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Novo Nordisk A/S Corporate Governance Report 2018

Statutory Corporate Governance Report for 2018

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Statutory Corporate Governance Report for 2018 cf. art. 107b of the Danish Financial Statements Act¹

Introduction

This Statutory Corporate Governance Report (hereinafter “the Report”) covers the period 1 January 2018 – 31 December 2018 and is prepared pursuant to art. 107b of the Danish Financial Statements Act. The Report forms a part of the management’s review in the statutory Annual Report for 2018.

The sections Management and Board Committees, Risk Management and Internal Control are a part of the auditor’s certificate in the statutory Annual Report, whereas the sections Corporate Governance Recommendations and Practices and Appendix 1 and Appendix 2 are not a part of the auditor’s certificate in the statutory Annual Report.

Corporate Governance recommendations and practices

As an international company listed on the stock exchanges in Copenhagen and New York, Novo Nordisk is subject to the Danish Corporate Governance Recommendations designated by Nasdaq Copenhagen², and – as a foreign listed private issuer – to the Corporate Governance Listing Standards on New York Stock Exchange as stated in the NYSE Listed Company Manual³.

The Danish Corporate Governance Recommendations

The Danish Corporate Governance Recommendations were updated in November 2017 (applicable to the financial years commencing on 1 January 2018). Novo Nordisk is in compliance with all but the following four recommendations where Novo Nordisk instead explains its approach:

- 3.4.2 Independence of board committees: the majority of the members of the Nomination Committee and the Remuneration Committee are not independent.
- 3.4.6 Tasks of the Nomination Committee: responsibility for succession management and recommending candidates for the executive management resides with the Chairmanship and not with the Nomination Committee.
- 3.4.7 Tasks of the Remuneration Committee: responsibility for the remuneration policy applicable to employees in general resides with Executive Management and not with the Remuneration Committee.

4.1.5 Termination payments: two executives employment contracts entered into before 2008 allow for severance payments of more than 24 months’ fixed base salary plus pension contribution and thus the total value of the remuneration relating to the notice period and of the severance payment exceeds two years of remuneration

For a review of Novo Nordisk’s explanations to the four recommendations above, please see Appendix 1.

For a review of Novo Nordisk’s compliance with and explanations to all applicable Danish Corporate Governance recommendations, please refer to novonordisk.com⁴.

Corporate Governance Listing Standards of the New York Stock Exchange

As a foreign listed private issuer Novo Nordisk is in compliance with the corporate governance standards of the New York Stock Exchange, where Novo Nordisk’s ADRs are listed.

For a summary of the significant ways in which Novo Nordisk’s corporate governance practices differ from the NYSE Corporate Governance Listing Standards, please see Appendix 2.

For a review of Novo Nordisk’s compliance with and explanations to all the applicable NYSE Corporate Governance recommendations, please refer to novonordisk.com⁵.

Management and Board committees

The company has a two-tier management structure consisting of the Board of Directors and Executive Management. The Board of Directors supervises the performance of the company and ensures adequate management and organisation. It also participates in determining the company strategy. Executive Management, in turn, has responsibility for the company’s daily operations. The two bodies are separate, and no one serves as a member of both.

¹ In Danish “Lovpligtig redegørelse for virksomhedsledelse, jf. årsregnskabslovens § 107 b”.

² The Danish Corporate Governance Recommendations can be found at: <https://corporategovernance.dk/gaeldende-anbefalinger-god-selskabsledelse>

³ NYSE Corporate Governance Listing Standards can be found at: <http://nysemanual.nyse.com/lcm/>

⁴ <https://www.novonordisk.com/about-novo-nordisk/corporate-governance/Recommendations-and-practices.html>

⁵ <https://www.novonordisk.com/about-novo-nordisk/corporate-governance/Recommendations-and-practices.html>

Board of Directors

Roles and responsibilities, composition, independence, attendance and diversity

The Board of Directors has 12 members, eight of whom are elected by shareholders at general meetings and four by employees in Denmark. The guiding principle in composing the Board of Directors is that it should comprise individuals whose particular knowledge and experience enables the Board of Directors as a whole to attend to the interests of shareholders, employees and other stakeholders.

The Board of Directors supervises Executive Management, determines the company's overall strategy and follows up on its implementation, the performance, ensures adequate management and organisation and, as such, actively contributes to developing the company as a focused, sustainable, global pharmaceutical company. The Board of Directors may also distribute extraordinary dividends, issue new shares or repurchase shares in accordance with authorisations granted by the annual general meeting and recorded in the meeting minutes. For the minutes of annual general meetings, see novonordisk.com/about_us.

In March 2018 the shareholders elected the following members to the Board of Directors:

- Helge Lund (chair of the Board of Directors since 2018 (member since 2017⁶) and chair of the Nomination Committee)
- Jeppe Christiansen (vice chair and member of the Board of Directors since 2013 and chair of the Remuneration Committee)
- Brian Daniels (member of the Board of Directors since 2016 and member of the Remuneration Committee and the Research & Development Committee)
- Andres Fibig (member of the Board of Directors since 2018 and member of the Audit Committee)
- Sylvie Grégoire (member of the Board of Directors since 2015, member of the Audit Committee, the Nomination Committee and the Research & Development Committee)
- Liz Hewitt (member of the Board of Directors since 2012, chair of the Audit Committee and member of the Remuneration Committee)
- Kasim Kutay (member of the Board of Directors since 2017 and member of the Nomination Committee)
- Martin Mackay (member of the Board of Directors since 2018 and chair of the Research & Development Committee)

The shareholder elected board members are re-elected annually at the annual general meeting.

