NOVO NORDISK A S
Form 6-K
February 20, 2003

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

of the Securities Exchange Act of 1934

20 February 2003

NOVO NORDISK A/S

(Exact name of Registrant as specified in its charter)
Novo Allé
DK- 2880, Bagsvaerd
Denmark

(Address of principal executive offices)

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

Form 20-F	X	Form 40-F	

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

Yes		No	X

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

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Annual Financial Report 2002

Novo Nordisk is committed to creating long-term value for its shareholders. Investing in production facilities today ensures that the increasing demand for Novo Nordisk s products can be met tomorrow.

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Front cover photograph: Project-management at work in the new NovoSeven® facility in Hillerød, Denmark. Pictured, from left to right: Henrik Risborg (Product Supply, Novo Nordisk), Carsten Malmberg (Novo Nordisk Engineering) and Charlotte Andersson (Novo Nordisk Engineering).

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MANAGEMENT REPORT

Dear stakeholders,

In 2002 we have expanded our capacity to deliver our life-saving drugs, sharpened our competitive focus and skills and have ultimately improved our market position in major markets especially in the US, the world s biggest pharmaceutical market and we now believe the company is stronger than at the beginning of 2002.

The year 2002 has been a very challenging time for Novo Nordisk.

On 10 April 2002 we announced that due to unexpected factors, full-year performance was not likely to meet our previous guidance. The reasons for the shortfall were partly time-related and partly performance- and market-related.

At the end of 2001 wholesalers had stockpiled more insulin than usual, and subsequently de-stocked at the beginning of 2002. Our introduction of insulin analogues was going slower than expected. Sales of Norditropin® SimpleXx® in Japan were impacted by lower market growth and increased competition. First-quarter sales of NovoSeven® in Europe were flat due to seasonal fluctuations. In addition, there was an increasing level of parallel trade in Europe of diabetes care and HRT products a trend which is expected to continue going forward.

The combination of these factors meant that we had to revisit our guidance.

However, we have responded strongly, yet in a balanced way to these challenges.

We established a separate sales and marketing team in Japan to focus solely on Norditropin® SimpleXx®, and have thereby strengthened our competitive position. Our European organisation has been consolidated under one leadership with the aim to improve focus on sales activities and market monitoring.

We have now improved monitoring and forecasting systems related to our sales and the distribution chain.

We implemented a significant cost-containment programme, including a hiring freeze in all areas outside manufacturing and sales.

We are very pleased to see the way in which the Novo Nordisk organisation has responded to these challenges.

With these measures, Novo Nordisk has been able to meet the revised full-year targets without compromising our ability to grow our business in the longer term.

On 22 July 2002 we suspended the phase 3 trials of ragaglitazar (NN622), a promising dual-acting insulin sensitiser. This was done based on urine bladder tumour findings in one mouse and a number of rats. We have now decided not to pursue risk assessment of the compound. The analysis included both data from the terminated clinical phase 3 studies and further animal tumour mechanism studies that turned out not to be conclusive.

This decision does not imply that Novo Nordisk is stopping the search for new type 2 diabetes drugs as we have decided to progress the development of NNN2344, another insulin sensitiser, based on the completed analysis of phase 2, where we found a good clinical efficacy and safety profile.

Mads Øvlisen and Lars Rebien Sørensen at the opening of the new European headquarters in Zurich, Switzerland.

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By the third quarter of 2002, the currency environment had become increasingly negative for Novo Nordisk, primarily the major currencies such as Japanese yen, US dollar and also Brazilian real.

Therefore it is even more positive to see that, with the measures implemented as mentioned above, the performance of our business after the first quarter has been so strong that we have met the full-year targets set after the first quarter under quite different circumstances. In fact, in 2002 we have expanded our capacity to deliver our life-saving drugs, sharpened our competitive focus and skills and have ultimately improved our market position in major markets especially in the US, the world s biggest pharmaceutical market and we now believe the company is stronger than at the beginning of 2002.

Financial performance in 2002 Operating profit grew by 7% to DKK 5,979 million primarily due to sales growth of 6% to DKK 25,187 million. Sales increased by 11% measured in local currencies. Net profit grew by 6% to DKK 4,095 million.

- Diabetes care sales increased by 6% to DKK 17,665 million.
- Sales within haemostasis management increased by 17% to DKK 3,621 million.
- Sales within growth hormone therapy decreased by 2% to DKK 2,131 million.
- HRT sales decreased by 6% to DKK 1,342 million.

BUSINESS HIGHLIGHTS 2002 Novo Nordisk s business events and highlights from the year are as follows.

Reorganisation of European activities Several changes have been made in our European organisation during 2002. To strengthen coordination within the European markets, our two European business regions were merged into one in February, and subsequently relocated to a new European headquarters in Zurich, Switzerland.

Our European Haematology Business Unit, Global HRT office and International Operations regional office are now also located in Zurich. In May, our three European Clinical Development Centres (CDCs) were unified into a single CDC Europe, also at the same location in Zurich.

In June 2002 the seven European business areas were reorganised into five equal-sized business areas and in August a restructuring was initiated for the European organisations to increase attention on our sales activities, ensuring a stronger focus on our customers and the market opportunities in Europe.

Building a strong presence in Latin America In January 2002 Novo Nordisk acquired 76% of the voting shares and 39% of the total capital of Biobrás a well-established company in the Brazilian diabetes care market. On 19 November we acquired an additional 55.4% of the total share capital in Biobrás. During December the remaining shares were redeemed and Biobrás was delisted from the São Paulo stock exchange. Consequently, Biobrás is now a wholly-owned subsidiary of Novo Nordisk. The total purchase price of Novo Nordisk s shareholding after the redemption is BRL 133.5 million (DKK 380 million). The acquisition and full integration of Biobrásin the Novo Nordisk organisation is still subject to final clearance by the Brazilian competition authorities. This clearance is now expected to be obtained during the first half of 2003. With this investment we will be able to make our product portfolio available to a greater part of the Brazilian diabetes community than in the past.

Investment in research and development In 2002 we spent DKK 4,139 million on research and development.

- We submitted an application for marketing authorisation in the EU and US for NN304 (insulin detemir), our long-acting insulin analogue, for the treatment of diabetes.
- Our pulmonary insulin delivery device, AERx® iDMS (NN1998), developed jointly with Aradigm Corporation, entered phase 3 clinical development.
- The NovoSeven® expansion programme continues with a number of studies taking place.
- We signed a collaborative agreement with ZymoGenetics for the preclinical development of interleukin 21 (IL-21), a potential cancer treatment.

Investment in people Development of employees is one of the focus areas in Novo Nordisk s global People Strategy. The Strategy is part of the company s Balanced Scorecard, and so we measure our own ability to perform against targets for development of employees. In addition, 4,107 employees took part in a voluntary climate survey in 2002 which included questions related to development. The survey will be mandatory in 2003.

Novo Nordisk has for some years set targets for the number and quality of development plans for employees. In 2002 more than 90% of managers established targets for how to develop their employees. The quality of development plans and activities is measured by employees and management, and they are audited by Novo A/S. More than DKK 150 million was spent on classroom training for employee development activities in 2002.

Investment in facilities In 2002 the company invested DKK 4.0 billion in new facilities. This is at an all-time high level which is necessitated by the increasing demand for our products. Our largest investment projects are a new Insulin Bulk Plant in Kalundborg, Denmark and a new NovoSeven® plant in Hillerød, Denmark. As these projects are completed or nearing completion, the capacity investment level is expected to be reduced significantly in 2003, and by 2004 reach a sustainable level relative to sales.

Share repurchase On 6 August 2002 the Board of Directors announced a share repurchase programme of up to DKK 2 billion worth of Novo Nordisk B shares in the open market. During 2002 Novo Nordisk s repurchases amounted to DKK 386 million, equivalent to 1,786,762 B shares. The repurchased shares will be kept as treasury shares (see page 31).

As of 31 December 2002, Novo Nordisk s holding of its own shares (treasury shares) was 9,396,841 B shares, representing 2.65% of the total share capital. As of 6 February 2003, Novo Nordisk s holding of its own shares was 9,621,841 B shares. A total of 407,244 B shares equal to 0.11% of the total share capital were sold during 2002 as part of either the existing share option incentive programmes for management or the general employee share programme.

Employee share programmes In May 2001 the Board of Directors decided to implement a global share programme for the employees in Novo Nordisk A/S and its subsidiaries. Each employee was offered the possibility to buy up to 100 B shares at DKK 100 per share. In Denmark the programme was executed in November 2001. Outside of Denmark the programme was executed in the first half of 2002 and in total 1,332,379 shares were sold to employees.

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Novo Nordisk is in line with the guidelines for good corporate governance on stock exchanges in Copenhagen, New York and London.

Social responsibility In 2002 we paid particular attention to the integration of social responsibility and human rights issues in the core business processes. One focus area is promoting equal opportunities. All business areas have formulated their individual action plans to remove barriers to equal opportunities and create an open organisational culture.

Also in 2002, 90% of our first-tier suppliers were evaluated on their environmental and social responsibility, based on a self-assessment questionnaire and dialogue with our purchasers.

Environmental management With increases in eco-productivity at 16 percentage points for water and 15 percentage points for energy, the medium-range targets for producing more with less are likely to be achieved, if not exceeded. The implementation of our new Environmental Management System, with six certificates to the ISO 14001 standard obtained, is instrumental in that it brings about increased awareness and participation among employees. As part of this, target-setting has shifted to a bottom-up process, involving nearly 4,000 employees through training.

Agreements and transactions Novo Nordisk is the largest shareholder in ZymoGenetics, Inc. In January 2002, ZymoGenetics completed an initial public offering on the NASDAQ stock exchange in the US of 10,000,000 shares of its common stock. Novo Nordisk now holds approximately 39% of the capital.

During the first quarter, the transfer of Gabitril® rights outside North and South America by Sanofi-Synthelabo to Anesta/Cephalon also contributed to Novo Nordisk s income.

In the second quarter of 2002 our former subsidiary Hermedico BV was sold. Hermedico BV is a medical supplier in the Netherlands with focus outside the core business of Novo Nordisk.

On 4 October 2002 we reached an out-of-court settlement with Becton, Dickinson and Company, ending a five-year-old patent infringement lawsuit brought by Novo Nordisk regarding the needles used with pen-type insulin delivery systems, such as Novo Nordisk s NovoPen® 3.

On 13 November 2002 the Danish Supreme Court decided that a tax deduction of about DKK 415 million claimed by Novo Nordisk in 1998 in connection with an employee share programme would be allowable under Danish law. As the impact of the original employee share programme was recorded under shareholders funds, the tax consequence of DKK 120 million has impacted equity positively.

In the fourth quarter of 2002 licence fees and other operating income was elevated primarily due to the transfer of Gabitril® marketing rights in the US from Abbott Laboratories to Anesta/Cephalon and a minor patent settlement related to the US market.

CORPORATE GOVERNANCE Novo Nordisk is in general in compliance with the codes of good corporate governance designated by stock exchanges in Copenhagen, New York and London where Novo Nordisk is listed. However, for more information see page 6.

Below is a review of key Novo Nordisk corporate governance highlights for 2002.

Board of Directors In February 2002 the employees elected three directors for a four-year term. Anne Marie Kverneland and Stig Strøb k were re-elected and Johnny Henriksen was elected as a new employee representative. Tove Funder-Nielsen did not seek re-election and, after serving eight years, left the Board of Directors. We wish to thank Tove for her dedication and hard work.

At the Annual General Meeting in March 2002, Kurt Anker Nielsen and Ulf J Johansson were re-elected to the Board for a three-year term. See page 60 for more details.

Executive Management In March 2002 Lise Kingo, senior vice president, Stakeholder Relations was appointed executive vice president and member of Novo Nordisk s Executive Management. At the same time, two of the current Executive Management members, Lars Almblom Jørgensen and Kåre Schultz, changed positions so that Lars Almblom Jørgensen became chief of quality, personnel and other corporate staffs and Kåre Schultz assumed the position of chief operating officer.

European report on takeover bids A report issued in January 2002 commissioned by the European Commission (*Report of the High Level Group of Company Law Experts on Issues Related to Takeover Bids*) recommended that any special voting rights should be overruled in a hostile takeover bid situation provided the bidder acquires at least 75% of the company s risk-bearing capital.

However, Novo Nordisk is in favour of maintaining a differentiated voting class system with A and B shares as it promotes continuity and expansion by enabling the founders of a company to raise capital for developing the company, while at the same time retaining control of the company. This stability allows the company to develop in accordance with its long-term visions rather than on the basis of short-term interests, while at the same time serving the shareholders interests.

Dividend policy and share performance At the Annual General Meeting on 25 March 2003, the Board of Directors will propose a dividend for 2002 of DKK 3.60 per share of DKK 2, up from DKK 3.35 per share in 2001, corresponding to an increase in dividend paid of 7%. No dividend will be paid on the company s holding of own shares.

Novo Nordisk s B share price on 31 December 2002 on the Copenhagen Stock Exchange was DKK 205 and our ADRs on the New York Stock Exchange were USD 28.90. This represents a decrease in the share price of 40% and 28% respectively. Apart from the Novo Nordisk-specific issues mentioned, this development reflects a lower absolute level for the US dollar versus the Danish krone and a general trend for the most traded shares in the pharmaceutical industry worldwide, where the index decreased by 32%. In Europe the index of the most traded shares in the pharmaceutical industry decreased by 32%, whereas the similar US index decreased by 22%.

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

Operating profit (EBIT) growth of 15% per annum
Operating margin (EBIT margin) of 25%
Return on invested capital (ROIC) of 25% per annum
Cash to earnings ratio of 60% as a three-year average.

The targets were selected to ensure management focus on long-term growth of the business, transformation of results into cash and pursuing a significant improvement in return on invested capital. The pursuit of these long-term targets will support the creation of a competitive shareholder return.

The currency development during the second half of 2002 will have a significant negative impact on Novo Nordisk s operating profit in 2003. In fact, if Novo Nordisk s main invoicing currencies remain at their current levels, it is likely that Novo Nordisk will be unable to meet its 15% operating profit growth target in 2003.

Even if this proves to be the case, our view is that the 15% growth target is still a realistic and prudent target which Novo Nordisk will be able to meet most years, based on the performance of the recurring business and assuming that currencies are relatively stable. Our ability to deliver on the target in a particular year will however be impacted by significant changes in currency exchange rates or events of a non-recurring nature.

