whether ambitions are met in the future.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Preben J. Sørensen', with a stylized flourish at the end.

Preben J. Sørensen  
State Authorised Public Accountant

05.02.2004

## **Appendix to Management Letter of February 5 2004**

### **On assurance of the Sustainability Report 2003**

#### Content:

1. Introduction and limitations
2. Objectives and scope of our engagement
3. Materiality
4. Completeness
5. Responsiveness

## **1. Introduction and limitations**

We were engaged to perform an assurance engagement on Novo Nordisk 2003 Sustainability Report (the 'Report'). The purpose was to further enhance the credibility of the Report and underpinning systems, structures and processes. The result of this engagement, our 'Independent assurance statement to Executive Management', is available in the printed version of the Report.

To underline transparency and accountability, Novo Nordisk has advised us that our Management Letter, of which this appendix is an integral part, will be published as part of the Internet version of the Report.

Our Management Letter is intended for the management of Novo Nordisk who are familiar with the context, decisions and subjects dealt with in the Report. Management also know the engagement letter directing our engagement. The objectives and terms of our engagement are stated in our assurance statement referred to above.

While we recognize that stakeholders of Novo Nordisk may find information in this document useful, and while we have no bias towards any particular outcome, we do not, to the fullest extent permitted by law, accept or assume responsibility to anyone other than Novo Nordisk, for information provided in our Management Letter.

## 2. Objectives and scope of our engagement

As agreed, we have based our approach on emerging best practice for independent assurance on sustainability reporting, including the AA1000 Assurance Standard (AA1000AS) issued by AccountAbility; and the International Standard on Assurance Engagements (ISAE 100), issued by the International Auditing and Assurance Standard Board.

### Levels of assurance

For a minor part of the subject matters, we have performed the engagement with a high level of assurance. This is a level of assurance equaling audit engagements on financial information. It means that we reduce the risk of expressing an inappropriate conclusion to an acceptable low level in the circumstances. Our evidence gathering procedures include analytical procedures, inquiries, as well as substantive procedures, such as inspections, observations, confirmations and recalculations.

For all other subject matters included in the engagement, we have obtained a moderate level of assurance. This is a level less than high. The main reason why this part is less than high is because we gathered and evaluated less evidence than we would have done, had the objective been to obtain a high level of assurance. As such, we based our evidence gathering procedures on analytical testing and interviews.

### Criteria

For all subject matters included in the engagement we have assessed whether there were suitable criteria to be used as benchmarks to evaluate and measure the subject matters. Without suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances.

Novo Nordisk has recognized that the criteria applied are suitable for the intended users' purpose. The criteria are also available to users either as external criteria or as noted in the Report (including the Internet version of the Report), and as Governance and Policy level information on the Novo Nordisk web-page).

### 3. Materiality

Assurance standards require us to consider materiality. AA1000AS specifically requires an assessment of whether the Report includes information about Novo Nordisk “Sustainability Performance that is required by its stakeholders for them to be able to make informed judgment, decision and actions”.

As noted in our Independent assurance statement to Executive Management, “The materiality concept for sustainability reporting is emerging”. Hence we refer users of the Report to the management assertion that “we hope that by presenting the issues we see as material to Novo Nordisk’s future business, we have also fairly reflected what matters to our stakeholders”.

#### *The Sustainability Report*

The development of the Sustainability Report follows an effective, disciplined and committed process. It is very inclusive in terms of input from internal stakeholders, and assesses views of external stakeholders by several means. The planning, execution and finalization process includes several iterations with key internal stakeholders. The Sustainability Report Project is part of the Stakeholder Relation Project Portfolio. The core team is highly competent and enthusiastic to exceed the quality of the previous year’s report.

The Report is built into Corporate Reporting (Annual Review, Annual Financial Report and Sustainability Report). It is approved by the Board of Directors and the Executive Management, which demonstrates the weight and priority given to business sustainability aspects by these two tiers of management.

The Report structure was revised compared to last year. From a structure, which was last year divided into the basic “traditional” sustainability elements, “economic”, “social” and “environmental” aspects, the structure of the 2003 Report focuses on relevance to the business and stakeholders with an integrated approach. Whilst the string of 21 articles in “Acting on our commitments” initially may appear hard to comprehend, the Report is, in our opinion, understandable to intended users. With the first seven articles (page 20-31) in “Acting on our commitments” focusing on market opportunities; and the next 14 articles (page 32-54) focusing on internal endeavors, the Report reflects how numerous complex sustainability areas are being managed by Novo Nordisk and maturing into business operations.

