

# Risk management

In the rapidly changing business environment of the pharma industry, having a clear view on risks and timely mitigations allows Novo Nordisk to better allocate resources to target future growth opportunities.

With increased pressure for innovations in research and development, it is essential for management to nurture an entrepreneurial spirit that encourages calculated risk-taking, and at the same time proactively mitigates potential risks. Monitoring risks requires a 360 degree perspective: risks may not only occur in relation to business operations and external factors such as regulatory demands, compliance requirements and product safety. In a globalised business environment, reputational risks need to be considered too. In 2004, Novo Nordisk established a governance structure for risk management to ensure that the company seeks to respond in a timely and appropriate way to potential risks.

In business as in personal life there will be risks to be faced, to take and to avert. For people at Novo Nordisk, understanding risks and managing them appropriately will enhance their ability to make better decisions, deliver on objectives and subsequently improve performance. If, on the other hand, they fail to

identify and manage business risks, this may result in considerable expenditure and eroded shareholder confidence.

For Novo Nordisk, risk management is about identifying and reducing risk to an acceptable level. Risks are defined as 'events or developments which could reduce our ability to meet our overall objectives', as defined by the company's vision and reflected in business plans. The company's risk policy spells out that 'we will manage risks to enable continued growth of our business and to protect our people, assets, earnings and reputation against material loss'. Hence, risk management considers both financial and non-financial risks, and key risks are reported through one integrated and systematic process.

Novo Nordisk's strategic planning process forms part of the risk management process. Once a year, a strategic plan with an in-depth identification and evaluation of long-term strategic growth opportunities is performed across the organisation. This also creates the basis for formulating Critical Success Factors and setting targets for the Key Performance Indicators which are part of the company's Balanced Scorecards. Subsequently, risk factors and mitigations are identified and these are factored into individual business plans for all units in Novo Nordisk. The assessment of key risks will build on Novo Nordisk's existing

organisational assurance activities, such as Organisational Audit, Facilitation, quality audit and Group Internal Audit.

As of 2004, Executive Management established a dedicated Risk Management Group of senior executives, representing all key business activities and selected supporting functions. Chaired by the chief financial officer, it reports to Executive Management and the Board of Directors. It sets the strategic direction and challenges for risk management, and analyses the risk and control information generated by the individual business areas. This process helps reduce blind spots and consider potential cross-functional impacts. In quarterly reports to Executive Management and the Board of Directors, risks are assessed and quantified in terms of potential financial impact and reputational damage. For each risk the potential impact is specified, as are mitigating actions.

Risk Office is the secretariat of the Risk Management Group, and drives and consolidates risk reporting from discovery and development, through manufacturing and logistics, to marketing and sales. In addition, risks related to support functions such as quality, regulatory, business development, finance, legal & IT and HR are included. This is done in consultation with relevant Novo Nordisk committees, boards and management groups.

## Integrated risk management process

Novo Nordisk's risk management process identifies and assesses material risks associated with the company's overall business objectives. The risk management framework aims:

- to provide timely and accurate reporting of risks to Executive Management
- to maintain and improve stakeholders' confidence in the ability to achieve short- and long-term goals, thereby maintaining and improving the company's reputation in the marketplace
- to utilise an effective and integrated risk management process while maintaining business flexibility
- to identify and manage a comprehensive risk portfolio aligned to the vision and corporate Balanced Scorecard
- to monitor and mitigate risks to maximise business benefits.

## Risk management process



Novo Nordisk's risk management is broadly divided into two major components: strategic risk management and operational risk management.