OUTLOOK FOR THE YEAR 2003 The strong demand for insulin products in general and the continued market penetration of the Novo Nordisk insulin analogue portfolio, combined with the expectation of increasing NovoSeven ® sales, underpins Novo Nordisk s expectations of a double-digit sales growth in local currencies for 2003. However, given the significant lower present level for Novo Nordisk s major currencies the sales growth measured in Danish kroner will be negatively impacted by approximately 8 percentage points. Measured in Danish kroner sales are expected to increase by more than 5%.

For 2003 growth in operating profit measured in local currencies is expected to be close to 20%. However, measured in Danish kroner operating profit will grow towards 5%, reflecting a negative currency impact of around 15 percentage points on operating profit if the present currency exchange rates remain at the current level throughout the full year of 2003.

The expectations for growth assume that licence fees and other operating income will be realised at a level similar to the DKK 1 billion realised in 2002. For 2003 this includes a significant income related to the settlement of a patent dispute with Aventis in January 2001. As a major proportion of this nonrecurring income is expected to be realised in the final quarter of the year, the operating profit growth for this quarter will be above average.

As Novo Nordisk has hedged expected cash flows for 2003 in relation to USD, JPY and GBP, the negative influence from the depreciation of those main currencies versus DKK on operating profit will be offset by currency hedging gains included in net financials. Net financial income is expected at the level of DKK 600 million for the year.

For 2003 Novo Nordisk expects the tax rate to be 34%, 1 percentage point lower than the tax rate realised in 2002.

Net profit in 2003 is expected to grow towards 10%. Apart from growth in operating profit this reflects the expected significant income from the hedging of the exposure in major currencies for 2003 and expectations for a lower income tax rate compared to 2002.

Novo Nordisk plans to invest DKK 3.5 billion in fixed assets in 2003, and depreciation and amortisation for 2003 are expected to be realised at the level of DKK 1.5 billion.

Given the lower anticipated capacity expenditure level for 2003 free cash flow is expected to exceed the free cash flow realised in 2002.

All of the above expectations are provided that currency exchange rates remain at the current level for the rest of 2003. All other things being equal, a 5% movement in USD, JPY and GBP rates is estimated to have an annual impact on operating profit of DKK 160 million, DKK 130 million and DKK 75 million, respectively.

All in all, 2002 was an eventful year for the company. We believe that the challenges we faced in 2002 have made us stronger. Within the diabetes area we are on track to become the first company with a full unique portfolio of insulin analogues, designed to improve the lives of people with diabetes. In haemostasis management, we are conducting a range of trials which we believe could establish NovoSeven® as the world s first general haemostatic agent. In addition we have a number of exciting products in our research and development pipeline. Last but not least, our organisation has shown a remarkable fighting spirit, which makes us look forward to the coming year and the challenges that it may bring.

6 February 2003
Mads Øvlisen, chairman of the Board of Directors
Lars Rebien Sørensen, president and CEO

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DIABETES CARE

Insulin analogues and oral treatment sales growth

Insulin products and delivery devices accounted for 91% of Novo Nordisk s diabetes care sales in 2002. The rest came from sales of the oral treatment for type 2 diabetes, NovoNorm® (Prandin® in the US) and Glucoformin® (metformin).

Our total sales of diabetes products in 2002 grew by 6%. This was driven primarily by sales growth in International Operations (which includes South & Central America, the Middle East, Africa, Asia and South East Europe) and North America, followed by Europe. Sales in Japan & Oceania declined slightly, mainly because of currency depreciations and mandatory price reductions in Japan.

Novo Nordisk s fastest-growing diabetes product area was insulin analogues, whose sales rose by 160% from 2001.

In July 2002 we suspended phase 3 trials of ragaglitazar (NN622), our dual-acting insulin sensitiser (see page 2).

In 2002, we launched NovoMix® 30 FlexPen® (NovoLog® Mix 70/30 in the US) in Europe and the US.

Also in 2002, our long-acting insulin analogue NN304, known as insulin detemir, was submitted for regulatory approval in Europe and the US for the treatment of diabetes.

HAEMOSTASIS MANAGEMENT

Demand for NovoSeven® increasing

Sales of NovoSeven® continued to rise steadily in 2002, by 17%, mainly in the US and Europe.

During the year, clinical studies have started to indicate that NovoSeven® could become the world s first general haemo-static agent.

Several clinical phase 2 studies are now under way globally to test how NovoSeven® works in relation to other bleeding situations, such as bleedings in emergency and during elective surgery. The trials, conducted in parallel, involve about 200 people each in various patient groups.

Among other studies, an exploratory safety study of NovoSeven® in patients with brain haemorrhaging was completed in 2002, and these results have encouraged further ongoing testing, this time for haemostatic effect.

Conclusions from a study on the drug s use during liver surgery are expected in 2003.

GROWTH HORMONE THERAPY

Increase in sales for Norditropin® SimpleXx®

During 2002 sales of human growth hormone products outside Japan increased by 12%, driven by the continued roll-out of the liquid recombinant growth hormone, Norditropin® SimpleXx®, in North America and Europe.

In Japan, sales decreased by 16% due to a combination of mandatory price reductions, depreciation of the Japanese yen and generally negative market growth.

Norditropin® SimpleXx® is now awaiting approval by the European Union (EU) for the treatment of infants who are born small for their gestational age and remain so. The EU s authorisation of Norditropin® SimpleXx® for this new therapeutic application is expected in 2003.

HORMONE REPLACEMENT THERAPY

Low-dose preparations with natural oestrogen

Sales of hormone replacement therapy (HRT) products for women decreased by 6% during 2002. This reflected increased parallel trading in Europe and weaker demand in general after the termination of a US study with a competitor product which contains different ingredients to our products.

However, this decline in sales was not as great as that experienced by the market in general, and therefore our HRT market share has grown.

Novofem®, now being launched in Europe, is a low-dose, sequential combined oral therapy for women who require symptom relief and regular cycle control.

LEGAL NOTICE

Forward-looking statement

This *Annual Financial Report* contains forward-looking statements as the term is defined in the US Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations or forecasts of events such as new product introductions, product approvals and financial performance. Such forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations.

Factors that may affect future results include, among other things, market factors, competitive product development, changes to wholesaler inventory levels, interest rate and currency exchange rate fluctuations, delay or failure of development projects, production problems, unexpected contract breaches or terminations, government-mandated or market-driven price decreases for Novo Nordisk s products, Novo Nordisk s ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws and related interpretation thereof, unexpected growth in costs and expenses. Risks and uncertainties are further described in reports filed by Novo Nordisk with the US Securities and Exchange Commission (SEC) including the company s Form 20-F, which was filed on 26 April 2002. Please also refer to the section Financial risk factors in this *Annual Financial Report*, and to the company s Form 20-F for 2002, which will be filed before the end of April 2003.

Novo Nordisk is under no duty to update any of the forward-looking statements or to conform such statements to actual results, unless required by law.

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CORPORATE GOVERNANCE

Novo Nordisk s approach

For many years, Novo Nordisk has applied principles of good corporate governance that support its business and give value to its stakeholders. These are not just formal rules, but an entire culture that strives to establish and maintain good governance at all levels of the organisation.

The Novo Nordisk Way of Management consists of the company s Vision, Charter, committment to the Triple Bottom Line and Policies, and it ensures the long-term growth and welfare of the company. For information on the Novo Nordisk Way of Management and how it is governed, please see page 12 of the *Sustainability Report 2002*.

Novo Nordisk recognises the value of an open and active dialogue with its stakeholders in order to develop and strengthen its businesses. This is aided by transparency in the way the company conducts its business.

ORGANISATIONAL STRUCTURE Novo Nordisk is organised under Danish law as a public limited liability company. As such, the company has a two-tier board structure consisting of a Board of Directors and Executive Management. The Board of Directors supervises the performance of the company, its management and organisation on behalf of the shareholders. It also participates in determining the company strategy. Executive Management, on the other hand, has responsibility for the company s daily operations. The two bodies are separate, and no one serves as a member of both.

SHAREHOLDERS GENERAL MEETING Within the framework established by laws and regulations, shareholders have the ultimate authority over the company, and they exercise their right to make decisions affecting Novo Nordisk at general meetings.These are called with approximately three weeks notice, and the agenda is accompanied by proxy forms enabling the shareholder to vote specifically on each item. All shareholders may attend the general meetings and ask questions, and Novo Nordisk strives to reply to all of them. Any proposal for resolution at the annual general meeting must be submitted by the shareholders in writing to the Board of Directors not later than 1 February of any given year.

The annual general meeting approves the annual financial report. Further, the general meeting elects four to ten board members, and, subject to applicability, one or two external auditing firms.

The share capital in Novo Nordisk is divided into A shares and B shares. The A shares, which are owned by the Novo Nordisk Foundation via Novo A/S, have 10 votes per share, whereas the B shares have one vote. Such A shares cannot be divested by Novo A/S or the Foundation. The voting power of the A shares represents 64.1% of the entire voting power in the company. The A shares cannot be sold and are not listed, but the B shares are listed on the Copenhagen and London stock exchanges, and on the New York Stock Exchange in the form of ADRs.

Novo Nordisk is of the opinion that the current ownership structure with differentiated voting rights has been and continues to be appropriate and preferable for the long-term development of the company. A revocation of the current voting rights differentiation cannot be implemented as this would violate the Articles of Association of the Novo Nordisk Foundation as approved by the Danish foundation authorities. For further information on shares please see page 31.

THE BOARD OF DIRECTORS The Board currently consists of nine directors. Six are elected by shareholders at general meetings, and three are elected by and among Novo Nordisk employees in Denmark.

Shareholder-elected board members serve a three-year term and may be re-elected at the general meeting. According to the Rules of Procedure of the Board of Directors, however, board members must retire at the first general meeting after having reached

the age of 70.

The aim is to compose a board consisting of persons who have such knowledge and experience that the board can, in the best possible way attend to the interests of the shareholders, the company and other stakeholders of the company. The board actively contributes to developing the company as a focused global pharmaceutical company and supervises Executive Management in its decisions and operations. Executive search

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Novo Nordisk recognises the value of an open and active dialogue with its stakeholders in order to develop and strengthen its businesses. This is aided by transparency in the way the company conducts its business.

has been contributing to identify directors that meet such criteria. Descriptions of the qualifications of nominated candidates for the board accompany the agenda of the general meeting.

According to Danish law, Novo Nordisk employees in Denmark are entitled to be represented by half of the total number of board members elected at the general meeting. Thus, employees have elected three board members, each of whom serves for a four-year term. For information on each board member, please see page 60.

The chairman and the deputy chairman constitute the chairmanship of the Board of Directors. They carry out a number of administrative tasks, such as the planning of board meetings to ensure an appropriate balance between determination of overall strategy and the financial and managerial supervision of the company. Other tasks include recommending the remuneration of board members and executives, suggesting potential new board members to be elected by the general meeting, and supervising the auditing of the company s accounts. The board works without permanent committees. Novo Nordisk believes that each board member must have the opportunity to contribute actively to all discussions and have access to all relevant information, hence the limited number of board members.

The Board ordinarily meet seven times a year including the meetings held at the announcements of the financial results and the annual general meeting.

The board ensures via a fixed annual calendar that it addresses the main tasks in a timely manner, as illustrated on page 8.

EXECUTIVE MANAGEMENT Executive Management is responsible for the day-to-day management of the company. It consists of the president and CEO, and five other executives. The board is responsible for the appointment of Executive Management and their remuneration. For information on each executive please see page 61. Novo Nordisk has the tradition that the CEO acts as external spokesperson for company matters.

REMUNERATION POLICY The remuneration policy is designed to attract, retain and motivate the board members and executives.

Each board member receives a fixed fee per year at a competitive level. The total amount allocated for the remuneration of the board members is approved by the general meeting in connection with the approval of the annual financial report. Board members are not offered stock options, warrants or participation in other incentive schemes.

Executive remuneration is evaluated against a Danish benchmark of large companies with international activities. The remuneration package is determined by the Board of Directors, and should align the interests of the executive with those of the shareholders. The remuneration package for 2002 to executives consisted of basic salary, including benefits in kind (at least 75%) and rewards for the achievement of annually predefined individual performance targets (up to 25%). In addition long-term benefits such as share options are granted when predefined overall business targets have been achieved.

For further information on board members and executives remuneration, please see page 36.

ASSESSMENT OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT An annual self-assessment procedure has been formalised to improve the performance of the Board of Directors and Executive Management. The process evaluates whether each board member participates actively in the board discussions and contributes with independent judgement, and that the environment supports open discussion at board meetings.

The board continuously assesses, formally once a year, the performance of each executive. The chairman also conducts an annual interview with each executive.

RISK MANAGEMENT Novo Nordisk has processes to identify, assess and manage business risks. The major risks of not achieving the company s business objectives have been linked into its Balanced Scorecard for regular reporting to management.

In 2002, Novo Nordisk established a process to standardise and optimise the company s risk management system. This has resulted in an improved reporting structure.

Executive Management has responsibility for conducting the ongoing risk management process including risk identification, risk assesment and evaluation of risk probability within their areas of responsibility.

INTERNAL CONTROL The board has overall responsibility for the Novo Nordisk Group s system of internal control. The company has an internal audit function, Group Internal Audit, which provides independent, objective assurance on the internal control environment. In order to ensure that the internal audit function is working independently of management, the vice president of Group Internal Audit reports quarterly to the board chairmanship.

Once a year, the board conducts a review of the effectiveness of the Novo Nordisk Group s system of internal control, including finance, operations and compliance. The review is based on reports from Group Internal Audit as well as the external auditors.

Once a year, the external auditors issue a long-form audit report to the Board of Directors. It includes any significant internal control weaknesses identified during the audit. In addition a more detailed management report on internal controls and accounting issues is provided to Executive Management.

AUDIT Two independent auditing firms are elected by the general meeting, and act in the interest of the shareholders, as well as the public in general. The auditors report significant findings directly to the board, and the chairmanship supervises the annual audit process. This includes a direct meeting between the chairmanship and the auditors without the participation of executives.