In 2018 the employees elected the following members to the Board of Directors (elected for a statutory four-year term):

- Mette Bøjer Jensen (member of the Board of Directors since 2018 and member of the Nomination Committee – employee representative)

- Anne Marie Kverneland (member of the Board of Directors since 2000 and member of the Remuneration Committee – employee representative)
- Thomas Rantzau (member of the Board of Directors since 2018 and member of the Research & Development Committee – employee representative)
- Stig Strøbæk (Member of the Board of Directors since 1998 and member of the Audit Committee – employee representative)

The employee-elected board members are up for election in 2022.

Six of the eight shareholder-elected board members are independent as defined by the Danish Corporate Governance Recommendations, while two shareholder-elected board members are related to the majority shareholder Novo Holdings A/S as member of either the board or executive management and thus are not deemed independent. Employee representatives are considered non-independent according to the Danish Corporate Governance Recommendations.

In 2018, the Board of Directors conducted seven board meetings. All board members attended all board meetings within the member's term in 2018, except one member who was excused from two meetings within the member's term in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview, which also includes the attendance for committee meetings.

To ensure that discussions include multiple perspectives representing the complex, global pharmaceutical environment, the Board of Directors aspires to be diverse in gender and nationality. In 2016, the Board of Directors adjusted its diversity ambition and set new targets with the aim of consisting, by 2020, of at least two shareholder-elected board members with Nordic nationality and at least two shareholder-elected board members with a nationality other than Nordic – and at least three shareholder-elected board members of each gender.

As of 31 December 2018, two shareholder-elected board members were female and six were male, while six of the eight shareholder-elected board members were non-Nordic and two were Nordic. The company thus fulfilled its nationality ambition while it did not fulfil its gender ambition. At the annual general meeting in 2018, two male candidates were nominated. The selection process was undertaken by the Nomination Committee, which with the assistance of an executive search firm identified several suitable candidates. It was a requirement that diversity was taken into account with regard to experience, background, gender and origin. In the end, the best suitable candidates were male non-Nordic. The Board of Directors will continue to work on securing the desired diversity on the Board by 2020.

⁶ In addition, Helge Lund was a member of the board for one year in 2014-2015.

Chairmanship

Roles and responsibilities, composition, independence and attendance

The annual general meeting elects the chair and vice chair of the Board of Directors directly. The Chairmanship assists the Board of Directors in the planning of Board meetings, employment of Executive Management and other assignments as decided by the Board.

At the annual general meeting in March 2018, the shareholders elected Helge Lund as a new chair of the Board of Directors and re-elected Jeppe Christiansen as vice chair. Jeppe Christiansen became vice chair in connection with his first election in 2013.

The chair is considered independent, but the vice chair is non-independent, as he is a board member of the majority shareholder, Novo Holdings A/S.

In 2018, the Chairmanship conducted seven meetings. Both the chair and the vice chair attended all meetings in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview.

Chairmanship Report for 2018

The Chairmanship works according to an Annual Work Plan with fixed agenda items. In addition, the Chairmanship requests ad hoc topics to be discussed on their meetings.

In 2018, the Chairmanship met 7 times. Furthermore, and as part of the Board's succession preparedness activities, Helge Lund has as an observer been invited to the Chairmanship meetings until he was elected as chair at the annual general meeting in March 2018.

The Chairmanship has in 2018 dealt with the following matters:

Board matters and governance

- Prepared the Board's Annual Wheel for 2019.
- Prepared each Board meeting including preparation of the agenda and review of key recommendations to the Board regarding business performance and proposals for budgets/targets, business plans, strategies/policies, investments, financial reporting, shareholders meetings and ensured follow up on decisions made by the Board.
- Reviewed and suggested changes to the documents governing the Board and committees, incl. the Rules of Procedure of the Board, the Chairmanship Charter, charters for the Board committees and the Guidelines for Executive Management.
- Planned a self-evaluation process for the Board and Executive Management facilitated internally and initiated subsequently the implementation of the agreed actions.
- Conducted the annual review of the company's takeover response capabilities.
- Conducted a review of the company's investment portfolio.

Annual general meeting and shareholders

- Reviewed the recommended agenda for the 2018 annual general meeting.
- Conducted meetings with 8 of Novo Nordisk's large shareholders.

Executive Management and organisation

- Reviewed the organisational structure and employee

composition as well as the future need for competences.

- Reviewed the composition of and the succession plan for the Executive Management, including the appointments to the Executive Management.
- Reviewed the achievement of the LTIP 2017 targets and recommended to the Board the targets for LTIP 2018.
- Conducted the annual performance evaluation of the Executive Management.

Special focus areas

- Strategy execution across the value chain.
- Commercialisation – implementation of the commercialisation strategies in different markets.
- External innovation – partnering and acquisition to access external innovation.
- Organisational development – talent and leadership development as well as succession preparedness and development of the company culture.
- Board responsibilities – adapting the board agenda to meet future needs of the company.

The Nomination Committee

Roles and responsibilities, composition, independence and attendance

The Nomination Committee has four members elected by the Board of Directors from among its members. One member is designated as chair and one member is an employee representative.

The Nomination Committee assists the Board of Directors with oversight of a) the competence profile and composition of the Board of Directors, b) nomination of members of the Board of Directors, c) nomination of Board of Directors committees, and d) other tasks on an ad hoc basis as specifically decided by the Board of Directors.

The Board of Directors has in March 2018 elected the following members to the Nomination Committee:

- Helge Lund (elected, member since 2017 and chair since 2018; independent)
- Sylvie Gregoire (elected, member since 2018; independent)
- Kasim Kutay (re-elected, member since 2017; not independent)
- Mette Bøjer Jensen (elected, member since 2018; employee representative, not independent)

The Nomination Committee consists of two members who are independent, including the chair, as defined in the Danish Corporate Governance Recommendations, and two members who are non-independent. One member is an employee representative. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Nomination Committee does not conform to the Danish Corporate Governance Recommendations. This is due to the fact that the Board of Directors finds that the composition of the Nomination Committee allows for a representative of the majority shareholder, who qualifies as a non-independent Board member, as well as an employee representative, who also qualifies as a non-independent Board member, being on the Nomination Committee while maintaining an operational structure of the Nomination Committee with relative few members.