However, as programs for prevention activities expand, it is a point of consideration for future Reports to establish a clearer distinction between activities of diabetes prevention and disease management.

The Report content was based on ongoing and extensive consultation with stakeholders, recognized standards and best practice, as well as several years of experience with leading edge sustainability reporting. The Report was prepared according to AA1000 Framework and “in accordance” with GRI 2002 Sustainability Reporting Guidelines. In addition, we concluded that the Report represented an appropriate and comprehensive response to the UN Global Compact request for information on the response of signatories to the 9 Global Compact principles.

#### Recommendations:

- For certain non-financial economic indicators consider describing accounting principles (as for other quantitative indicators in the internet version of the Report).
- Process: Recognizing that all information in the Report must be up to date with stakeholders' interests, changes to content can be expected during the process. It should be considered to design all articles earlier so that structure, message and approximate figures are known well before deadline, and so that data sources and consolidation are part of the validation process.
- Establish formal sign-off procedures on annual sustainability data and performance towards Stakeholder Relations by appropriate site and/or business unit management.
- Continue to give thoughts to 'Reporting versus Story Telling'. The already applied combination of web-reporting and printed reports invites to continued exploration.
- Eventually consider for future Reports establishing a clearer distinction between activities of diabetes prevention and disease management.

#### *Spheres of Stakeholder Relationship*

In our assessment of the materiality of the Report content, in addition to considering the report development process, we assessed key characteristics of materiality related to various stakeholder relationships.

The result of these assessments is summarized below:

- There are several **Short-term Financial Impacts** related to sustainability for Novo Nordisk, and the company is working on obtaining better information about the direct financial impacts of its TBL approach. Economic benefits related to environmental improvements, i.e. resource productivity and eco-efficiency, are being quantified with EPI by applying environmental accounting, as well as in production planning. The financial implications of impacts in social areas are less directly identified. Efforts are made to describe the indirect and wider socio-economic impacts on national economies that relate to diabetes, Novo Nordisk's major business area. Novo Nordisk is taking steps to better understand these complex effects and implications.
- The **Policy Related Performance** is a key strength in the TBL approach of Novo Nordisk. The close and frequent control of the performance in relation to the NNWoM is highly effective to capture material aspects related to the policy. We refer to 'Recommendation to Novo Nordisk' from last year's engagement (February 6, 2003) in which we underpin why we find 'Novo Nordisk Way of Management' a strong foundation and a suitable basis for a comprehensive Triple Bottom Line approach: both in terms of vision, values and principles and in terms of structures, governance and methodology. We can generally confirm that elements of 'Novo Nordisk Way of Management' pertinent to the triple bottom line approach continue to be in place and generally have been further strengthened during 2003.
- **Business Peer-Based Norms** define the material aspects of an industry sector or an area of business. As stated in the Report, Novo Nordisk is in many respects in a leadership position in the steeply growing market of diabetes care and treatment. As a niche player in the much broader defined pharmaceutical industry, Novo Nordisk can strongly focus its efforts on this market and thereby position itself by setting the pace in several areas, including TBL issues and reporting. Peer activities and developments are comprehensively investigated at the outset of TBL programs and are continually observed with trend spotting activities.

- **Stakeholder Behaviors and Concerns** are being identified and assessed through Stakeholder Relations. We see multiple and active relationships between Novo Nordisk and many types of stakeholders and stakeholder groups through Stakeholder Relation and also from other functions in the company. Reflecting Novo Nordisk's origin and geographical position (as indicated in the Report on page 60), such relationships may naturally first be formed in Denmark, while they are progressively expanding internationally.
- Broader **Societal Norms** are on the radar screen through widespread ongoing monitoring, relationships and actions, for example in research, as well as with respect to new products, trade-rules, and competition rules such as pricing.

## 4. Completeness

Assurance standards require us to consider completeness. AA1000AS specifically requires an evaluation of the extent to which Novo Nordisk “can identify and understand material aspects of its Sustainability Performance”.

We believe Novo Nordisk has effective systems, structures and processes installed and are in the possession of the necessary competences to achieve a proper identification and understanding. This is based on our observations as follows.

### *Business Principles*

The ‘Novo Nordisk Way of Management’ is a strong foundation and a suitable basis for a comprehensive Triple Bottom Line approach. The ‘Novo Nordisk Way of Management’ bears, or mirrors, the culture of the company. Key elements in the vision, the charter, and the policies set the course and provide directions for managers and employees. A range of methodologies supports these business principles.