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Fixed annual calendar of the Board of Directors

Responsibility		Activities	Frequency
Management	Ensure the right Executive Management of the company	Organisational audit, including succession planning, review of compliance with the Novo Nordisk Way of Management	Annually at board meetings
	Ensure the right organisation of the company	Review of quality systems	Annually at board meetings
Performance	Supervise the financial development of the company	Review of financial reports	Monthly and quarterly circular
		Evaluation of financial performance	Quarterly at board meetings
	Supervise Executive Management s day-to-day management of the company	Evaluation of performance against targets and financial expectations for full year	Quarterly at board meetings
Strategy	Participate in the overall management of the company	Strategy review of business development, including non-financial elements of sustainable development	Annually at 3 4 days off-site board meeting, visiting key sites
	Participate in determining the strategy for the company, and approve major business plans and decisions	Approval of budget, including review against established strategies	Annually at board meetings

Corporate governance codes

Novo Nordisk s B shares are listed on the Copenhagen and London stock exchanges and on the New York Stock Exchange in the form of ADRs. The stock exchanges have each designated or are expected to designate a code of corporate governance relevant for companies listed on such stock exchange. Novo Nordisk s approach towards these codes are described below:

Copenhagen Stock Exchange Nørby Committee recommendations
There are no obligations to comply with the recommendations, but it is recommended to relate to them. Novo Nordisk is in general in compliance with all recommendations with the following comments:

Recommendation:	Novo Nordisk approach:
The annual report must be presented in accordance with the relevant Danish laws, and it is recommended that the board considers applying International Accounting Standards (IAS), possibly supplemented by other accepted standards such as US GAAP, if trade conditions or other circumstances make this relevant in relation to the information requirements of the recipients, including for reasons of comparability.	Current reporting is based on Danish GAAP with reconciliation to US GAAP. Novo Nordisk will implement International Accounting Standards (IAS) no later than 2004.
Re-election of the chairman and the other board members for a combined period of more than nine years is not	One board member has been in office for more than nine years, because he also served as board member during his

recommended.

19-year term as chief executive officer of Novo Nordisk.

For information on the Nørby Committee recommendations, DK
www.corporategovernance.dk

For information on the New York Stock Exchange s proposed standards, US
www.nyse.com

For information on the Combined Code, UK
www.fsa.gov.uk

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New York Stock Exchange proposed corporate governance standards
Proposal for foreign listed companies to describe significant differences between NYSE and their corporate governance standards. Novo Nordisk is in general in compliance with all proposed standards with the following comments:

Proposed standard:	Novo Nordisk approach:
Listed companies must have a majority of independent board members.	The majority of shareholder-elected board members are independent as defined in the standards. The employees have, however, elected three board members in accordance with Danish law.
Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.	The chairman and the vice chairman serve as nominating/corporate governance committee and present proposals for the board s decision.
Listed companies must have a compensation committee composed entirely of independent board members.	The chairman and the vice chairman serve as compensation committee and present proposals for the board s decision.
Increase the authority and responsibility of the audit committee, including granting it the sole authority to hire and fire independent auditors, and to approve any significant non-audit relationship with the independent auditors.	Novo Nordisk has no separate audit committee as the whole board serves as audit committee.
To increase shareholder control over equity-compensation plans, shareholders must be given the opportunity to vote on all equity-compensation plans, except inducement options, plans relating to mergers or acquisitions, and tax-qualified and excess benefit plans.	The principles for management remuneration and equity-based incentive schemes are described in the annual financial report, to be approved by the shareholders, and are presented at the general meeting.
Listed companies must adopt and disclose corporate governance guidelines.	Novo Nordisk has established a framework for corporate governance and the main topics are dealt with in the rules of procedure of the Board of Directors. Novo Nordisk will publish an overview when NYSE has finally established the corporate governance standards.
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 board members or executive officers.	Novo Nordisk has established a framework for business conduct and ethics and such topics are dealt with in a number of existing rules and guidelines. Novo Nordisk will publish an overview when NYSE has finally established the corporate governance standards.

London Stock Exchange the Combined Code
There are no obligations to comply with or to relate to the code principles or the code provisions. Novo Nordisk is in general in compliance with all code provisions with the following comments:

Recommendation:	Novo Nordisk approach:
To avoid potential conflicts of interest, boards of directors should set up remuneration committees of independent non-executive directors.	All shareholder-elected board members are independent non-executive directors as defined in the code. However, the chairman and the vice chairman serve as remuneration committee and present proposals for the board s decision.

In preparing the remuneration report, the board should include items such as details of management remuneration package, share options, pension, notice periods in excess of one year etc.	The annual financial report includes details of the remuneration package of each individual director and executive, including the value of share-based incentive schemes.
Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) save schemes offered to all employees or in exceptional circumstances schemes for one board member.	The principles for incentive schemes are described in the annual financial report, to be approved by the shareholders, and are presented at the general meeting.
The board s annual remuneration report to shareholders need not be a standard item of agenda for general meetings. But the board should consider each year whether the circumstances are such that the general meeting should be invited to approve the policy set out in the report and should minute their conclusions.	The principles for remuneration policy are described in the annual financial report, to be approved by the shareholders, and are presented at the general meeting.
Companies should arrange for the notice of the general meeting and related papers to be sent to shareholders at least 20 working days before the meeting.	The date at which the general meeting will be held as well as all significant proposals are published in the announcement of the annual results. However, the notice of the annual general meeting is sent to shareholders approximately 20 calendar days before the meeting.
The board members should, at least annually, conduct a review of the effectiveness of the group s system of internal control and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.	Once a year, the board conducts a review of the effectiveness of the Novo Nordisk Group s system of internal control, including finance, operations and compliance. However, the review is not reported to the shareholders.
The board should establish an audit committee of at least three directors, all non-executive.	Novo Nordisk has no separate audit committee as the whole board serves as audit committee.

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RESEARCH AND DEVELOPMENT PIPELINE

Development of new drugs

In 2002, Novo Nordisk invested 16% of total group turnover in the development of innovative drugs and delivery devices.

Phase 1

The substance is being tested on a limited number of healthy volunteers.

NN414
An orally active potassium channel opener, under investigation for its effects on insulin secretion. NN414 is a selective opener of the ATP sensitive potassium channel subtype expressed in the ß-cell (the insulin-secreting pancreatic cells). In preclinical experiments, ß-cell sparing effects of NN414 have been demonstrated. Possible indications include treatment of impaired glucose tolerance (IGT) and type 2 diabetes as well as intervention in type 1 diabetes at diagnosis.

NN344
A soluble, long-acting human insulin analogue for once-daily insulin treatment of diabetes, with long duration of action and a very predictable response.

NN2501
An orally active glucagon antagonist for the treatment of type 2 diabetes. Glucagon receptor antagonists have the potential to be used in the treatment of type 2 diabetes due to the ability to inhibit excessive hepatic glucose production.

Phase 2

The substance is being tested on a limited number of patients in short-term treatment.

NN2211
A once-daily long-acting derivative of the natural human hormone GLP-1 (glucagon-like peptide) for treatment of type 2 diabetes. NN2211 stimulates pancreatic insulin production and secretion and decreases the secretion of glucagon both in a glucose-dependent manner. Thus, NN2211 has been shown to lowerblood glucose with little or no risk of inducing hypoglycaemia. Likewise, NN2211 is similar to GLP-1 and is expected to affect appetite regulation and gastric emptying leading to weight stability or potentially to weight loss. During preclinical testing NN2211 increased the ß-cell mass in animal models of type 2 diabetes leading to speculations about its potential ß-cellregeneration capacity.

Balaglitazone (NN2344)
A potent insulin sensitiser for the treatment of type 2 diabetes, which increases glucose uptake in the peripheral tissue. This insulin sensitiser is licensed from Dr Reddy s Research Foundation.

NovoSeven® (NN007) general haemostasis
Novo Nordisk is carrying out a clinical expansion programme aimed at regulatory filing of new indications for NovoSeven®, originally developed for people with haemophilia with inhibitors. If successful, this project is expected to position NovoSeven® as the world s first general haemostatic agent.

ASIS
A project focused on using Active Site Inhibited Seven (ASIS) for the treatment of Acute Respiratory Distress Syndrome (ARDS) has entered phase 2 of clinical development. ASIS is an inactivated form of recombinant Factor VIIa (NovoSeven®), which has proven to work in animal models of several diseases, including ARDS which is a condition associated with a high mortality rate.

Growth hormone therapy
A project focused at using growth hormone for treating complicated fractures has entered phase 2 of clinical development.

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Phase 3

The substance is being tested on a large number of patients in long-term treatment.

AERx® iDMS (NN1998)
The AERx® insulin Diabetes Management System is a pulmonary delivery system for administering human insulin by inhalation. Development is based on collaboration with Aradigm Corporation of Hayward, California, using their AERx® Drug Delivery System, designed to enhance the precision of dosing and increase the convenience to end-users by reducing the need for injections. The AERx® insulin system allows precise unit dosing and has the same or lower variability than subcutaneous administration. Further the electronic AERx® system allows for unique compliance monitoring. A two-year phase 3 safety study on AERx® has now been started.

NovoMix® 50 and 70 (NN1185)
These are premixed formulations of the rapid-acting insulin analogue, insulin aspart. NovoMix® 50 and 70 will be linked to the introduction of a three times daily concept in type1 and type 2 diabetes for superior glycaemic control without increasing the risk of hypoglycaemia. NovoMix® 50 and 70 are targeted towards more intensified premix therapy.

Submitted for registration

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

Insulin detemir (NN304)
A soluble basal insulin analogue with neutral pH and a unique mechanism of protraction providing a smooth and more predictable action profile and offering a longer duration of action compared to conventional NPH insulins. Insulin detemir is for treatment of both type1 and type 2 diabetes. In phase 3 studies, it has consistently been shown that people using insulin detemir have a reduced risk of night-time hypoglycaemia and that they do not gain any weight after insulin initiation or intensification a common effect with other insulins. Insulin detemir has been submitted for registration in the US, Europe and other countries and is currently in phase 3 trials in Japan.

Norditropin® SimpleXx®: human growth hormone (NN1610)
Human growth hormone is now awaiting EU approval of the new indication for growth disturbance in children born small for gestational age (SGA), who have failed to show catch-up growth.

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Financial highlights

Net turnover	1998 DKK million	1999 DKK million	2000 DKK million	2001 DKK million	**2002** DKK million	Change 2001-2002	2001 EUR million	2002 EUR million
Diabetes care	9,818	11,777	14,578	16,624	**17,665**	6%	2,239	2,380
Haemostasis management (NovoSeven®)	576	1,313	2,270	3,096	**3,621**	17%	417	488
Growth hormone therapy	1,498	1,721	2,107	2,164	**2,131**	(2%)	291	288
Hormone replacement therapy	1,094	1,130	1,306	1,435	**1,342**	(6%)	193	181
Other	661	482	550	457	**428**	(6%)	62	56
Total turnover	13,647	16,423	20,811	23,776	**25,187**	6%	3,202	3,393
Europe	7,299	7,805	9,131	10,553	**10,880**	3%	1,421	1,465
North America	1,572	2,769	4,114	5,277	**5,913**	12%	711	797
Japan & Oceania	2,854	3,761	4,697	4,498	**4,239**	(6%)	606	571
International Operations	1,922	2,088	2,869	3,448	**4,155**	21%	464	560
Total turnover	13,647	16,423	20,811	23,776	**25,187**	6%	3,202	3,393
Price and volume/mix	11%	15%	16%	17%	**11%**			
Currency	(3%)	5%	11%	(3%)	**(5%)**			
Total growth	8%	20%	27%	14%	**6%**			

Key figures	1998 DKK million	1999 DKK million	2000 DKK million	2001 DKK million	**2002** DKK million	Change 2001-2002	2001 EUR million	2002 EUR million
Operating profit (EBIT)	2,933	3,527	4,816	5,614	**5,979**	7%	756	804
Net financials	243	(178)	24	416	**321**	(23%)	57	45
Profit before taxation	3,176	3,349	4,840	6,030	**6,300**	4%	813	849
Net profit	2,016	2,001	3,087	3,865	**4,095**	6%	521	551
Shareholders funds	15,776	15,876	16,981	20,137	**22,928**	14%	2,712	3,088
Total assets	22,085	23,082	24,920	28,905	**31,496**	9%	3,893	4,242
Capital expenditure (net)*	1,648	1,265	2,141	3,846	**4,011**	4%	518	540
Free cash flow	706	1,533	2,712	186	**497**	167%	25	67

Per share/ADR of DKK 2	1998 DKK	1999 DKK	2000 DKK	2001 DKK	**2002** DKK	Change 2001-2002	2001 EUR	2002 EUR
Earnings per share	5.43	5.60	8.84	11.18	**11.81**	6%	1.51	1.59
Earnings per share diluted	5.43	5.59	8.82	11.10	**11.72**	6%	1.50	1.58
Proposed dividend	1.55	1.95	2.65	3.35	**3.60**	7%	0.45	0.48
Quoted price at year-end for B shares	153	178	285	342	**205**	(40%)	46	28

Ratios	1998 %	1999 %	2000 %	2001 %	**2002** %	Long-Term financial targets %

Growth in operating profit (EBIT)	20.2%	20.3%	36.5%	16.6%	**6.5%**	15%
Growth in operating profit, three-year average	N/A	N/A	25.7%	24.5%	**19.9%**	
Operating profit margin	21.5%	21.5%	23.1%	23.6%	**23.7%**	25%
Return on invested capital (ROIC)	14.4%	15.3%	22.0%	23.1%	**20.1%**	25%
Cash to earnings	35.0%	76.6%	87.9%	4.8%	**12.1%**	
Cash to earnings, three-year average	N/A	48.4%	66.5%	56.4%	**34.9%**	60%
Net profit margin	14.8%	12.2%	14.8%	16.3%	**16.3%**	
Return on shareholders funds	12.6%	12.6%	18.8%	20.8%	**19.0%**	
Equity ratio	71.4%	68.8%	68.1%	69.7%	**72.8%**	
Change in market capitalisation	(16.5%)	13.7%	56.2%	20.4%	**(40.4%)**	

* For 2002 capital expenditure (net) include fixed assets acquired in connection with the aqcuisition of Biobrás (DKK104 million/EUR 14 million). Figures for 1998-1999 are derived from the consolidated accounts of the former Novo Nordisk Group (prior to the demerger) all dividend is allocated to the continuing Novo Nordisk. Key figures and per share data are translated into EUR as supplementary information the translation is based on the currency rate at 31 December 2002 (EUR 1=DKK 7.4243).