The Nomination Committee conducted six meetings in 2018 (excluding interviews with candidates). All Nomination Committee members attended all committee meetings within the member's term in 2018, except one member who was excused from one meeting within the member's term in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview.

Nomination Committee Report for 2018

The Nomination Committee works according to an Annual Work Plan with fixed agenda items. In addition, the Nomination Committee conducts a search process for potential candidates for the Board.

In 2018 the Nomination Committee met 6 times and dealt with the following matters:

Board composition

- Reviewed and recommended a revision of the desired competences to be represented on the Board.
- Reviewed the Board members' competences based on a self-evaluation conducted by each board member.
- Discussed and recommended to the Board that the Board members assessed the appropriateness of the level of board and executive positions of the other Board members (overboarding).
- Reviewed the developments in respect of required and desired diversity aspects for the Board and reviewed the composition of the Board in relation to diversity.
- Discussed long term succession planning for the Board and identified need for replacements for Board members stepping out.

Search for and recommendation of Board members

- Established search profile, conducted search, including interviews of candidates and recommended to the Board specific proposals for nomination of individual members for election or re-election at the annual general meeting as chair, vice chair and board members and prepared the Board's recommendation to the annual general meeting.
- Presented to the Board a specific proposal for election or re-election of individual members as Board committee members.

Nomination Committee matters and governance

- Endorsed the Annual Work Plan for 2019.
- Conducted a self-evaluation including a review of the Nomination Committee charter.
- Conducted private meetings without the assigned executive being present.
- Endorsed a report on the Nomination Committee's activities in 2018.

Special focus areas

- Nomination of Board candidates – Identified and interviewed candidates
- Competences - Reviewed and recommended a revision of the desired competences to be represented on the Board.

Audit Committee

Roles and responsibilities, composition, independence and attendance

The Audit Committee has four members elected by the Board of Directors from among its members. One member is designated as chair and one member is an employee representative.

The Audit Committee assists the Board with the oversight of: a) the external auditors, b) the internal audit function, c) the procedure for handling complaints reported through the Compliance Hotline (whistleblowing), d) financial, social and environmental reporting, e) business ethics compliance, f) information security, g) insurance coverage and h) special theme reviews and other tasks on an ad hoc basis, as specifically decided by the Board.

The Board of Directors has in March 2018 elected the following members to the Audit Committee:

- Liz Hewitt (re-elected, member since 2012 and chair since 2015; independent; financial expert)
- Andreas Fibig (elected, member since 2018, independent)
- Sylvie Grégoire (re-elected, member since 2015; independent)
- Stig Strøbæk (re-elected, member since 2013, employee representative; not independent)

Under Danish law, three members qualify as independent as defined in the Danish Corporate Governance Recommendations, including the chair, and one member, who is an employee representative, qualifies as non-independent. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Audit Committee adheres to the Danish Corporate Governance Recommendations. In addition, one member has competences in accounting and auditing and the members of the Audit Committee collectively have competences relevant to the healthcare industry as required by the Danish Act on Approved Auditors and Audit Firms.

Pursuant to the US Securities Exchange Act three members qualify as independent while one member, the employee representative, relies on an exemption to the independence requirements. In addition, one member, the chair, has been designated as financial expert as defined by the US Securities and Exchange Commission (SEC).

In 2018, the Audit Committee conducted five meetings. All Audit Committee members attended all committee meetings within the member's term in 2018, except one member who was excused from two meetings within the member's term in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview.

Audit Committee Report for 2018

According to SEC reporting requirements for listed companies the Audit Committee shall report on their activities.

The Audit Committee works according to an Annual Work Plan with fixed agenda items following key events of the annual financial reporting cycle. In addition, The Audit Committee request topics to be discussed on their meetings from time to time.

For the financial reporting year 2018 the Audit Committee held five meetings and discussed the following matters:

Audit Committee matters and governance

- Conducted a self-evaluation including a review of the Audit Committee Charter and assessment of independence, financial expertise and other legal requirements of each member of the Audit Committee.
- Conducted private meetings with selected members of Executive Management, General Counsel, Head of Group Internal Audit and with the external auditors.

Review of internal and external audit matters

- Evaluated the performance and the independence of the external auditor.
- Recommended the election of the external auditor to the Board of Directors and annual general meeting.
- Reviewed the performance, independence, effectiveness and organisation of the internal audit function including a review of the charter for Group Internal Audit.
- The Head of Group Internal Audit and the external auditor presented the audit planning and audit resources. In addition, they presented the annual conclusion and results of audit activities conducted each quarter for review including the conclusion of the audit of internal controls over financial reporting.
- Assessed the performance of targets and the remuneration for the head of Group Internal Audit.
- Furthermore, the external auditor presented its annual long form report, and the annual Audit Committee Report required by the PCAOB.
- The Audit Committee reviewed and approved the pre-approval procedure for audit, non-audit and tax services to external auditors, reviewed the given pre-approvals for the current year and pre-approved the level for the next financial year (including engagement letter). Further the Audit Committee reviewed the procedure for hiring employees from external auditors.

Financial, social and environmental reporting

- Discussed with the CFO, Head of Business Assurance, the General Counsel, Head of Group Internal Audit and the external auditors:
 - material and relevant new accounting pronouncement, implementation of such, review of key accounting policies and the accounting for certain transactions and activities,
 - accounting for significant legal and tax issues,
 - critical accounting estimates,
 - transactions with related parties, and
 - the scope of internal controls over financial reporting in relation to the requirements in the Sarbanes Oxley Act

and Danish legislation.