Commitments to external codes and guidelines are specified in the NNWoM include the ICC Charter for Sustainable Development (1991) and the United Nations’ Convention on Biological Diversity under “Environmental responsibility” and United Nations’ Universal Declaration on Human Rights under “Social responsibility”, but no commitments to business ethics issues or business behavioral guidelines such as e.g. the OECD “Guidelines for Multinational Enterprises” are included. Novo Nordisk is currently working on an internal project, where it is considered to introduce a formal / structural response to business ethics.

### *Governance Structures*

Novo Nordisk leadership has decided to propose, at the annual shareholders meeting, the inclusion of TBL Reporting as an obligation in the constitution of the company. We interpret this as a strong commitment and direct message to the shareholders and to the public. It further demonstrates Novo Nordisk’s leadership in sustainability.

There continues to be an increased Board-level involvement in Triple Bottom Line issues. The CEO and other Executive Management team members are directly involved in Triple Bottom Line issues, and are contributors to the Report. Managing Triple Bottom Line issues is a major portfolio dedicated to one Executive Vice President.

Members of Executive Management chair the company’s three top management committees on TBL issues, i.e. the Global Health Committee, the Social Responsibility and Industrial Relations Committee, and the Environment and Bioethics Committee, and participate in respective activities related to capacity building and stakeholder engagement.

In addition to operational activities such as target setting, evaluating and reporting, 'Stakeholder Relations' maintains a key role in certain strategic planning and business development activities. Stakeholder Relations has maintained an ambitious and substantial work program. Novo Nordisk continues to be able to derive fairly effectively the benefits of Stakeholder Relations' past activities, and embed these results in the organization's 'thinking', actions and structures.

### *Systems and processes*

Novo Nordisk has high aspirations concerning the implementation of TBL programs throughout its organization and the integration of these programs into its business processes. Embedding TBL aspects into everyday business activities is recognized as a key element in achieving necessary progress as set out in specific objectives and quantified targets. The Report specifies three implementation methodologies:

- The **Balanced Score Card (BSC)** instrument we see being increasingly spread across additional parts of the organization and cascaded to lower management levels. A close interrelation of BCS process and business planning and the link to quantified TBL and APIS targets proves effective, for example in 'Stakeholder Relations'.
- **Facilitation** is an audit system focusing on the 'living up to' the NNWoM list of fundamentals and commitments. We see findings from such facilitations, conducted by the parent company Novo A/S throughout the Novo Nordisk organization, being implemented according to a formalized plan. Novo Nordisk management is regularly briefed about the results of these facilitations and the status of compliance and consequences are discussed. We also refer to comments made on the facilitation in last year's 'Recommendations for management'.
- Novo Nordisk's practice on **Sustainability Reporting** is commented on elsewhere in this document (see Materiality and Responsiveness).

Several other methodologies in Novo Nordisk assist the identification and understanding of material aspects and enhance effective management of sustainability impacts. These include:

- The **Strategic Planning Process (SPP)** and the respective team conducting this process, established in International Marketing, support the integration of material sustainability aspects into Novo Nordisk's business directions in the long run. Relationships with strategic planning activities dedicated to TBL issues (Scenarios 2020, trend spotting) have been initiated and are developing.
- **Internal Audits** covering aspects of the NNMoM and TBL approach, such as for example business ethics behavior.
- **Quality Management System** - Novo Nordisk stresses the importance of quality by including it in its 11<sup>th</sup> Fundamental in the NNWoM. Auditing as an intrinsic part of quality management might be helpful to TBL implementation in many respects, particularly in auditing the compliance with requirements on internal structures, instruments, and procedures. This also applies to Environmental Management Systems and Audits.

### *Recommendations:*

- Monitor the effectiveness of various auditing tools in place: do overlaps between these tools create an unnecessary burden for the units being audited or might they actually be supportive in the sense that duplications can better ensure complete compliance with requirements.

- With respect to the NNWoM chart used in the Report, consider for future Reports to include other auditing activities (Internal, Environmental, etc.), and QMS as control and validation measures in addition to Facilitation.

### *Embeddedness and Company Coverage*

With reference to the commentary stated in our independent statement in the 2002 Report, we had included the topic of **Business Ethics** as a crosscutting theme in our assurance work for 2003 and had evaluated the extent to which the topic had been addressed across the organizations. Business ethics have been identified by 'Stakeholder Relations' as a new topic on 'The Novo Nordisk learning curve'. Systematic evaluation of aspects relevant to stakeholders was enacted during the reporting year.