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FINANCIAL DISCUSSION

Financial discussion 2002

In 2002 Novo Nordisk s sales increased by 6% from 2001 to DKK 25,187 million. Sales increased by 11% measured in local currencies. Operating profit in 2002 increased by 7% from 2001 to DKK 5,979 million. The growth is based on 6% growth in both sales and total costs and 15% growth in licence fees and other operating income.

In all respects 2002 has been a very challenging year for Novo Nordisk. On 10 April 2002 we announced that due to unexpected factors, full-year performance was not likely to meet our previous guidance. The expected growth in operating profit for 2002 was reduced to a 5-10% range, dependent on the development in foreign exchange rates.

At the end of 2001 wholesalers had stockpiled more insulin than usual, and subsequently de-stocked at the beginning of 2002. Our introduction of insulin analogues was going slower than expected. Sales of Norditropin® SimpleXx® in Japan were impacted by lower market growth and increased competition. First-quarter sales of NovoSeven® in Europe were flat due to seasonal fluctuations. In addition, there was an increasing level of parallel trade in Europe of diabetes care and HRT products a trend which is expected to continue going forward.

The currency environment during 2002 has not been in Novo Nordisk s favour. Two of the main invoicing currencies, the US dollar and Japanese yen, have on average depreciated compared to Danish kroner, by 5% and 8%, respectively. Additionally, a number of minor invoicing currencies especially within International Operations have decreased in value versus the Danish krone. The development in foreign exchange rates throughout 2002 led to a significant negative impact on Novo Nordisk s performance in 2002 measured in Danish kroner.

Besides the financial challenges, Novo Nordisk has in 2002 been busy upgrading the product range, with the continued roll- out of innovative offerings such as NovoRapid®, InnoLet® and the launch of NovoMix® 30/NovoLog® Mix 70/30, the new dual-release insulin analogue, in the US and a number of countries in Europe and International Operations. In 2002, a number of Novo Nordisk s development projects progressed in the late phases. In September, Novo Nordisk and Aradigm Corporation announced the initiation of the phase 3 clinical programme for NN1998 AERX® iDMS (pulmonary insulin). In the fourth quarter of 2002, Novo Nordisk submitted for registration insulin detemir (NN304), the long-acting basal insulin analogue, with the health authorities in the EU and the US. Upon approval of insulin detemir Novo Nordisk will be the only company offering a full range of insulin analogues. In 2002 Novo Nordisk suspended the phase 3 trials of ragaglitazar (NN622), a promising dual-acting insulin sensitiser. This was done based on urine bladder tumour findings in one mouse and a number of rats. We have now decided not to pursue further development of NN622 based on a renewed benefit/risk assessment of the compound. The analysis included both data from the terminated clinical phase 3 studies and further animal tumour mechanism studies that turned out not to be conclusive.

Novo Nordisk continued its significant production capacity investment programme during 2002, the biggest investment programme ever in Novo Nordisk. During the year, two major investment projects, the new NovoSeven® factory in Hillerød and the Insulin Production facility in Kalundborg were inaugurated. Both factories will support the continued successful roll-out of Novo Nordisk s product range. The investment level in 2003 is expected to continue at an elevated level of around DKK 3.5 billion.

In 2002 Novo Nordisk made an acquisition of production capacity outside Denmark, with the acquisition of the Brazilian insulin producer Biobrás SA. The total purchase price for Biobrás SA after redemption of the remaining shares in December is BRL 133.5 million (DKK 380 million).

The results for 2002 are reflecting solid underlying growth in sales volumes and an improvement in the product mix. In the first quarter only a modest growth in sales volumes was realised, however, in the last three quarters of the year the volume growth has been in line with the historic double-digit growth trend. Foreign exchange rates have

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had a negative impact on sales performance measured in Danish kroner, mainly driven by the considerable depreciation of the US dollar and the Japanese yen against the Danish krone. Operating profit increased by 7% to DKK 5,979 million from DKK 5,614 million in 2001. Sales increased by 11% measured in local currencies. In Danish kroner sales increased by 6%. Operating margin improved marginally to 23.7% from 23.6% in 2001. Operating margin was negatively impacted by the development in foreign exchange rates as a major part of Novo Nordisk s cost base, especially production costs, is denominated in Danish kroner whereas a major part of sales are invoiced in other currencies than Danish kroner or euros. This negative currency impact was to some extent reduced by a higher level for licence fees and other operating income in 2002 than realised in 2001.

Net profit increased by 6% to DKK 4,095 million. Fully diluted earnings per share also increased by 6% to DKK 11.72 in 2002 from DKK 11.10 in 2001.

Return on invested capital (ROIC) decreased from 23.1% in 2001 to 20.1% in 2002. The majority of Novo Nordisk s invested capital is denominated in Danish kroner. As a consequence the negative impact on operating profit from the depreciation of foreign exchange rates compared to Danish kroner is only to a limited extent reflected in invested capital, and ROIC is therefore negatively influenced.

The free cash flow for 2002 increased to DKK 497 million compared to DKK 186 million in 2001, as a result of an increase in cash flow from operations countered by a slightly higher investment level than in 2001. The three-year moving average cash to earnings ratio thus decreased from 56.4% in 2001 to 34.9% in 2002.

SALES DEVELOPMENT In 2002 worldwide sales in local currencies increased by 11%. The average value of Novo Nordisk s invoicing currencies, measured in Danish kroner, was 5% lower in 2002 than in 2001, primarily related to the average depreciation of the US dollar and Japanese yen, by 5% and 8%, respectively. Novo Nordisk has experienced a negative impact from the currency movements especially in the second half of 2002, highlighted by a 7% unfavourable currency impact on sales in the fourth quarter of 2002.

Measured in Danish kroner sales for 2002 increased by 6% to DKK 25,187 million from DKK 23,776 million in 2001. Growth is primarily driven by sales within diabetes care and haemostasis management. The main drivers on a regional level have been International Operations (countries outside Europe, North America and Japan & Oceania) and North America, with growth rates of 21% and 12%, respectively. In Europe, a modest growth of 3% over 2001 is seen. Sales in Europe were negatively influenced by some wholesalers in Europe stockpiling insulin products towards the end of 2001, with a subsequent de-stocking occurring in the first quarter of 2002. Novo Nordisk has during 2002 increased its monitoring of the development in wholesaler inventories and a similar buying pattern has not been observed towards the end of 2002. In Europe the sales of products within hormone replacement therapy have been decreasing during 2002, being negatively impacted by both an increasing level of parallel trading and a negative impact following the recently published US study with a product from another company, negatively influencing the demand for treatment with HRT products. In Japan & Oceania sales have decreased by 6% compared to 2001, mainly related to Japan. The average value of the Japanese yen has decreased by 8% measured against the Danish kroner. Sales in Japan are furthermore negatively influenced by a government-mandated reduction in reimbursement prices in April 2002 for both insulin and growth hormone products, a slightly decreasing overall market for growth hormone therapy as well as a more competitive environment in Japan.

DIABETES CARE Sales of diabetes care products in local currencies grew by 11%. In Danish kroner sales increased by 6% to DKK 17,665 million from DKK 16,624 million in 2001. The increase in sales reflects volume growth for products such as Penfill® 3ml, InnoLet®, NovoRapid®/NovoLog®, NovoMix® 30/NovoLog® Mix 70/30, NovoLet® 3ml and NovoNorm®/Prandin®.

Insulin and delivery systems Sales of insulin and delivery systems increased by 10% measured in local currencies and by 5% in Danish kroner. Growth for 2002 was primarily realised in International Operations and in North America, followed by Europe, whereas sales in Japan & Oceania decreased slightly. Novo Nordisk s sales of the insulin analogue portfolio increased to DKK 1,198 million (+160%) in 2002, and Novo Nordisk s analogue market share continued to increase in 2002.

By the end of 2002 Novo Nordisk submitted for registration the long-acting basal insulin analogue NN304 known as insulin detemir with the health authorities in the EU, the US and six other countries.

Europe Sales of insulin and delivery systems in 2002 were negatively influenced by some wholesalers in Europe stockpiling insulin products towards the end of 2001, with a subsequent de-stocking occurring in the first quarter of 2002. This stock movement combined with increasing parallel trade and the divesture of a non-core business are the main reasons for the 3% sales growth in 2002 compared to 2001. Adjusted for the wholesalers de-stocking in the first quarter and the divesture of non-core business, sales

of insulin and delivery systems increased by 6%.

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Novo Nordisk s market position has been strengthened by the launch of NovoMix® 30 in 13 countries and the launch of FlexPen® in 15 countries. Together with NovoRapid® these products have been key in supporting the market share development in Europe throughout 2002.

North America In 2002 sales in North America of insulin and delivery systems increased by 12% in local currencies. Measured in Danish kroner sales increased by 6%.

This development was primarily driven by sales of NovoLog® (the US brand name for NovoRapid®), but was also supported by the launches in the second half of 2002 of the dual-release insulin analogue NovoLog® Mix 70/30 and the disposable insulin delivery device InnoLet®.

Novo Nordisk has now launched all approved insulin analogues and supported by innovative devices Novo Nordisk has continued to increase its market share in the US in 2002.

Japan & Oceania Sales in local currencies of insulin and delivery systems in the Japan & Oceania region increased by 4%, with sales in Japan increasing by 3%. Reflecting an average depreciation of the Japanese yen of 8% versus the Danish kroner, sales in Japan measured in Danish kroner decreased by 5%. In addition this reflects a government-mandated reduction in reimbursement prices in Japan in April 2002 and increased competition.

NovoRapid® was launched in Japan in the FlexPen® device in April 2002 and this combination has been very well received in the market. NovoMix® 30 is expected to be launched in Japan towards the end of 2003.

International Operations Sales of insulin and delivery systems within International Operations increased by 31% in local currencies in 2002. The acquisition of the Brazilian pharmaceutical company Biobrás at the end of January 2002 contributed positively to the growth. International Operations share of Novo Nordisk s sales of insulin and delivery systems is increasing and as such the exposure to exchange rate fluctuations in a number of minor invoicing currencies is increasing. In 2002 Novo Nordisk was negatively influenced especially by the depreciation of the Argentinean peso, Brazilian real and South African rand. Growth, measured in Danish kroner was 21%.

NovoRapid® has been launched in a number of countries in International Operations during 2002. By the end of 2002 NovoRapid® has been launched in more than 15 countries in International Operations. Novo Nordisk will continue the roll-out of NovoMix® 30 in International Operations in 2003.

Oral antidiabetic products (OAD) Sales of OAD increased by 16% to DKK 1,631 million compared to DKK 1,401 million in 2001. The increase is mainly driven by International Operations and Europe, followed by North America. This corresponds to a 22% increase in local currencies. In International Operations the sales growth was partly driven by Glucoformin® (metformin) which was included in Novo Nordisk s product portfolio in Brazil via the acquisition of Biobrás. In Europe sales growth was driven by a continued market penetration of NovoNorm®. In North America sales growth has been positively affected by a correction of rebates to a Managed Care organisation paid in the fourth quarter of 2001.

HAEMOSTASIS MANAGEMENT Sales within haemostasis management (NovoSeven®) increased by 22% in local currencies compared to 2001. Measured in Danish kroner sales increased by 17% to DKK 3,621 million in 2002.

Sales growth in 2002 for NovoSeven® was primarily realised in North America, followed by Europe, International Operations and Japan & Oceania.

Several factors contributed to the sales growth of NovoSeven® in 2002. The largest segment for NovoSeven® remains the use for congenital bleeding disorders, and this segment continues to deliver the predominant part of growth in sales. In terms of areas of use, NovoSeven® has traditionally been used in connection with acute bleeding episodes, which is still the largest area and driver of growth. However, usage of NovoSeven® in connection with elective surgery has been increasing over the past years, and during 2002 this area also contributed to growth.

In addition, the increased awareness of the use of NovoSeven® in connection with acquired haemophilia has led to a greater use for this patient group. Finally, sales are also perceived to have been positively affected by increased investigational use of NovoSeven®.

GROWTH HORMONE THERAPY In local currencies sales of human growth hormone products increased by 4% compared to 2001. Measured in Danish kroner sales decreased by 2% to DKK 2,131 million in 2002. Sales outside Japan increased by 12% measured in Danish kroner, or by 15% in local currencies, driven by the continued roll-out of the liquid growth hormone, Norditropin® SimpleXx®, in North America and Europe. About 60% of sales are now realised outside Japan.

Sales in Japan measured in Danish kroner decreased by 16%, which is partly explained by the depreciation of the Japanese yen versus the Danish kroner. Measured in local currency, sales decreased by 8%. This reflects the government-mandated reduction in reimbursement prices in April 2002 and a slightly decreasing overall market.

Novo Nordisk has in the EU applied for marketing approval of Norditropin® SimpleXx® for the

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treatment of infants who are born small for their gestational age and remain so. The EU authorisation is expected in 2003.

HORMONE REPLACEMENT THERAPY Sales of hormone replacement therapy products decreased by 5% in local currencies compared to 2001. Measured in Danish kroner sales decreased by 6% to DKK 1,342 million. This was primarily due to a decrease in sales in Europe, which is Novo Nordisk s largest market for hormone replacement products. This reflects increased parallel trading and lower overall demand for treatment with hormone replacement products. This was particularly due to a recently published US study of another company s product, which negatively impacted the demand for HRT treatment. Novo Nordisk s products are low-dose preparations containing natural oestrogen and progestin and the relevance for the Novo Nordisk product portfolio is currently being evaluated. Outside Europe sales have increased in 2002. Sales of Activelle® have continued to increase during 2002.

Novofem®, a low-dose sequential combined oral therapy for women who require symptom relief and regular cycle control is now being launched in Europe.

COST DEVELOPMENT Total costs, excluding financial costs and tax, grew by 6% to DKK 20,202 million from DKK 19,029 million in 2001.

Production costs of DKK 6,633 million increased by 11% in 2002, in line with the underlying growth in sales volumes. The gross margin decreased by 1.2 percentage points to 73.7% from 74.9% in 2001. The decrease can primarily be related to the negative development in major invoicing currencies versus Danish kroner as Novo Nordisk s production cost base is primarily Danish kroner denominated. In addition, the development can be attributed to recently hired employees dedicated to the new manufacturing facilities for insulin and NovoSeven®, which are in the process of validation and subsequently regulatory approval.