- The Audit Committee performed a review of:
 - the global finance organisation,
 - the financial statement releases for the full year and interim financial reports,
 - the Annual Report including the statements of financial, social and environmental performance, and the Form-20 F,
 - the bi-annual risk management reporting,
 - the risk reporting process,
 - the company's financial counterpart exposure in the company's treasury policy, and approved an update hereto,
 - the model account for the statements of the financial, social and environmental performance.
- The Audit Committee performed a fraud risk assessment in Novo Nordisk.

Other matters

- Review of established Business Ethics activities including a review of:
 - the Business Ethics strategy, the Compliance Programme and the compliance organisation, and
 - Compliance reporting from the Business Ethics Compliance officer, and the US Compliance officer.
- **The Audit Committee performed a review of:**
 - issues reported via Compliance Hotline and the Audit Committee agreed on the performed investigations, conclusions and sanctions reached and,
 - the Information Security activities and focus areas.

Remuneration Committee

Roles and responsibilities, composition, independence and attendance

The Remuneration Committee has four members elected by the Board of Directors from among its members. One member is designated as chair and one member is an employee representative.

The Remuneration Committee assists the Board with oversight of the remuneration policy for the members of the Board of Directors and Executive Management including guidelines on incentive pay to Executive Management in the company referred to as "The principles for remuneration of board members and executives in Novo Nordisk A/S ("Remuneration Principles")", the remuneration of the members of the Board of Directors and its committees, the remuneration of the members of Executive Management, and other tasks on an ad hoc basis as specifically decided by the Board.

The Board of Directors has in March 2018 elected the following members to the Remuneration Committee:

- Jeppe Christiansen (re-elected, member since 2015 and chair since 2017; not independent)
- Brian Daniels (elected, member since 2018, independent)
- Liz Hewitt (elected, member since 2018; independent)
- Anne Marie Kverneland (re-elected, member since 2017; employee representative; not independent)

The Remuneration Committee consists of two non-independent members, including the chair, and two independent members pursuant to the Danish Corporate Governance Recommendations. One member is an employee representative. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Remuneration Committee does not conform to the Danish Corporate Governance Recommendations. This is due to the fact that the Board of Directors finds that the composition of the Remuneration Committee allows for a member from the Chairmanship who is a representative of the majority shareholder and an employee representative, who both qualify as non-independent Board members, being on the Remuneration Committee while maintaining an operational structure of the Remuneration Committee with relative few members.

The Remuneration Committee conducted five meetings in 2018. All Remuneration Committee members attended all committee meetings within the member's term in 2018, except one member who was excused from one meeting within the member's term in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview.

Remuneration Committee Report for 2018

The Remuneration Committee works according to an Annual Work Plan with fixed agenda items. In addition, the Remuneration Committee meets when developments require additional meetings.

In 2018 the Remuneration Committee met 5 times and dealt with the following matters:

Remuneration Principles for the members of the Board of Directors and Executive Management

- Reviewed and recommended to the Board changes to the Remuneration Principles to be approved by the annual general meeting.
- Reviewed feedback from investors on Novo Nordisk's Remuneration Principles as well as actual remuneration.

Remuneration of the members of the Board of Directors and its committees

- Reviewed Danish, Nordic and European Benchmark Data on Board and Board Committee remuneration and recommended to the Board the remuneration levels, multiples and allowances for 2019 to be approved by the annual general meeting.
- Reviewed Group Internal Audit's report on Board remuneration.

Remuneration of the members of Executive Management

- Reviewed the inclusion criteria for the peer group in the Danish, Nordic and European benchmark and endorsed changes therein.
- Reviewed Danish, Nordic and European Benchmark Data on executive remuneration
- Recommended to the Board changes in executive remuneration in 2018 and as well as the general remuneration level for 2019.
- Reviewed the short-term cash-based incentive programme for the Executive Management and recommended to the Board the structure for 2019.
- Reviewed the long term share-based incentive programme for the Executive Management and recommended to the Board the structure for 2019.
- Reviewed the shareholding requirements for executives as well as the executives' adherence to the shareholding requirements.
- Reviewed and recommending to the Board proposals for remuneration of new executives.
- Reviewed the separation terms for executives leaving the company.
- Reviewed Group Internal Audit's report on executive remuneration.

Reporting on Remuneration

- Reviewed and recommended to the Board the Remuneration Report for 2018 to form part of the company's Annual Report 2018.
- Reviewed and endorsed the model for the Remuneration Report for 2018 to be uploaded on novonordisk.com

Remuneration Committee matters and governance

- Endorsed the Annual Work Plan for 2019.
- Conducted a self-evaluation including a review of the Remuneration Committee Charter.
- Conducted private meetings without the assigned executive being present.
- Endorsed the report on the Remuneration Committee's activities in 2018.

Special focus areas

- Remuneration of new executives – assessing and recommending to the Board remuneration levels for new executives.
- Executive remuneration levels – recommending to the Board appropriate levels of remuneration for the executives based on available benchmark data.
- Remuneration components – general reviews of various executive remuneration components such as short-term incentives, long term incentives, termination and severance payments, claw back provisions etc.

Research & Development Committee

Roles and responsibilities, composition, independence and attendance

The Research & Development Committee has four members elected by the Board of Directors from among its members. One member is designated as chair and one member is an employee representative.

The Research & Development Committee was established in March 2017 in light of the updated research and development strategy and priorities. In 2018, the Board decided that the Research & Development Committee should continue as a permanent committee.