We find the topic treated as important in various parts of the organization, and necessary awareness seems to exist. At present there is no Code of Conduct or Guideline for business ethics, but many managers and employees see business ethics issues as being already covered in general terms in the NNWoM. Many also express their confidence in the system in place and may consider the issue to be sufficiently covered. We find that the control methodologies established (internal audit, facilitation e.g.) are to a large extent understood to ensure compliance with general business ethics requirements. However, an informal and relatively less structured approach may not continue to provide the necessary knowledge and awareness and suffice to fully ensure compliance. Implementing a more formal and structure process should be included in Stakeholder Relations' Business Ethics project.

Novo Nordisk is continually developing its TBL programs and the use of implementation methodologies is expanding. These are covering increasingly large parts of the global Novo Nordisk organization and the various business functions.

While TBL programs normally start in Denmark and in the units more closely related to the corporate headquarters, they are expanded to other functions and to units abroad at a later stage. We find the NNWoM and TBL issues less clearly defined and understood in marketing & sales affiliates:

- The Equal Opportunity program is focusing on Compliance, Female in management and Ethnic Minorities in Denmark, the latter being an issue that is specific for Denmark.
- Material on mandatory introduction training on NNWoM is provided for training of employees in Denmark. It is the responsibility of the affiliates outside Denmark to perform training in NNWoM to ensure that the NNWoM is trained within the frames of the local affiliate.

### *Indicators and Targets*

As part of its routine, Novo Nordisk applies indicators of TBL Performance and for measuring performance against targets. For new TBL projects, initial success criteria may not necessarily be quantitative in nature. Certain aspects may require updated indicators or the consideration of establishing quantitative indicators, as recommended below.

#### *Recommendations:*

- Consider developing an indicator for:
  - CO<sub>2</sub> emission, related to new environmental strategy
  - Dematerialization, related to new environmental strategy
  - Perception by customers / market place

- Work / private life balance
  - Training / learning, as an output indicator
  - Stakeholder engagement
  - Privacy program
- Also establish indicators to measure and report progress in National Diabetes Programmes and other Global Health initiatives. As this may to some extent need to be done in a “joint venture context”, it might require high efforts but may also be highly useful. Parties involved would agree what constitutes a success, what would be milestones, and what level of transparency around legitimate single partner’s specific objectives would be required (Novo Nordisk to earn money for example).
  - Consider setting more ambitious targets for eco-efficiency on water and energy (as targets the last four years have been more than exceeded).
  - Consider, in relation to ‘The Novo Nordisk learning curve’ (Report page 12), to more exactly measure each of the areas; 1) level of learning and 2) level of integration as they may not always develop proportionally.
  - Strengthen connection between Key Sustainability Indicators and description of Business and Societal benefits
  - Consider also explaining deviation when above target – eventually in a sort of management discussion and analysis section

### ***Stakeholder Relations Project Portfolio***

In view of testing completeness of systems, structures, and processes that enable successful management of sustainability, we have also assessed completeness of the program portfolio of ‘Stakeholder Relations’. We believe the program portfolio covers material aspects for Novo Nordisk in a progressively increasing balance:

- The **Global Health** Programs, focusing on diabetes, cover aspects of analysis (DAWN), research support and dialogue (OCDEM), as well as lobbying and implementation (NDPs); they are directed at the industrialized and developing world and they address external key stakeholder groups, as well as internal functions. Finally they cover diagnosis, treatment, cure and prevention of the disease.
- The programs on **Sustainable Business Practices** (ethics, social, environmental and socio-economic) cover all three sustainability (economic, social and environmental) strands in a well-balanced way and as of 2003 also include a project on Business Ethics. High emphasis is placed employee involvement (TakeAction!).
- The programs on **Reporting, Communications and Stakeholder Relationships** include internal and external communications (e.g. web presence on TBL issues). We see ambitious new efforts planned to address stakeholders more directly and more systematically (explorer, stakeholder meetings, TBL conference and SRI road show). A separate project portfolio is created to cover international stakeholder relationships predominantly on diabetes, including relationships with NGOs, WHO, EU-level public affairs, and additional partnerships.
- The portfolio is completed with activities for **Trend Spotting** and **Scenarios**.

## 5. Responsiveness

AA1000AS requires us to evaluate whether Novo Nordisk “has responded to stakeholder concerns, policies and relevant standards, and adequately communicated these in its Report”.

We believe that Novo Nordisk has systems, structures and processes in place to achieve its goal of being responsive to stakeholders, and that this is adequately communicated in the Report. We highlight certain items to illustrate our conclusions below.