Total non-production related costs increased by 4% to DKK 13,569 million or a growth rate which is 2 percentage points lower than reported sales growth. This result has been achieved through the cost-containment programme initiated in April 2002.

Sales and distribution costs increased by 4% to DKK 7,479 million. This partly reflects the full-year effect of the expansion of the sales force in the US as well as the recent launch of NovoLog® Mix 70/30 and InnoLet® in the US. However, the positive sales development in International Operations has also been supported by an expansion of the sales force in markets like China and Latin America.

Research and development costs grew by 4% to DKK 4,139 million. This primarily reflects costs related to the development projects insulin detemir (long-acting insulin analogue), AERx® iDMS (pulmonary insulin) and the new indications for NovoSeven®, but also costs associated with the discontinued clinical development of NN622 (dual-acting insulin sensitiser).

Administration costs for the year amounted to DKK 1,951 million, a 5% increase compared to 2001. The increase is primarily due to costs in relation to the restructuring of the European organisation.

Included in total costs are depreciation and amortisation of DKK 1,332 million, up from DKK 1,081 million in 2001.

LICENCE FEES AND OTHER OPERATING INCOME In total, licence fees and other operating income amounted to DKK 994 million in 2002 compared to DKK 867 million in 2001. A number of key factors contributed to the increase. The initial public offering of ZymoGenetics in January 2002 resulted in an unrealised capital gain of approximately DKK 240 million. The transfer of Gabitril® marketing rights to Anesta/Cephalon also contributed positively in 2002. Additionally the divestment of the former subsidiary Hermedico BV has contributed to the positive development.

NET FINANCIALS AND TAX Net financials showed a net income of DKK 321 million in 2002 compared to DKK 416 million in 2001. Novo Nordisk recorded a net foreign exchange gain of DKK 311 million, primarily relating to the hedging of the US dollar and Japanese yen, compared to a gain of DKK 202 million in 2001. The gain on foreign exchange hedging positions has in 2002 partly been counterbalanced by currency losses on non-hedged positions in various currencies primarily related to International Operations. Net interest income was DKK 68 million in 2002 compared to DKK 192 million in 2001, whereas other financial items were recorded as a net expense of DKK 58 million compared to a net income of DKK 22 million in 2001.

The effective tax rate for 2002 was 35%, down from 36% in 2001, leading to a total tax expense of DKK 2,205 million in 2002.

CAPITAL EXPENDITURE The total net capital expenditure for property, plant and equipment in 2002 was DKK 4.0 billion, compared with DKK 3.8 billion in 2001. The investment level is slightly lower than anticipated and partly reflects lower than

expected prepayments to suppliers on ongoing investment projects. The investment level includes DKK 104 million in tangible fixed assets related to the acquisition of the Brazilian pharmaceutical company Biobrás, which as of December 2002 is owned 100% by Novo Nordisk. The acquisition is subject to clearance by the Brazilian antitrust authority, which is expected in the first half of 2003.

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FREE CASH FLOW AND FINANCIAL RESERVES The free cash flow for 2002 was realised at DKK 497 million up from DKK 186 million in 2001. This is slightly higher than anticipated and is related to the lower than expected investment level and an absolute reduction in trade accounts receivables.

Novo Nordisk s financial reserves at the end of 2002 were DKK 1,234 million compared to DKK 2,287 million in 2001. In addition to the financial reserves, Novo Nordisk has undrawn committed credit facilities of close to DKK 8 billion.

SHAREHOLDERS FUNDS Shareholders funds increased to DKK 22,928 million at the end of 2002, corresponding to 72.8% of total assets.

In 2001 the ratio was 69.7%.

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

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

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

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

A 5% change in USD, JPY and GBP versus DKK will have an impact of approximately DKK 160 million, DKK 130 million and DKK 75 million on operating profit, respectively.

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

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

In 2002 USD depreciated against DKK by 16% while JPY and GBP depreciated by 7% and 6%, respectively. During the year the overall hedging levels have been increased and at year-end Novo Nordisk had covered existing assets and liabilities together with 17 months of expected future cash flows in USD. For JPY and GBP the cover was 18 months and 8 months of future expected cash flows respectively.

Novo Nordisk hedges invested equity in major foreign affiliates only. Equity hedging takes place using long-term cross currency swaps. At year-end hedged equity investments made 68% of the Group s JPY equity and 32% of the Group s USD equity.

Interest rate risk management Changing interest rates affect Novo Nordisk´s profit and loss account as well as the balance sheet. Novo Nordisk is mainly exposed to interest rate risk through interest-bearing assets and liabilities.

Interest rate portfolio	Notional amount (DKK million)	Market value (DKK million)	Duration (years)

Bond	290	301	1.39
Money-market deposits	559	559	0.03
Other cash at hand	864	864	0.00
Total interest-bearing assets	1,713	1,724	0.25
Short-term debt	564	564	0.04
Long-term debt	824	836	1.89
Total interest-bearing liabilities	1,388	1,400	1.14
Net interest-bearing assets	325	324	

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

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

The market value of the bond portfolio has been positively influenced by the lower interest levels throughout the year. The DKK 2 year yield has been reduced from 4.1% to 3.0% in 2002. Novo Nordisk ensures availability of required liquidity through a combination of cash management, highly liquid investment portfolios and uncommitted as well as committed facilities.

Novo Nordisk s cash and cash equivalents at the end of 2002 were DKK 1,234 million compared to DKK 2,287 million in 2001. In addition to cash and cash equivalents Novo Nordisk has undrawn committed credit facilities of DKK 8 billion at the end of 2002 compared to DKK 5 billion in 2001.

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

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

Equity price risk management Novo Nordisk has to a limited extent strategic minority investments in both listed and non-listed companies and is consequently exposed to equity risk. Compared to the foreign exchange and interest rate risk, the equity price risk is of minor importance. At year-end, a 10% adverse price effect would result in a loss of DKK 3 million.

Counter-party exposure, end 2002 (long-/short- term rating)*	Aa1/ P1 (DKK million)	Aa2/ P1 (DKK million)	Aa3/ P1 (DKK million)	NR/ P1 (DKK million)	Total exposure (DKK million)
Money-market deposits	0	111	6	442	559
Financial instruments	403	136	303		842
Total exposure	403	247	309	442	

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

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Consolidated profit and loss account The Novo Nordisk Group

DKK million	Note	2002	2001	2000
Net turnover	3	**25,187**	23,776	20,811
Production costs	4,5	**6,633**	5,979	5,044
Gross profit		**18,554**	17,797	15,767
Sales and distribution costs	4,5	**7,479**	7,215	6,254
Research and development costs	4,5	**4,139**	3,970	3,390
Administrative expenses	4,5,6	**1,951**	1,865	1,878
Licence fees and other operating income (net)	7	**994**	867	571
Operating profit		**5,979**	5,614	4,816
Share of profit in associated companies	5,14	**27**	49	3
Financial income	8	**475**	499	382
Financial expenses	9	**181**	132	361
Profit before taxation		**6,300**	6,030	4,840
Income taxes	10	**2,205**	2,165	1,753
Net profit		**4,095**	3,865	3,087
Earnings per share (DKK)	11	**11.81**	11.18	8.84
Earnings per share diluted (DKK)	11	**11.72**	11.10	8.82

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The Novo Nordisk Group Consolidated balance sheet

DKK million	Note	31 Dec 2002	31 Dec 2001
ASSETS			
Intangible fixed assets	12	**240**	14
Tangible fixed assets	13	**16,205**	13,626
Fixed asset investments	14	**1,279**	1,401
Total fixed assets		**17,724**	15,041
Stocks	15	**5,919**	4,760
Trade debtors	16	**3,811**	3,882
Tax receivable		**431**	399
Other debtors	17	**1,873**	1,761
Debtors		**6,115**	6,042
Current asset investments	18	**315**	1,402
Cash at bank and in hand		**1,423**	1,660
Total current assets		**13,772**	13,864
Total assets		**31,496**	28,905
SHAREHOLDERS FUNDS AND LIABILITIES			
Share capital	19	**709**	709
Share premium account		**2,565**	2,565
Retained earnings		**19,048**	16,461
Other comprehensive income		**606**	402
Total shareholders funds		**22,928**	20,137
Provision for deferred tax (net)	20	**1,122**	1,358
Other provisions	21	**653**	541
Provisions		**1,775**	1,899
Banks and other credit institutions	22	**824**	863
Long-term debt		**824**	863
Bank loans	23	**564**	817
Trade creditors		**864**	970
Tax payable		**271**	62
Other creditors	24	**4,270**	4,157
Short-term liabilities		**5,969**	6,006
Total long-term debt and short-term liabilities		**6,793**	6,869
Total shareholders funds and liabilities		**31,496**	28,905

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Consolidated cash flow and financial resources The Novo Nordisk Group

DKK million	Note	2002	2001	2000
Net profit		**4,095**	3,865	3,087
Reversals with no effect on cash flow:				
Income taxes		**2,205**	2,165	1,753
Depreciation, amortisation and write-down		**1,332**	1,081	1,038
Interest receivable and interest payable		**(68)**	(192)	(184)
Other reversals with no effect on cash flow	25	**161**	477	240
Income taxes paid		**(2,266)**	(1,900)	(1,739)
Interest received and interest paid (net)		**134**	280	154
Cash flow before change in working capital		**5,593**	5,776	4,349
Change in working capital:				
(Increase)/decrease in trade debtors and other debtors		**312**	(1,127)	527
(Increase)/decrease in stocks		**(1,131)**	(847)	(377)
Increase/(decrease) in trade creditors and other creditors		**107**	518	759
Cash flow from operating activities		**4,881**	4,320	5,258
Investments:				
Divestment of subsidiaries	26	**52**		(427)
Acquisition of subsidiaries	27	**(448)**		
Sale of fixed asset investments			17	85
Purchase of intangible fixed assets and fixed asset investments		**(81)**	(305)	(63)
Sale of tangible fixed assets		**50**	97	225
Purchase of tangible fixed assets		**(3,957)**	(3,943)	(2,366)
Cash flow from investing activities		**(4,384)**	(4,134)	(2,546)
Free cash flow		**497**	186	2,712
Financing:				
Net change in long-term loans		**(18)**	(39)	4
Purchase of own shares		**(386)**	(24)	(2,472)
Sale of own shares		**39**	34	189
Demerger of Novozymes				818
Dividends paid		**(1,161)**	(916)	(691)
Cash flow from financing activities		**(1,526)**	(945)	(2,152)
Net cash flow		**(1,029)**	(759)	560
Unrealised gain/(loss) on exchange rates and current asset investments included in cash and cash equivalents		**(24)**	(27)	18
Net change in cash and cash equivalents		**(1,053)**	(786)	578
Cash and cash equivalents at the beginning of the year		**2,287**	3,073	2,495
Cash and cash equivalents at the end of the year	28	**1,234**	2,287	3,073
Undrawn committed credit facilities	23	**7,961**	5,046	4,812
Financial resources at the end of the year		**9,195**	7,333	7,885

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Consolidated statement of changes in shareholders funds

DKK million	Share capital	Share premium account	Retained earnings	Other com-prehensive income	Total
2002					
Balance at the beginning of the year	709	2,565	16,461	402	**20,137**
Net profit for the year			4,095		**4,095**
Purchase of own shares			(386)		**(386)**
Sale of own shares			39		**39**
Dividends declared			(1,161)		**(1,161)**
Exchange rate adjustment of investments in subsidiaries				(85)	**(85)**
Reversal of deferred (gain)/loss on cash flow hedges at the beginning of the year				(188)	**(188)**
Deferred gain/(loss) on cash flow hedges at the end of the year				534	**534**
Other adjustments				(57)	**(57)**
Balance at the end of the year	709	2,565	19,048	606	**22,928**

At the end of the year proposed dividends of DKK 1,243 million are included in retained earnings. No dividend is declared on own shares.

2001					
Balance at the beginning of the year	754	2,565	13,289	373	**16,981**
Net profit for the year			3,865		**3,865**
Write-down of B share capital during the year	(45)		45		**--**
Purchase of own shares			(24)		**(24)**
Sale of own shares			34		**34**
Employee shares sold			168		**168**
Dividends declared			(916)		**(916)**
Exchange rate adjustment of investments in subsidiaries				112	**112**
Reversal of deferred (gain)/loss on cash flow hedges at the beginning of the year				(327)	**(327)**
Deferred gain/(loss) on cash flow hedges at the end of the year				188	**188**
Other adjustments				56	**56**
Balance at the end of the year	709	2,565	16,461	402	**20,137**

At the end of the year proposed dividends of DKK 1,161 million are included in retained earnings. No dividend is declared on own shares.

2000					
Balance at the beginning of the year	754	2,565	12,403	154	**15,876**
Net profit for the year			3,087		**3,087**
Purchase of own shares			(2,472)		**(2,472)**
Sale of own shares to Novozymes			189		**189**
Value adjustment of Novozymes shares (net)			773		**773**
Dividends declared			(691)		**(691)**
Exchange rate adjustment of investments in subsidiaries				(108)	**(108)**
Deferred gain/(loss) on cash flow hedges at the end of the year				327	**327**
Balance at the end of the year	754	2,565	13,289	373	**16,981**

At the end of the year proposed dividends of DKK 916 million are included in retained earnings. No dividend is declared on own shares.

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Notes Accounting policies and consolidation The Novo Nordisk Group

1 Accounting policies

The Consolidated financial statements have been prepared in accordance with the Danish Financial Statements Act, Danish Accounting Standards and other accounting regulations for companies listed on the Copenhagen Stock Exchange. The accounting policies have not been changed since 2001.

BASIS OF CONSOLIDATION The Consolidated financial statements include the financial statements of Novo Nordisk A/S (the parent company) and all the companies in which Novo Nordisk A/S directly or indirectly owns more than 50% of the voting rights or in some other way has a controlling influence (subsidiaries). Novo Nordisk A/S and these companies are referred to as the Group.

Companies which are not subsidiaries, but in which the Group holds 20% or more of the voting rights or in some other way has a significant influence on the operational and financial management, are treated as associated companies.

The Consolidated financial statements are based on the financial statements of the parent company and of the subsidiaries and are prepared by combining items of a uniform nature and eliminating intercompany transactions, shareholdings, balances and unrealised intercompany profits. The Consolidated financial statements are based on financial statements prepared by applying the Novo Nordisk Group s accounting policies.