The Research & Development Committee assists the Board of Directors with the oversight of: a) the Research & Development strategy, b) the pipeline, c) the R&D organisation, and d) other tasks on an ad hoc basis, as specifically decided by the Board.

The Board of Directors has in March 2018 elected the following members to the Research & Development Committee:

- Martin Mackay (elected, chair and member since 2018; independent)
- Brian Daniels (re-elected, member since the establishment in 2017; independent)
- Sylvie Gregoire (re-elected, member since the establishment in 2017; independent)
- Thomas Rantzau (elected, member since 2018; employee representative; not independent)

The Research & Development Committee consists of three members who are independent, including the chair, as defined in the Danish Corporate Governance Recommendations and one member, the employee representative, who is non-independent. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Research & Development Committee adheres to the Danish Corporate Governance Recommendations

The Research & Development Committee conducted five meetings in 2018. All Research & Development Committee members attended all committee meetings within the member's term in 2018. Please refer to the Annual Report on pp. 50-51 for a detailed attendance overview.

Research & Development Committee Report for 2018

The R&D Committee was established in March 2017 as a temporary committee. In 2018 the Board of Directors decided that the R&D Committee should be a permanent committee. The R&D Committee works according to an Annual Work Plan with fixed agenda items. In addition, the R&D Committee meets when developments require additional meetings. The R&D Committee has in 2018 met five times and dealt with the following matters:

R&D pipeline update

- Regularly reviewed progress of the development project pipeline, including initiation and results of clinical trials, submission of application for marketing authorisations, and receipt of marketing authorisations for key development projects.
- Reviewed progress of the research project pipeline, including key challenges and initiatives within early innovation and new therapeutic areas.

Progress within external innovation sourcing

- Discussed the increased need for external innovation sourcing.
- Regularly reviewed potential as well as completed external innovation sourcing opportunities, including potential acquisitions and licensing opportunities.

Implementation of the revised R&D Strategy

- Reviewed the overall strategic objectives for the next 3-5 years.
- Reviewed the research strategy within oral glp-1, Biopharm, NASH and atherosclerosis.
- Reviewed R&D governance, including restructurings and key priority initiatives across R&D.
- Reviewed the future organisational R&D set-up.

R&D Committee matters and governance

- Reviewed and endorsed the Annual Work Plan for 2019.
- Reviewed and suggested changes to the R&D Committee charter.
- Conducted private meetings without the assigned executive being present.
- Reviewed and endorsed a report on the R&D Committee's activities in 2018.

Special focus areas

- GLP-1 (subcutaneous and oral): Reviewed results of clinical trials conducted and discussed potential additional research and development activities to further explore opportunities within GLP-1 of as well as competitor initiatives.
- NASH and atherosclerosis: Discussed the potential opportunities to address unmet needs.
- External innovation sourcing: Reviewed potential external research collaborations as well as acquisitions.
- R&D organisation: Discussed elements to further enhance the R&D organisations' performance, re-allocation of resources and succession management.

Executive Management

Executive Management is responsible for the overall day-to-day management, the organisation of the company, allocation of resources, determination and implementation of strategies and policies, direction setting, and ensuring timely reporting and provision of information to the Board of Directors and Novo Nordisk's stakeholders. Executive Management meets at least once a month, and often more frequently. The Board of Directors appoints members of Executive Management and determines their remuneration. The Chairmanship reviews the performance of the executives. To ensure the organisational implementation of the strategy, Executive Management has established a Management Board consisting of the chief executive officer, executive vice presidents and senior vice presidents.

As of 31 December 2018, Executive Management consisted of 9 members including the chief executive officer. On February 15, 2018, Karsten Munk Knudsen was appointed chief financial officer, succeeding Jesper Brandgaard, who retained responsibility for Biopharm and Global Legal & Patents as a continuing member of Executive Management.

As of 1 February 2019, Executive Management consists of the following members:

- Lars Fruergaard Jørgensen (president & chief executive officer (CEO))
- Jesper Brandgaard (executive vice president, head of Biopharm and Global Legal & Patents)
- Maziar Mike Doustdar (executive vice president and head of International Operations)
- Lars Green (executive vice president and head of Business Services & Compliance)
- Karsten Munk Knudsen (executive vice president and chief financial officer (CFO))
- Doug Langa (executive vice president and head of North America Operations)
- Camilla Sylvest (executive vice president and head of Commercial Strategy & Corporate Affairs)
- Mads Krogsgaard Thomsen (executive vice president and chief science officer (CSO))
- Henrik Wulff (executive vice president and head of Product Supply)

The two executives who are based outside of Denmark and who have responsibility for International Operations and North America Operations respectively are not registered as executives with the Danish Business Authority.

Risk management

Novo Nordisk's risk management process is governed by Executive Management and designed to ensure that key business risks are effectively identified, assessed and mitigated so that they do not affect the company's ability to achieve its business objectives. The risk management system covers the entire company in terms of geography, activities and functional areas.

All business activity has inherent risk. Our approach to risk management is to proactively manage risk to ensure continued growth of our business and to protect our people, assets and reputation. This means that we:

- utilise an effective and integrated risk management system while maintaining business flexibility,
- identify and assess material risks associated with our business, and
- monitor, manage and mitigate risks.

Our risk willingness depends upon the specific category of risk and examples of such categories are:

- Delays or failure of products in pipeline
- Supply distributions
- Competition and market development
- Compromises to product quality and patient safety
- Information technology security breaches
- Currency impact and tax disputes
- Breach of legislation or ethical standards
- Loss of intellectual property rights

Please refer to the Annual Report 2018 pp. 41-43 for a more detailed description of the above categories and Novo Nordisk's key risks.

The enterprise risk management system

In Novo Nordisk, management teams in all organisational areas are responsible for continuous identification, assessment, and mitigation of risks. All areas have procedures and infrastructure to ensure successful management and reporting of risks, with dedicated local risk coordinators facilitating the process and providing advice and training. This setup allows us to respond timely to risks.