### *Employee Relations*

Novo Nordisk now conducts an annual **employee perception survey** (eVoice), which we think is a key element of responsiveness to employees’ needs and expectations. The survey allows management to get better insight into employees’ views. In addition, the facilitation process provides a comprehensive basis for proper response activities.

The program on **Equal Opportunity / Diversity** (EO), which was initiated and is conducted by the Stakeholder Relations department, we see being on its way to making progress along the lines of ‘The Novo Nordisk learning curve’. EO action plans were put in place for 2003 on all SVP areas. In future, the program will focus on compliance with basic requirements, female in management, and ethnic minorities in Denmark. A plan to develop a guideline for basic requirements has been developed.

At its corporate head offices in Denmark, Novo Nordisk has established a **Training and Development** program, including a globally applied management development scheme, introductory training on corporate culture for Danish employees, and training on better understanding customers. Sites outside Denmark have employee-training programs which are not necessarily directly linked to those in Denmark.

### *Recommendations:*

- Certain business units would like to see action plans for EO and ‘TakeAction!’ being better coordinated with the normal budgeting cycle.

### *Relations to External Stakeholders*

**Customers** of Novo Nordisk largely consist of individual physicians and hospitals. We see Novo Nordisk’s program for all employees “to meet with a patient” as a tool to further extend and strengthen a culture of ‘customer orientation’ to the actual user of the products and to better understand needs and aspirations. The DAWN program is an expression of Novo Nordisk’s high level of awareness and responsiveness to issues of customers and patients.

We note that there is a high level of responsiveness to sensitivity on new products (other than insulin), with potentially controversial price policy or perceived impact.

Novo Nordisk sees **Governments** as an important stakeholder group. National Governments are Novo Nordisk's partners and as such directly addressed in the National Diabetes Programs in developing and developed countries. In many cases, governments are also customers of Novo Nordisk.

**Suppliers and Contractors** we see primarily being relevant for Novo Nordisk's Product Supply (production) area, but also for R&D, Marketing & Sales and Novo Nordisk Engineering. The respective Stakeholder Relation program for Supplier / contractor assessment is progressing by including additional parts of the organization such as R&D and NN affiliates. This allows a growing number of Novo Nordisk's business partners on the supply chain to directly interact with their customer. As such, we expect Novo Nordisk's relationship with suppliers and contractors will be characterized by a balance between responsiveness and requirements.

Novo Nordisk has continuously stronger and more direct involvements planned with **Investors and Analysts**. The Sustainability Activity Plan of 'Stakeholder Relations' for 2004 includes road shows and events to communicate Novo Nordisk's TBL messages to this stakeholder group.

Novo Nordisk's involvement with **NGOs** is manifold, including environmental, social, bioethical, human rights, and transparency organizations. Receiving input from NGOs and external stakeholders normally stands at the beginning of TBL programs on issues that are added to 'The Novo Nordisk learning curve'.

Novo Nordisk's involvement with groups specializing in Global Health and Diabetes issues, among others with the International Diabetes Federation (IDF), the World Diabetes Foundation (WDF) and the World Health Organization (WHO), were intensified over recent years. Novo Nordisk is perceived as a major contributor to solving the problems of active participation, in-kind contribution and sponsorship.

*Recommendations:*

- Customer surveys might be an additional source of information for understanding 'what matters' to Novo Nordisk's TBL approach. Such surveys might inform additional relevant and meaningful indicators in the Global Health area (see also our comments and recommendations under completeness, indicators and targets).

***Methodologies of Stakeholder Relations***

Stakeholder Relations is structuring Novo Nordisk's relations to stakeholder groups with a **stakeholder map**, using a rather generic spider-web model as presented in the Report. A process is used for the identification of Critical Stakeholder Groups and association of internal and external stakeholders to the respective TBL projects. A special focus on dialogue with stakeholders was developed and included in each Stakeholder Relation project, described in Sustainability Activity Plan 2004 / 2005. Stakeholder Relations also planned to start a separate stakeholder society program.

While ways of identifying and working with stakeholders are intensively discussed and well distributed in Stakeholder Relations, we do not see any **guidance** on how to engage and work with stakeholders described in the Report and shared with other functions.

*Recommendations:*

- Further develop the spider-web model for use as a stakeholder map that can also express relevance of the stakeholder group to Novo Nordisk and measure extent and quality of the relationships established.
- Consider to what extent other functions, sites abroad, and also market areas and national affiliates may need guidance on how to identify, engage with, and work most effectively with stakeholder groups.