On acquisition of new companies, the purchase method is applied. Thus, the new company s assets and liabilities are restated at fair values at the time of acquisition. Cost of shares in excess of net assets after revaluation is capitalised as goodwill and amortised over the expected useful life.

Newly acquired and divested companies are included in the profit and loss account during the period of Novo Nordisk s ownership. Comparative figures are not adjusted for disposed or newly acquired businesses.

TRANSLATION OF FOREIGN CURRENCIES Monetary assets and liabilities in foreign currencies are translated into Danish kroner at the exchange rates ruling at the balance sheet date.

Financial statements of foreign subsidiaries are translated into Danish kroner at exchange rates ruling at the balance sheet date for assets and liabilities and at average exchange rates for profit and loss items.

All exchange rate adjustments are recognised in the profit and loss account with the exception of exchange gains and losses arising from:

The translation of foreign subsidiaries net assets at the beginning of the year translated at the exchange rates at the balance sheet date.

The translation of foreign subsidiaries profit and loss accounts using average exchange rates whereas balance sheets are translated using the exchange rates ruling at the balance sheet date.

The translation of long-term intercompany loans which are considered to be an addition to net assets in subsidiaries.

The translation of currency swaps contracted to hedge investments in subsidiaries.

The translation of investments in associated companies.

The above exchange gains and losses are recognised in Other comprehensive income under shareholders funds.

The financial statements of subsidiaries in countries with high inflation are adjusted in order to eliminate the effect of the high inflation.

INCOME RECOGNITION Sales of goods are recorded as income at the time of risk transfer related to the goods sold.

As a principal rule sale of intellectual property is recorded as income at the time of the sale. Where the Group assumes an obligation in connection with a sale of intellectual property the income is recognised in accordance with the term of the obligation. On the sale of intellectual property where the final sale is conditional on future events, the amount is recorded as income at the occurrence of such future events.

NET TURNOVER Net turnover represents amounts invoiced excluding value added tax and after deduction of goods returned, trade discounts and allowances.

RESEARCH AND DEVELOPMENT COSTS All research and development costs are expensed in the profit and loss account as incurred. Due to the long development period and significant uncertainties relating to the development of new products, including risks regarding clinical trails and regulatory approval it is concluded that the groups development costs do not qualify for capitalisation.

Research and development costs include the Group s share of profit or loss including goodwill amortisation and write-down in associated research and development companies if the activities in these companies are considered to be within Novo Nordisk s focus areas. Minor investments in such research and development companies in which the Novo Nordisk Group does not obtain significant or controlling influence are charged to the profit and loss account as research and development costs on acquisition.

LICENCE FEES AND OTHER OPERATING INCOME (NET) Licence fees and other operating income (net) comprise licence fees and income (net) of a secondary nature in relation to the main activities of the Group. The item also includes one-off income items (net) in respect of sale of intellectual property, and capital gain on dilution or sale of investments in research and development companies with activities within Novo Nordisk s focus areas.

INTANGIBLE FIXED ASSETS Intangible fixed assets are stated at cost less accumulated amortisation and write-downs. Amortisation is provided under the straight-line method over the expected useful life of the asset as follows:

Acquired patents and licences are amortised over periods up to 10 years.

Goodwill is amortised over a period not exceeding 20 years.

If the carrying amounts of patents, licences or goodwill are higher than the recoverable value the assets are written down to the recoverable value, being the higher of value in use or net selling price.

Goodwill represents any cost in excess of identifiable net assets, measured at fair value, on the acquired company. Goodwill recorded under Intangible fixed assets is relating to subsidiaries.

TANGIBLE FIXED ASSETS Tangible fixed assets are measured at cost less accumulated depreciation and write-downs. Cost includes direct costs for engineering work carried out by group companies. Interests on loans financing construction of major investments are also included in the cost of the assets. Development costs of software in relation to major IT projects for internal use are capitalised under Other equipment .

Depreciation is provided under the straight-line method over the estimated useful lives of the assets as follows:

Buildings; 12-50 years.

Plant and machinery; 5-16 years.

Other equipment; 3-16 years.

Minor fixed assets below DKK 50,000 and fixed assets with limited expected useful lives are charged to the profit and loss account in the year of acquisition.

If the carrying amount of tangible fixed assets is higher than the recoverable value the asset is written down to the recoverable value, being the higher of value in use or net selling price.

LEASES AND RENTAL AGREEMENTS Leases of assets whereby the Group assumes substantially all the risks and rewards of ownership are capitalised as finance leases under Tangible fixed assets and depreciated over the estimated useful life of the assets, according to the periods listed above.

Operating lease costs are expensed on a current basis in the profit and loss account over the lease period.

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The Novo Nordisk Group Notes Accounting policies and consolidation

FIXED ASSET INVESTMENTS Investments in associated companies are recorded under the equity method, ie at the respective share of the associated companies net assets applying Group accounting policies.

Goodwill relating to associated companies is recorded under Investments in associated companies under Fixed assets investments .

Other securities and investments are measured at market value at the balance sheet date. Realised and unrealised gains and losses (net) are included in financial income/financial expenses.

The Group holds a limited amount of Novozymes A/S B shares as hedge for share options to current Novo Nordisk employees granted before the demerger of Novozymes A/S in 2000. These shares are valued at the average exercise price.

STOCKS Raw materials and consumables are measured at cost assigned by using the first-in, first-out method.

Work in progress and finished goods are stated at cost assigned by using the first-in, first-out method. Cost comprises direct production costs such as raw materials, consumables, energy and labour, and indirect production costs such as employee costs, depreciation, maintenance etc. The indirect production costs are measured based on a standard cost method which is reviewed regularly in order to ensure relevant measures of utilisation, production lead time etc.

Stocks, where the expected sales price less completion costs and costs to execute sales (net realisable value) is lower than cost, are written down to net realisable value.

DEBTORS Debtors are stated at amortised cost less write-downs for potential losses on doubtful debts. The write-downs are based on individual assessments of each debtor, which also include an evaluation of payment risk associated with individual countries.

CURRENT ASSET INVESTMENTS Current asset investments are measured at market value at the balance sheet date. Realised and unrealised capital gains and losses (net) are recorded as financial income/ financial expenses.

TAX Income taxes in the profit and loss account includes tax payable for the year with addition of the change in deferred tax for the year.

Deferred tax is provided under the liability method and covers all temporary differences between accounting and tax values of the assets and liabilities. Deferred tax is furthermore provided for re-taxation of tax deductible losses realised in non-Danish affiliated companies, if the re-taxation is expected to be realised by the affiliated companies departure from the Danish joint taxation scheme. The tax value of tax loss carry-forwards will be set off against deferred tax liabilities to the extent that the tax losses and other tax assets are expected to be utilised in the future taxable income. Deferred tax is provided at the expected tax rate.

Tax payable/receivable includes tax payable computed on the basis of the expected taxable income for the year and adjustments for tax payable for previous years.

The parent company has chosen to be assessed jointly for Danish tax purposes with certain of its foreign and domestic subsidiaries. The Danish jointly taxed companies are included in a Danish on-account tax payment scheme for Danish Corporate tax. All current taxes under the scheme are recorded in the parent company.

PROVISIONS FOR PRODUCT RETURNS Provisions for product returns cover expected lost contribution because of expected future returns and are measured at the selling price value. The provisions have been calculated based on statistical measures of historical returns.

PENSIONS The majority of the Group s pension costs relates to defined contribution schemes.

Costs related to defined contribution schemes are expensed in the profit and loss account as incurred and deferred pension costs are carried under Other creditors .

Costs related to defined benefit plans are accrued over the expected working life of the employee. Provisions are made on unfunded pension plans based on the present value of the pension commitment adjusted for the fair value of plan assets. The net change in provisions for the year is expensed in the profit and loss account.

LONG-TERM DEBT AND SHORT-TERM LIABILITIES Long-term debt and other liabilities are stated at amortised cost.

FINANCIAL INSTRUMENTS Forward exchange contracts and currency option contracts hedging receivables and debt in foreign currencies are measured at market value at the balance sheet date and value adjustments are recognised in the profit and loss account under financial income or financial expenses.

Forward exchange contracts and currency options hedging future cash flow are measured at market value in the balance sheet, and value adjustments are deferred from the profit and loss account via Other comprehensive income under shareholders funds until the hedged income or expenses have been realised.

Forward Rate Agreements (FRAs) are used to hedge the interest risks on financial assets and liabilities and are measured at market value. All value adjustments are recorded in the profit and loss account under financial income or financial expenses.

Currency swaps are used to hedge net investments in subsidiaries. Currency swaps are measured at market value based on the difference between the swap exchange rate and the exchange rate at the balance sheet date and the value adjustment is recognised in shareholders funds.

OWN SHARES Own shares are considered as a de facto capital write-down, and therefore the cost of acquisition is deducted directly from shareholders funds. A part of the Group s own shares is held to hedge share options granted.

SHARE OPTIONS Share options granted have an exercise price corresponding to the market price of the company s shares at the time of option programme announcements or issuance, and all share options granted have been hedged by the Group s holding of own shares and shares in Novozymes A/S. Consequently, no cost or obligation at the date of grant or in connection with any subsequent value adjustment is recognised.

DIVIDENDS Dividends are recorded in the period in which they are declared at the Annual General Meeting.

SEGMENT INFORMATION Novo Nordisk is engaged in discovery, development, manufacturing and marketing of pharmaceutical products and has only one business segment healthcare. Within the healthcare segment Novo Nordisk has four main therapy areas.

Net turnover by therapy areas and geographical areas is disclosed in note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS AND FINANCIAL RESOURCES The Consolidated statement of cash flows and financial resources is presented in accordance with the indirect method commencing with net profit. The statement shows cash flows for the year, the net change in cash and cash equivalents for the year and the cash and cash equivalents at the beginning and the end of the year.

Cash flow from operating activities comprises net profit adjusted for non-cash operating items, interest received, interest paid, income taxes paid, and changes in working capital. Working capital consists of current assets less current liabilities, excluding the items that are included in cash and cash equivalents.

Cash flow from investing activities comprises the acquisition and sale of intangible and tangible fixed assets and fixed asset investments.

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On the acquisition or sale of companies and activities, cash flow is adjusted for additions and disposals of assets and liabilities. The purchase price is recorded as the value of the assets acquired including any goodwill and acquisition costs. The sales price is recorded after deduction of transaction costs.

Cash flow from financing activities comprises the proceeds from and the repayment of principal on mortgage loans, other long-term debt, dividends, the proceeds from share issues, as well as the purchase and sale of own shares.

Cash and cash equivalents comprise cash at bank and in hand and current asset investments less short-term bank loans due on demand. Besides cash and cash equivalents, undrawn committed credit facilities expiring after more than 1 year are included in financial resources.

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) The Group prepares a reconciliation of the effect on shareholders funds, balance sheet and the profit and loss account of the application of US Generally Accepted Accounting Principles (US GAAP) in lieu of Danish principles. Note 35 discloses the US GAAP reconciliation.

2 Changes in scope of consolidation

At the end of January 2002 Novo Nordisk acquired 76% of the voting shares of the Brazilian diabetes care company Biobrás corresponding to 39% of the total capital. In November and December 2002 Novo Nordisk acquired the rest of the share capital in Biobrás, and hence Novo Nordisk owns 100% of the capital at year-end.

Biobrás is included in the consolidation as from February 2002. Biobrás was acquired for DKK 423 million in cash (including transaction costs).

The acquisition was accounted for under the purchase method of accounting and the related goodwill was DKK 346 million measured at the currency rate ruling on the acquisition dates. The acquisition is considered a strategic basis for the development of Novo Nordisk s activities in Latin America, hence the goodwill is being amortised on a straight-line basis over 10 years. The minority share of net profit in the period from February to November amounts to DKK 6 million, which has been recognised directly in shareholders funds.

In April 2002 Novo Nordisk sold the Dutch wholesaler of medical devices Hermedico B.V. for DKK 63 million with effect as of 1 January 2002.

In 2001 there were no changes in the scope of consolidation.

In November 2000, in connection with a private placement of new shares in ZymoGenetics Inc (USD 150 million), ZymoGenetics Inc became an associated company and was consequently excluded from the consolidation as from November 2000.

3 Net turnover

DKK million	2002	2001	2000
Net turnover by therapy areas:			
Diabetes care	**17,665**	16,624	14,578
Haemostasis management (NovoSeven®)	**3,621**	3,096	2,270
Growth hormone therapy	**2,131**	2,164	2,107
Hormone replacement therapy	**1,342**	1,435	1,306
Other	**428**	457	550
Total net turnover	**25,187**	23,776	20,811
Net turnover by geographical areas *):			
Europe	**10,880**	10,553	9,131
North America	**5,913**	5,277	4,114
Japan & Oceania	**4,239**	4,498	4,697
International Operations	**4,155**	3,448	2,869

Total net turnover	**25,187**	23,776	20,811

Net turnover is attributed to geographical areas based on the location of the customer.

*) Europe: EU, EFTA, Poland, Czech Republic, Slovenia, Hungary and the Baltic countries
North America: USA and Canada
Japan & Oceania: Japan, Australia and New Zealand
International Operations: All other countries

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4 Employee costs

DKK million	2002	2001	2000
Wages and salaries	**7,199**	6,218	5,312
Pensions	**480**	329	271
Other contributions to social security	**444**	379	368
Other employee costs	**517**	509	401
Total employee costs	**8,640**	7,435	6,352
Included in the profit and loss account under the following headings:			
Production costs	**2,632**	2,233	1,782
Sales and distribution costs	**2,516**	2,256	1,843
Research and development costs	**1,387**	1,253	1,215
Administrative expenses	**1,449**	1,209	1,178
	7,984	6,951	6,018
Included in the balance sheet as:			
Capitalised employee costs related to assets in course of construction etc	**482**	387	278
Change in employee costs included in stocks	**174**	97	56
Total employee costs	**8,640**	7,435	6,352

For information on remuneration to the Board of Directors and Executive Management please refer to notes 29 and 30.