Each quarter, management teams are required to report to the Risk Office their most significant risks, along with assessments and an overview of implemented mitigations and next milestones. All risk assessments take into account the likelihood of an event and its potential impact on the business. Impact is quantified and assessed in terms of potential financial loss or reputational damage. Risks are assessed both as gross risk and net risk.

The Risk Office then challenges management on the reported risk information (including assessments, implemented mitigations and next milestones), and consolidates on a quarterly basis reported risks into a corporate profile containing the company's key risks. The final risk profile is reviewed by Executive Management, the Audit Committee and the Board of Directors.

Internal control

Overall control environment

The Board of Directors and Executive Management set out general requirements for business processes and internal controls. A number of policies are defined by Executive Management and approved by the Board of Directors, including;

- Finance and Legal Policy
- Risk Management Policy
- Treasury Policy
- Information Technology Policy
- Business Ethics Policy

A description of Novo Nordisk's overall policies, positions and values can be found in the Annual Report, The why behind the Novo Nordisk Way, on pp. 6-7.

Responsibility for maintaining sufficient and effective internal controls and risk management system in relation to the financial reporting is anchored with Executive Management. Executive Management ensures design and implementation of controls considered necessary to mitigate risks identified in relation to the financial reporting process.

The Audit Committee appointed by the Board of Directors monitors on an ongoing basis the assessment of risk and the design and operating effectiveness of the implemented internal controls in connection with the financial reporting process.

The internal audit function, Group Internal Audit, is reporting to the Audit Committee. The internal audit function provides independent and objective assurance primarily within internal control and governance.

Risk assessment

The Audit Committee and Executive Management perform assessments of the risk exposure of Novo Nordisk, including the impact on the financial reporting and the financial reporting process. Quarterly, the Audit Committee have discussions with the chief financial officer, head of finance, head of business assurance, head of group internal audit, the external auditor and the general counsel regarding:

- material and relevant new accounting pronouncement, implementation of such, review of key accounting policies and the accounting for certain transactions and activities, and
- accounting for material legal and tax issues - significant accounting estimates, and the scope and effectiveness of internal controls over financial reporting including Sarbanes-Oxley requirements.

The identified key risks in relation to the financial reporting are described in the statutory Annual Report for 2018 in the sections 'Novo Nordisk's key risks' on pp. 41-43 and Note 1.1 'Principal accounting policies and key accounting estimates'.

Control activities

The internal control system which has been based on the COSO framework includes clearly defined organisational roles and responsibilities, reporting requirements and authorities.

Novo Nordisk is in compliance with the Sarbanes–Oxley Act section 404, which requires detailed documentation of the design and operation of financial reporting processes. Novo Nordisk must ensure that there are no material weaknesses in the internal controls that could lead to a material misstatement in its financial reporting.

The company's conclusion and the auditor's evaluation of these processes are included in the company's Form 20-F filing to the US Securities and Exchange Commission (SEC).

IT systems

Novo Nordisk operates with a common global IT system that ensures uniformity and transparency in data used for the financial reporting and controlling. Information and communication systems to ensure accounting and internal control compliance are established including accounting manual, internal control requirements, budgeting manual and other relevant guidelines. This information is available for all employees on the Intranet.

Monitoring

Each month the group's companies report financial data and comments on financial and commercial developments to the central accounting and controlling function. This information is used to prepare consolidated financial statements and reports for the group's Executive Management. Financial reporting, including reporting from subsidiaries, are controlled on an ongoing basis. In connection with the preparation of the Annual Report, additional analysis and control activities are performed to ensure proper presentation in the Annual Report.

Test of internal controls over financial reporting by Group Internal Audit and external auditors and management's self-assessment of the controls are conducted as a part of the compliance with the Sarbanes–Oxley Act section 404. The result hereof is reported to the Audit Committee on a quarterly basis.

Appendix 1

Deviations from Nasdaq Copenhagen Corporate Governance Recommendations

As a company organised under Danish law and with a primary listing on Nasdaq Copenhagen, Novo Nordisk is in compliance with Danish securities law and it is Novo Nordisk's intent to be guided by the Danish Corporate Governance Recommendations announced by Nasdaq Copenhagen (prepared by the Danish Committee on Corporate Governance). Nasdaq Copenhagen has required Danish companies to report on a "comply-or-explain" basis their compliance with these recommendations. Novo Nordisk is in compliance with all but four of the Danish Corporate Governance Recommendations.

The Danish Corporate Governance Recommendations	Danish Corporate Governance Recommendations	Novo Nordisk's approach
3.4.2	The Committee recommends that a majority of the members of a board committee be independent.	The Board of Directors of Novo Nordisk wishes to allow for both an employee elected board member as well as a representative of the main shareholder to be on a committee while keeping the number of committee members small. Consequently the composition of the Nomination Committee and of the Remuneration Committee does not adhere to the recommendation.
3.4.6	<p>The Committee recommends that the board of directors establish a nomination committee which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> • describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies , • annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors, • annually assessing the competencies, knowledge, experience and succession of the individual members of management, and report to the board of directors in this respect, • recommending candidates for the board of directors and the executive board, and • proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes. 	<p>The Board has established a Nomination Committee. The Board has approved a Charter for the Nomination Committee setting out its responsibilities and powers.</p> <p>The primary focus for the Nomination Committee remains with defining the qualifications and assess the composition and skills of the Board of Directors while at the same time ensuring the continuity and alignment in the succession planning of the Board of Directors, while the Chairmanship is responsible for succession management and recommending candidates for the Executive Management.</p>

3.4.7	<p>The Committee recommends that the board of directors establish a remuneration committee, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> • recommending the remuneration policy (including the “General Guidelines for incentive-based Remuneration”) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting, • making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company’s remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group, • recommending a remuneration policy applicable for the company in general, and • assisting with the preparation of the annual remuneration report. 	<p>The Board has established a Remuneration Committee and it has approved a Charter for the Remuneration Committee setting out its responsibilities and powers.</p> <p>In accordance with its Charter the Remuneration Committee carries out the tasks regarding remuneration to the Board of Directors and Executive Management, while the responsibility of the remuneration policy applicable for the company in general lies with Executive Management.</p> <p>The Remuneration Committee assists with the preparation of the Remuneration Report.</p>
4.1.5	<p>The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.</p>	<p>Except for two executive employment contracts entered into before 2008, the total value of the remuneration relating to the notice period, including severance pay, for each individual executive does not exceed two years of remuneration, including all components of the remuneration.</p> <p>The two executive employment contracts entered into before 2008 allow for severance payments of more than 24 months’ fixed base salary plus pension contribution and thus the total value of the remuneration relating to the notice period, and of the severance pay, exceeds two years of remuneration, including all components of the remuneration.</p>

Appendix 2

Summary of the significant ways in which Novo Nordisk's corporate governance practices differ from the NYSE Corporate Governance Listing Standards

Novo Nordisk is a foreign listed private issuer whose ADRs are listed on the New York Stock Exchange (the 'NYSE'). As such, Novo Nordisk is required to comply with US securities laws, including the Sarbanes-Oxley Act and the NYSE Corporate Governance Standards except that, as permitted under these standards, Novo Nordisk continues to apply Danish corporate governance practices in certain areas.

Below a summary is provided of the significant ways in which Novo Nordisk's corporate governance practices differ from the corporate governance standards of the NYSE applicable to domestic US-listed companies.

NYSE Listed Company Manual – Section 303A	Corporate Governance standard ⁷	Novo Nordisk corporate governance practice
Rule 2.(a)(i)	No director qualifies as 'independent' unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).	<p>Under the Danish Corporate Governance Recommendations, at least half of the shareholder-elected members of the board of directors, excluding any members that have been elected by employees of the company, must be independent. Employees are entitled to be represented by half of the total number of board members elected by the shareholders.</p> <p>The Board of Directors has determined whether board members qualify as independent under the Danish Corporate Governance Recommendations. The Board of Directors has also determined whether the board members, who are members of the Audit Committee, qualify as independent under Rule 10A-3 under the Securities Exchange Act. Such determination is disclosed in the statutory Annual Report. Further, the statutory Annual Report provides detailed and individual information regarding the board members, but it does not explicitly identify which board members the Board of Directors consider independent under NYSE's Corporate Governance Listing Standards.</p>

⁷ Text slightly modified to make it more reader-friendly.

<p>Rule 2.(a)(ii)</p>	<p>In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of the listed company's board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:</p> <p>(A) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and</p> <p>(B) whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company.</p>	<p>It is not a requirement to have a compensation committee if a company is 'controlled', which the New York Stock Exchange defines as having more than 50% of the voting power for the election of directors held by an individual, a group or another company. Novo Nordisk is such a controlled company and is therefore exempt from the requirement to establish a separate compensation committee in the same manner as US companies are.</p> <p>The Board has established a Remuneration Committee and the Remuneration Committee consists of two non-independent members, including the chair, and two independent members pursuant to the Danish Corporate Governance Recommendations. One member is an employee representative. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee should qualify as independent. Hence, the composition of the Remuneration Committee does not conform to the Danish Corporate Governance Recommendations. This is due to the fact that the Board of Directors finds that the composition of the Remuneration Committee allows for a member from the Chairmanship who is a representative of the majority shareholder and an employee representative, who both qualify as non-independent Board members, being on the Remuneration Committee while maintaining an operational structure of the Remuneration Committee with relative few members.</p> <p>The Board of Directors considers all factors relevant to determine whether the members of the Remuneration Committee have a relationship to Novo Nordisk which is material to the director's ability to be independent from management when performing its duties.</p>
<p>Rule 2.(b)(i)</p>	<p>In addition, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.</p>	<p>Rule 303A.02 defines 'listed company', for purposes of the independence standards, to include 'any parent or subsidiary in a consolidated group with the listed company or such other company as is relevant to any determination under the independence standards set forth in this Section 303A.02(b)'.</p> <p>Four employees have in accordance with the requirements in the Danish Companies Act been elected as board members by the Danish employees of the company.</p> <p>One director serves as chief executive officer of the majority shareholder, Novo Holdings A/S.</p> <p>No other board member or the board member's immediate family members have within the last three years been an employee or executive of Novo Nordisk or any parent or subsidiary in a consolidated group with Novo Nordisk.</p>

Rule 2.(b)(ii)	<p>A director is not independent if the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).</p>	<p>Definition of 'listed company' is identical to what is stated under Rule 2.(b)(i).</p> <p>Four employees have in accordance with the requirements in the Danish Companies Act been elected as board members by the Danish employees of the company. The four employee-elected board members receive remuneration as employees.</p> <p>One board member serves as chief executive officer of the majority shareholder, Novo Holdings A/S, and thus may be deemed as being non-independent due to the receipt of remuneration as executive of Novo Holdings A/S.</p> <p>No other board members or immediate family member receives or has received such fees from Novo Nordisk.</p>
Rule 4.(a)	<p>Listed companies must have a nominating/ corporate governance committee composed entirely of independent directors.</p>	<p>The requirement does not apply if a company is 'controlled', which the New York Stock Exchange defines as having more than 50% of the voting power for the election of directors held by an individual, a group or another company. Novo Nordisk is such a controlled company and is therefore exempt from this requirement in the same manner as US companies are.</p> <p>The Board has established a Nomination Committee and the Nomination Committee consists of two members who are independent, including the chair, as defined in the Danish Corporate Governance Recommendations and two members who are non-independent. One member is an employee representative. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Nomination Committee does not conform to the Danish Corporate Governance Recommendations. This is due to the fact that the Board of Directors finds that the composition of the Nomination Committee allows for a representative of the majority shareholder, who qualifies as a non-independent Board member, as well as an employee representative, who also qualifies as a non-independent Board member, being on the Nomination Committee while maintaining an operational structure of the Nomination Committee with relative few members.</p> <p>The Board of Directors considers all factors relevant to determine whether the members of the Nomination Committee have a relationship to Novo Nordisk which is material to the director's ability to be independent from management when performing its duties.</p> <p>The Chairmanship is responsible for the oversight of the company's corporate governance practices.</p>