	2002	2001	2000
Average number of full-time employees	**17,073**	14,771	12,698
Year-end number of full-time employees	**18,005**	16,141	13,752

5 Depreciation, amortisation and write-down

DKK million	2002	2001	2000
Included in the profit and loss account under the following headings:			
Production costs	**849**	751	665
Sales and distribution costs	**94**	83	64
Research and development costs *)	**255**	150	165
Administrative expenses	**130**	93	140
Share of profit in associated companies	**4**	4	4
Total depreciation, amortisation and write-down	**1,332**	1,081	1,038

*) Including an impairment write-down of goodwill in associated research and development companies amounting to DKK 62 million in 2002.

6 Fees to statutory auditors

DKK million	2002	2001	2000
Fees to:			
PricewaterhouseCoopers	**46**	52	42
Ernst & Young	**3**	3	3
of which statutory audit fee to PricewaterhouseCoopers	**14**	14	12
of which statutory audit fee to Ernst & Young	**1**	1	1

Fees for other services to statutory auditors primarily include IT consulting services and tax advisory services.

7 Licence fees and other operating income (net)

DKK million	2002	2001	2000
Licence fees and settlements	**559**	657	485
Unrealised capital gain on investments in research and development companies	**236**	48	19
Net income from IT, engineering and other services	**55**	64	22
Other	**144**	98	45
Licence fees and other operating income (net)	**994**	867	571

8 Financial income

DKK million	2002	2001	2000
Interest receivable	**164**	297	326
Capital gain on investments etc (net)			56
Foreign exchange gain (net)	**311**	202	
Total financial income	**475**	499	382

9 Financial expenses

DKK million	2002	2001	2000
Interest payable	**96**	105	142
Capital loss on investments etc (net)	**41**	18	
Foreign exchange loss (net)			195
Other financial expenses	**44**	9	24
Total financial expenses	**181**	132	361
Additional interest expenses capitalised as financing interest under tangible fixed assets:	**14**	17	18

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Notes Consolidated profit and loss account The Novo Nordisk Group

10 Income taxes

DKK million	2002	2001	2000
Current tax on profit for the year	**2,307**	1,852	1,660
Deferred tax on profit for the year	**(182)**	408	113
Tax on profit for the year	**2,125**	2,260	1,773
Adjustments related to previous years (net)	**80**	(95)	(20)
Income taxes in profit and loss account	**2,205**	2,165	1,753
Tax on entries on shareholders funds related to current tax	**15**	(64)	(26)
Tax on entries on shareholders funds related to deferred tax	**(2)**	(57)	141
Tax on entries on shareholders funds	**13**	(121)	115
Computation of effective tax rate:			
Statutory corporate income tax rate in Denmark	**30.0%**	30.0%	32.0%
Non-tax deductible expenses less non-taxable income	**(0.6%)**	0.8%	(0.6%)
Deviation in foreign subsidiaries tax rates compared to Danish tax rate (net)	**5.7%**	6.0%	6.1%
Other	**(0.1%)**	(0.9%)	0.3%
Effective tax rate (before special items)	**35.0%**	35.9%	37.8%
Effect on deferred taxes of change in Danish tax rate in 2000			(1.6%)
Effective tax rate	**35.0%**	35.9%	36.2%

11 Earnings per share

Earnings per share of a nominal value of DKK 2 is calculated based on an average number of shares outstanding (total number of shares excluding Novo Nordisk s holding of own shares). Diluted earnings per share is calculated based on the average number of shares outstanding, including outstanding options on Novo Nordisk s own shares with an exercise price below market value (options in the money).

	2002	2001	2000
Net profit (DKK million)	**4,095**	3,865	3,087
Average number of shares outstanding (in 1,000 shares)	**346,685**	345,713	349,193
Average number of options in the money outstanding (in 1,000 shares)	**2,578**	2,448	979
Average number of shares outstanding including options in the money (in 1,000 shares)	**349,263**	348,161	350,172
Earnings per share (DKK)	**11.81**	11.18	8.84
Earnings per share diluted (DKK)	**11.72**	11.10	8.82

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12 Intangible fixed assets

DKK million	Goodwill	Patents and licences	2002 Total	2001 Total
Cost at the beginning of the year	169	19	**188**	190
Additions during the year	346	5	**351**	
Disposals during the year	(107)		**(107)**	(2)
Exchange rate adjustments	(106)	(1)	**(107)**	
Cost at the end of the year	302	23	**325**	188
Amortisation at the beginning of the year	157	17	**174**	158
Amortisation for the year	24	1	**25**	17
Amortisation reversed on disposals during the year	(107)		**(107)**	(1)
Exchange rate adjustments	(6)	(1)	**(7)**	
Amortisation at the end of the year	68	17	**85**	174
Carrying amount at the end of the year	234	6	**240**	14

13 Tangible fixed assets

DKK million	Land and buildings	Plant and machinery	Other equipment	Payments on account and assets in course of construction	2002 Total	2001 Total
Cost at the beginning of the year	7,179	6,193	2,579	4,128	**20,079**	16,766
Changes in consolidation	45	83	23	32	**183**	
Additions during the year	257	260	318	3,122	**3,957**	3,943
Disposals during the year	(45)	(88)	(259)		**(392)**	(584)
Transfer from/(to) other items	423	810	131	(1,364)		
Exchange rate adjustments	(94)	(71)	(66)	(22)	**(253)**	(46)
Cost at the end of the year	7,765	7,187	2,726	5,896	**23,574**	20,079
Depreciation and write-down at the beginning of the year	1,826	3,121	1,506		**6,453**	5,867
Changes in consolidation	14	49	7		**70**	
Depreciation for the year	280	625	294		**1,199**	1,060
Write-down for the year		35	5		**40**	
Depreciation and write-down reversed on disposals during the year	(22)	(82)	(190)		**(294)**	(454)
Exchange rate adjustments	(22)	(44)	(33)		**(99)**	(20)
Depreciation and write-down at the end of the year	2,076	3,704	1,589		**7,369**	6,453
Carrying amount at the end of the year	5,689	3,483	1,137	5,896	**16,205**	13,626

The total amount of capitalised interests included under tangible fixed assets at the end of the year amounts to DKK 410 million (DKK 436 million in 2001).

Tangible fixed assets by geographical areas:		
Europe	**15,301**	12,647
North America	**425**	481
Japan & Oceania	**329**	411
International Operations	**150**	87
	16,205	13,626

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Notes Consolidated balance sheet The Novo Nordisk Group

14 Fixed asset investments

DKK million	Amounts owed by affiliated companies	Investments in associated companies	Other securities and investments	2002 Total	2001 Total
Cost at the beginning of the year		1,207	224	**1,431**	1,201
Additions during the year	28	53	13	**94**	258
Disposals during the year		(9)	(31)	**(40)**	(46)
Transfer from other items			7	**7**	18
Cost at the end of the year	28	1,251	213	**1,492**	1,431
Value adjustments at the beginning of the year		100	(130)	**(30)**	(67)
Net profit/(loss)		(87)		**(87)**	(107)
Amortisation and write-down of goodwill		(68)		**(68)**	
Transfer from other items					36
Exchange rate adjustments		(167)		**(167)**	
Other adjustments		173	(34)	**139**	108
Value adjustments at the end of the year		(49)	(164)	**(213)**	(30)
Carrying amount at the end of the year	28	1,202	49	**1,279**	1,401

Carrying amount of investments in associated companies includes net capitalised goodwill of DKK 18 million at the end of the year. Amortisation and write-down of goodwill for the year was DKK 68 million, which includes an impairment write-down of DKK 62 million. Exchange rate adjustments of goodwill amounted to DKK 13 million. Additions to goodwill during 2002 amounted to DKK 17 million. At the end of 2001, goodwill amounted to DKK 82 million.

Of net loss and amortisation and write-down of investments in associated companies, a loss of DKK 182 million related to ZymoGenetics Inc and Aradigm Corporation is included in Research and development costs . Other adjustments include unrealised capital gain amounting to DKK 236 million on Initial Public Offering of ZymoGenetics Inc.

15 Stocks

DKK million	2002	2001
Raw materials and consumables	**981**	733
Work in progress	**3,341**	2,681
Finished goods	**1,597**	1,346
Total stocks	**5,919**	4,760
Indirect production costs included in work in progress and finished goods	**2,301**	1,888

16 Trade debtors

DKK million	2002	2001
Trade debtors (gross)	**4,267**	4,411

Write-down for doubtful debtors:		
Balance at the beginning of the year	**529**	581
Change in write-down during the year	**(29)**	60
Realised losses during the year	**(44)**	(112)
Balance at the end of the year	**456**	529
Total trade debtors	**3,811**	3,882
Trade debtors (gross) are equal to an average credit period of (days)	**62**	68

17 Other debtors

DKK million	**2002**	**2001**
Prepayments to public authorities		555
Prepayments	**407**	436
Interest receivable	**18**	47
Market value of financial instruments	**842**	243
Amounts owed by affiliated companies	**156**	76
Other receivables	**450**	404
Total other debtors	**1,873**	1,761

18 Current asset investments

DKK million	**2002**	**2001**
Bonds	**301**	1,373
Unit trusts and shares	**14**	29
Total current asset investments	**315**	1,402
At original acquisition cost	**388**	1,450
Duration of the Group s bond portfolio (years)	**1.4**	1.5
Redemption yield on the Group s bond portfolio	**3.2%**	4.3%

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19 Share capital

Development in share capital (DKK million)	2002	2001	2000	1999	1998
A share capital	**107**	107	107	107	107
B share capital at the beginning of the year	**602**	647	647	647	643
Additions to B share capital during the year					4
Reduction of B share capital during the year		(45)			
At the end of the year	**709**	709	754	754	754

At the end of 2002 the share capital amounted to DKK 107,487,200 in A share capital (equal to 53,743,600 shares of DKK 2) and DKK 601,901,120 in B share capital (equal to 300,950,560 shares of DKK 2).

Own shares	Number of B shares of DKK 2	In % of share capital	Market value DKK million
Holding at the beginning of the year	8,017,323	2.26%	2,742
Purchase during the year	1,786,762	0.50%	386
Sale during the year	(407,244)	(0.11%)	(39)
Value adjustment			(1,163)
Holding at the end of the year	9,396,841	2.65%	1,926

Acquisition of own shares during the year is part of the share buy-back programme of up to DKK 2 billion worth of Novo Nordisk B shares announced in August 2002, which was initiated in order to align the capital structure with the expected development in free cash flow. Sale of own shares mainly relates to the employee share programme and exercised share options.

Of own shares 3,053,953 shares are regarded as hedge for the share options issued, please refer to note 29.

20 Provision for deferred tax (net)

DKK million	2002	2001
At the beginning of the year	**1,358**	970
Deferred tax on profit for the year	**(182)**	408
Adjustment relating to previous years	**(82)**	40
Tax on entries on shareholders funds	**(2)**	(57)
Exchange rate adjustments	**30**	(3)
Total provisions for deferred tax (net)	**1,122**	1,358
Specification Tangible fixed assets	**1,389**	1,318
Indirect production costs	**690**	566
Unrealised profit on intercompany sales	**(766)**	(708)
Write-down for doubtful debtors	**(118)**	(128)
Other	**(73)**	310
	1,122	1,358

Calculation of deferred taxes in Denmark is based on a tax rate of 30%, while deferred tax in other countries is based on local tax rates.

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Notes Consolidated balance sheet The Novo Nordisk Group

21 Other provisions

DKK million	Provisions for pension commitments and similar obligations	Provisions for returned products	Other provisions	2002 Total	2001 Total
At the beginning of the year	241	290	10	**541**	523
Changes in consolidation	10		35	**45**	
Additional provisions	80	175	20	**275**	241
Reversed during the year	(1)		(10)	**(11)**	(37)
Used during the year	(30)	(134)	(1)	**(165)**	(181)
Exchange rate adjustments	(17)		(15)	**(32)**	(5)
At the end of the year	283	331	39	**653**	541
Specification of provisions:					
Long-term	282	175	31	**488**	405
Short-term	1	156	8	**165**	136
	283	331	39	**653**	541

The gross benefit obligation relating to Provisions for pension commitments and similar obligations at 31 December 2002 amounts to DKK 390 million. The benefit obligation is partly offset by plan assets and the net liability amounts to DKK 283 million.

22 Banks and other credit institutions

DKK million	2002	2001
Mortgage debt and other secured loans with terms to maturity between 2006 2016 and interest rates at 4.2% 10.0%	**167**	160
Unsecured loans and other long-term loans with terms to maturity between 2004 2007 and interest rates at 0.5% 3.4%	**657**	703
At the end of the year	**824**	863
The debt is payable within the following periods as from the balance sheet date:		
Between 1 and 2 years	**570**	42
Between 2 and 3 years	**48**	576
Between 3 and 4 years	**35**	43
Between 4 and 5 years	**17**	31
After 5 years	**154**	171
	824	863
The debt is denominated in the following currencies:		
DKK	**6**	6
EUR	**436**	436
USD	**7**	
JPY	**352**	421
Other currencies	**23**	

	824	863

Adjustment of the above loans to market value at year-end 2002 would result in a cost of DKK 12 million.

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The Novo Nordisk Group Notes Consolidated cash flow and financial resources

23 Bank loans

DKK million	2002	2001
Bank loans and overdrafts	**504**	775
Long-term debt, amounts falling due within 1 year	**60**	42
Total bank loans	**564**	817
The debt is denominated in the following currencies:		
DKK	**97**	112
EUR	**188**	306
USD	**172**	284
JPY	**39**	42
Other currencies	**68**	73
Total bank loans	**564**	817

At year-end the Group had undrawn committed credit facilities amounting to DKK 7,961 million (DKK 5,046 million in 2001). The undrawn committed credit facilities consist of a USD 600 million and a EUR 500 million facility which are committed by a number of Danish and international banks. The facilities mature in 2004 and 2007 respectively.