Rule 5.(a)	Listed companies must have a compensation committee composed entirely of independent directors. Compensation committee members must satisfy the additional independence requirements specific to compensation committee membership set forth in section 303A.02(a)(ii).	<p>The requirement does not apply if a company is 'controlled', which the New York Stock Exchange defines as having more than 50% of the voting power for the election of directors held by an individual, a group or another company. Novo Nordisk is such a controlled company and is therefore exempt from this requirement in the same manner as US companies are.</p> <p>The Board has established a Remuneration Committee and the Remuneration Committee consists of two non-independent members, including the chair, and two independent members pursuant to the Danish Corporate Governance Recommendations. One member is an employee representative. According to the Danish Corporate Governance Recommendations a majority of the members of a board committee shall qualify as independent. Hence, the composition of the Remuneration Committee does not conform to the Danish Corporate Governance Recommendations. This is due to the fact that the Board of Directors finds that the composition of the Remuneration Committee allows for a member from the Chairmanship who is a representative of the majority shareholder and an employee representative, who both qualify as non-independent Board members, being on the Remuneration Committee while maintaining an operational structure of the Remuneration Committee with relative few members</p> <p>The Board of Directors considers all factors relevant to determine whether the members of the Remuneration Committee have a relationship to Novo Nordisk which is material to the director's ability to be independent from management when performing its duties.</p> <p>Furthermore, the Chairmanship annually evaluates the performance and target setting for Executive Management.</p>
Rule 7.(a)	The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence set out in Section 303A.02 and, in the absence of an applicable exemption, Rule 10A-3(b)(1).	<p>The Audit Committee has four members.</p> <p>Three Audit Committee members satisfy the independence requirements of Rule 10A – 3(b) (1) of the Securities Exchange Act and section 303A.02 of the NYSE Listed Company Manual.</p> <p>One Audit Committee member is an employee representative relying on the exemption from the independence requirements in Rule 10A-3(b) (1) provided for by paragraph (b)(1)(iv)(C). Novo Nordisk does not believe the reliance on such exemption will materially affect the ability of the Audit Committee to act independently.</p>

<p>Rule 7.(b)(i)</p> <p>Rule 7.(b)(i)(A)</p>	<p>The audit committee must have a written charter that addresses the committee's purpose – which, at minimum, must be to:</p> <p>assist board oversight of (1) the integrity of the listed company's financial statements, (2) the listed company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the listed company's internal audit function and independent auditors (if the listed company does not yet have an internal audit function because it is availing itself of a transition period pursuant to Section 303A.00, the charter must provide that the committee will assist board oversight of the design and implementation of the internal audit function).</p>	<p>The Audit Committee Charter addresses the Committee's purpose.</p> <p>As stated in the Charter, the Audit Committee is, amongst other things, responsible for oversight of and reporting to the Board of Directors on the elements described in the recommendation. However, with respect to legal and regulatory requirements, the Audit Committee's oversight responsibility only includes oversight of compliance with legal and regulatory requirements relating to business ethics compliance.</p> <p>The Audit Committee Charter is available on novonordisk.com.</p>
<p>Rule 8</p>	<p>Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions explained below.</p> <p>[Text abbreviated]</p>	<p>The Remuneration Principles are approved by the annual general meeting. The Remuneration Principles describe the framework for incentive programs for the Board and Executive Management. All incentive programs offered to the Board of Directors and/or Executive Management shall comply with this framework. However, under Danish law, the practice of voting on equity-compensation plans is not contemplated and accordingly, equity compensation plans are only subject to shareholder approval if it results in the issuance of new shares (and not if treasury shares are used).</p>
<p>Rule 10</p>	<p>Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.</p> <p>According to NYSE commentary, a code of business conduct and ethics shall include:</p> <ul style="list-style-type: none"> • Conflicts of interest. • Corporate opportunities. • Confidentiality. • Fair dealing. • Protection and proper use of company assets. • Compliance with laws, rules and regulations (including insider-trading laws). • Encouraging the reporting of any illegal or unethical behaviour. 	<p>Novo Nordisk has a framework of rules and guidelines, including but not limited to the Novo Nordisk Way, the Business Ethics Code of Conduct and the supporting Business Ethics Compliance Framework, which describe corporate values and required mindset and action on business conduct and ethics.</p> <p>While certain topics mentioned in the NYSE Listed Company Manual are addressed in this framework of rules and guidelines there may be topics, which are not covered.</p>
<p>Rule 12.(a)</p>	<p>Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the listed company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.</p>	<p>Listed companies that are foreign private issuers are permitted to follow home country practice in lieu of the provisions of this section. Novo Nordisk has opted to follow Danish law and regulations, which do not contemplate such certifications. However, Novo Nordisk will notify the NYSE promptly in writing if it becomes aware of any non-compliance with applicable NYSE corporate governance rules.</p>