24 Other creditors

DKK million	2002	2001
Employee costs payable	**1,087**	1,075
Taxes and duties payable	**273**	111
Accruals and deferred income	**1,324**	1,275
Amounts owed to affiliated companies	**70**	16
Other payables	**1,516**	1,680
Total other creditors	**4,270**	4,157

25 Other reversals with no effect on cash flow

DKK million	2002	2001	2000
Loss from sale of tangible fixed assets	**48**	33	105
Write-down for doubtful debtors	**(29)**	60	43
Unrealised (gain)/loss on shares and bonds etc	**36**	60	(29)
Unrealised foreign exchange (gain)/loss	**96**	106	58
Share of (profit)/loss in associated companies	**87**	107	4
Unrealised capital gain on investments in associated companies	**(236)**	(48)	(19)
Other	**159**	159	78
Other reversals with no effect on cash flow	**161**	477	240

26 Cash flows from divestment of subsidiaries

DKK million	2002	2001	2000
Intangible fixed assets			35
Tangible fixed assets	**4**		367
Current assets	**31**		743
Long-term debt	**(2)**		
Short-term liabilities	**(8)**		(277)
Net assets divested	**25**		868
Divestment gains	**38**		
Unrealised gain			19
Addition to investments in associated companies			(887)
Consideration received	**63**		
Less divested cash and cash equivalents	**(11)**		(427)
Net cash flow	**52**		(427)

27 Cash flows from acquisition of subsidiaries

DKK million	2002	2001	2000
Tangible fixed assets	**(104)**		
Current assets	**(178)**		
Provisions	**45**		
Long-term debt	**58**		
Short-term liabilities	**102**		
Net assets acquired	**(77)**		
Goodwill on acquisition	**(346)**		
Consideration paid	**(423)**		
Less acquired cash and cash equivalents (negative)	**(25)**		
Net cash flow	**(448)**		

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28 Cash and cash equivalents

DKK million	2002	2001	2000
Cash and cash equivalents consist of cash and current asset investments less short-term bank loans			
Total current asset investments at the beginning of the year	**1,402**	2,567	2,172
Receipts from current asset investments	**(1,073)**	(6,337)	(2,732)
Outlays for current asset investments	**22**	5,232	3,098
Unrealised gain/(loss) on current asset investments	**(36)**	(60)	29
Current asset investments at the end of the year	**315**	1,402	2,567
Cash at the end of the year	**1,423**	1,660	1,278
Cash and current asset investments at the end of the year	**1,738**	3,062	3,845
Short-term bank loans at the end of the year	**(504)**	(775)	(772)
Cash and cash equivalents at the end of the year	**1,234**	2,287	3,073
Current asset investments with remaining term to maturity exceeding 3 months at the end of the year	**315**	1,402	1,352
Cash and current asset investments with remaining term to maturity not exceeding 3 months at the end of the year	**1,423**	1,660	2,493
Cash and current asset investments at the end of the year	**1,738**	3,062	3,845

29 Employee shares and share options

Employee shares

In the first half year of 2002 340,788 B shares were sold to employees of Novo Nordisk s foreign subsidiaries. The shares were sold at a favourable price of DKK 100 per share compared to market prices on the allotment dates between DKK 240 265 per share. A similar employee share programme was offered in December 2001 to employees of Novo Nordisk A/S and its Danish subsidiaries, where 991,591 B shares were sold. These shares were also sold at a favourable price of DKK 100 per share compared to a market price on the allotment date of DKK 314 per share.

The total number of employee shares sold in 2001 and 2002 amounts to 0.38% of the total number of shares in Novo Nordisk A/S and was sold from Novo Nordisk s holding of own shares. The proceeds from the sale of the shares have been recognised in shareholders funds and no costs have been recognised in the profit and loss account.

Share options

As from 1998 Novo Nordisk has established share option schemes for Executive Management and other management employees with the purpose of motivating and retaining qualified management and to ensure common goals for the management and the shareholders. Each option gives the right to purchase one Novo Nordisk B share, and in total approximately 350 employees in Novo Nordisk hold share options.

Ordinary share option plans

The granting of share options under the Group s ordinary share option plans is subject to the achievement of shareholder value based goals decided by the Board of Directors aligned with the Group s long-term financial targets.

The options are exercisable three years after the issue date and will expire after eight years. For options granted based on performance targets for the financial years 1997 1999 the exercise price was equal to the market price of the Novo Nordisk B share at the time of issuance. The exercise price for options granted based on performance targets for the financial years 2000 2001 was equal to the market price of the Novo Nordisk B share at the time the plan was established.

No options have been issued for the financial year 2002 under the ordinary programme as the shareholder value based targets set out under the 2002 ordinary share option programme have not been met.

Launch share option plan
In connection with the demerger of Novozymes A/S a specific share option plan was established for Executive Management and Senior Management Board, where the granting of the options was subject to the successful and timely completion of the demerger. The options are exercisable three years after the issue date and will expire after six years. The exercise price corresponds to the market price for the Novo Nordisk B share at the time the plan was established.

As a prerequisite to receive the options, each participant had to establish an investment in Novo Nordisk B shares equal to one year s gross salary. To the extent this requirement was not already met prior to the date of the demerger the required shares were bought by the participants from Novo Nordisk s holding of own shares at a price equal to the average market price in the 20 days following the demerger of Novozymes A/S corresponding to DKK 316. For each Novo Nordisk share invested under the scheme four options were received and the Novo Nordisk B share investment must be maintained at least until the end of the vesting period for the options, ie 31 January 2004. After this date the investment in Novo Nordisk B shares is no longer required and the Novo Nordisk B shares may be sold by the individual launch share option plan participant, whereas the launch options may be exercised within a period of three years.

The launch scheme was mandatory for members of Executive Management and voluntary for Senior Management Board. In 2001 and 2002 a launch option incentive programme has also been offered to newly appointed members of Senior Management Board.

Share options on Novozymes share
Options granted prior to the demerger of Novozymes A/S in 2000 have been split into one Novo Nordisk option and one Novozymes option. At the end of the year the Group s outstanding Novozymes options amount to 361,006 with an average exercise price of DKK 96 per share of DKK 10 and a market value of DKK 21 million. These options are hedged by the Group s holding of Novozymes A/S shares, which are recorded at the average exercise price.

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29 Employee shares and share options (continued)

Outstanding share options in Novo Nordisk	Share options	Average exercise price per option DKK	Market value per option DKK	Market value DKK million
Outstanding at the beginning of 2000	1,147,000	175	51	59
Granted in respect of 2000 (issued 22 February 2001)	763,000	198	124	95
Launch share options granted in 2000 (issued 31 January 2001)	701,580	198	172	120
Assigned to Novo A/S in 2000	(135,250)	188	81	(11)
Expired/cancelled in 2000	(18,000)	188	81	(1)
Value adjustment				59
Outstanding at the end of 2000	2,458,330	188	131	321
Granted in respect of 2001 (issued 8 February 2002)	684,980	332	111	76
Launch share options granted in 2001 (issued 8 February 2002)	10,764	332	111	1
Assigned from Novo A/S in 2001	29,520	194	169	5
Exercised in 2001	(56,000)	188	131	(7)
Expired/cancelled in 2001	(2,500)	131	131	
Value adjustment				113
Outstanding at the end of 2001	3,125,094	220	163	509
Launch share options granted in 2002 (issued 7 February 2003)	26,024	322	60	2
Exercised in 2002	(51,750)	125	163	(8)
Expired/cancelled in 2002	(45,415)	220	163	(7)
Value adjustment				(319)
Outstanding at the end of the year	3,053,953	223	58	177

The market value of the share options has been calculated using the Black-Scholes option pricing model. The assumptions used are shown in the table below:

	2002	2001	2000
Expected life of the option in years (average)	**4**	4	4
Expected volatility (based on four years historical volatility)	**39%**	36%	31%
Expected dividend per share (in DKK)	**3.60**	3.35	2.65
Risk-free interest rate (based on Danish government bonds)	**3.8%**	4.5%	5.0%
Market value of Novo Nordisk B share at the end of the year	**205**	342	285

Share options in Novo Nordisk	Issued share options	Exercised share options	Expired/ cancelled	Outstanding/ exercisable share options	Exercise price DKK	Exercise period
1997 Ordinary share option plan	104,500	(49,000)	(32,500)	23,000	190	19/2 2001 -- 18/2 2006
1998 Ordinary share option plan	355,000	(51,750)	(51,750)	251,500	125	25/3 2002 -- 24/3 2007

Exercisable share options at the end of the year	459,500	(100,750)	(84,250)	274,500		
1999 Ordinary share option plan	687,500		(82,000)	605,500	198	24/3 2003 -- 23/3 2008
2000 Ordinary share option plan	763,000		(24,500)	738,500	198	22/2 2004 -- 21/2 2009
2000 Launch share option plan	718,600			718,600	198	1/2 2004 -- 31/1 2007
2001 Ordinary share option plan	684,980		(4,915)	680,065	332	8/2 2005 -- 7/2 2010
2001 Launch share option plan	10,764			10,764	332	8/2 2005 -- 7/2 2010
2002 Launch share option plan	26,024			26,024	322	7/2 2006 -- 6/2 2011
Total outstanding share options at the end of the year	3,350,368	(100,750)	(195,665)	3,053,953		

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Notes Additional information The Novo Nordisk Group

30 Management s remuneration, share options and shareholdings

For information on the Board of Directors, the members of Executive Management and of the Senior Management Board, please refer to pages 60 61 of the Annual Financial Report.

Remuneration

It is the policy of Novo Nordisk, that remuneration to the Board of Directors (9 in total), Executive Management (6 in total) and the Senior Management Board (15 in total) must be at a competitive level compared to similar international pharmaceutical companies and other major Danish companies.

Board of Directors

The fee to the Board of Directors is a fixed annual fee. In addition to the fee the member s costs in connection with participation in the meetings, such as travel and hotel expenses etc, are refunded. Besides this no other amounts or benefits are paid to the Board members.

Fee to the Board of Directors (DKK million)	**2002**	**2001**
Chairman	**0.6**	0.6
Vice chairman	**0.4**	0.4
Other Board members (7)	**1.9**	1.9
Total	**2.9**	2.9

Executive Management and Senior Management Board

The remuneration to Executive Management and the Senior Management Board is based on a fixed salary, a potential cash bonus of up to four months salary, pension contributions of 20% to 30% of the cash salary including bonus and non-monetary benefits in the form of car and phone. Additionally Executive Management and the Senior Management Board participate in share option programmes. The remuneration package for members of the Senior Management Board employed in foreign subsidiaries differ from the general package in respect of other benefit and bonus schemes included in the package in order to ensure an attractive package compared to local conditions. In addition, Executive Management and Senior Management Board members receive ordinary allowances in connection with business travelling, conferences and education etc, which are based on refunding of actual costs. The size of the cash bonus depends on the achievement of individual performance targets whereas the granting of options depends on achievement of shareholder value based goals aligned with the Group s long-term financial targets.

	Remuneration excl share options		**Market value of granted share options *)**	
DKK million	**2002**	**2001**	**2002**	**2001**
Executive Management:				
Lars Rebien Sørensen	**5.1**	5.1		1.2
Jesper Brandgaard	**3.6**	3.5		0.7
Lars Almblom Jørgensen	**3.9**	3.7		0.7
Lise Kingo **)	**1.9**			
Kåre Schultz	**3.8**	3.6		0.7
Mads Krogsgaard Thomsen	**3.6**	3.6		0.7
Executive Management in total	**21.9**	19.5		4.0
Senior Management Board in total ***)	**44.6**	36.7		7.1

*) Calculation of market values has been based on the Black-Scholes option pricing model applying the assumptions shown in note 29. The market value of granted share options excludes the market value of launch share options.

**) Lise Kingo was appointed member of Executive Management on 22 March 2002. Her salary for the period January 2002 to March 2002 is included in the total for the Senior Management Board.

***) The Senior Management Board consists of 15 members in 2002 compared to 13 members in 2001.
In relation to severance payment, the members of Executive Management are, in the event of termination by the Company or by the individual due to a merger, acquisition or takeover by an external company, entitled to a severance payment of 36 months salary plus pension contribution.

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The Novo Nordisk Group Notes Additional information

30 Management s remuneration, share options and shareholdings (continued)

Management s share options

Share options in Novo Nordisk	At the beginning of the year	Exercised during the year	Granted during the year	At the end of the year	Market value *) DKK million
Executive Management:					
Lars Rebien Sørensen	95,500			95,500	5.5
Jesper Brandgaard	55,280			55,280	3.2
Lars Almblom Jørgensen	56,780			56,780	3.3
Lise Kingo	27,520			27,520	1.6
Kåre Schultz	57,280			57,280	3.3
Mads Krogsgaard Thomsen	55,280			55,280	3.2
	347,640			347,640	20.1
Former members of Executive Management **):					
Mads Øvlisen	108,330	(9,750)		98,580	5.9
Kurt Anker Nielsen ***)	37,840			37,840	2.2
	146,170	(9,750)		136,420	8.1
Senior Management Board in total	524,724		26,024	550,748	32.1
Total	1,018,534	(9,750)	26,024	1,034,808	60.3

*) Calculation of market values at year-end has been based on the Black-Scholes option pricing model applying the assumptions shown in note 29.

**) Mads Øvlisen and Kurt Anker Nielsen are now members of the Board of Directors.

***) In addition, Kurt Anker Nielsen has share options in Novo Nordisk, issued by Novo A/S in connection with the demerger in 2000. At the end of 2002, 26,000 of these options were outstanding.

Management s holding of Novo Nordisk shares and ADRs

The internal rules on board members, executives and certain employees trading in Novo Nordisk securities only permit trading in the 15 calendar-day period following each quarterly announcement.

Shares in Novo Nordisk	At the beginning of the year	Purchased during the year	Sold during the year	At the end of the year	Market value *) DKK million
Board of Directors:					
Mads Øvlisen	41,775	9,750		51,525	10.6
Kurt Anker Nielsen	33,440			33,440	6.9
Kurt Briner		2,400		2,400	0.5
Johnny Henriksen	300			300	0.1
Niels Jacobsen	8,000	3,000		11,000	2.3
Ulf J. Johansson					
Anne Marie Kverneland	1,600			1,600	0.3
Stig Strøbæk	400			400	0.1
Jørgen Wedel	5,555			5,555	1.1

Former Board members **)	1,400		(1,400)		
	92,470	15,150	(1,400)	106,220	21.9
Executive Management:					
Lars Rebien Sørensen	12,800			12,800	2.6
Jesper Brandgaard	8,545			8,545	1.8
Lars Almblom Jørgensen	8,775			8,775	1.8
Lise Kingo	4,355			4,355	0.9
Kåre Schultz	8,690			8,690	1.8
Mads Krogsgaard Thomsen	8,835			8,835	1.8
	52,000			52,000	10.7
Senior Management Board in total	83,180	6,602		89,782	18.4
Total	227,650	21,752	(1,400)	248,002	51.0

The requirement for share ownership for Executive Management and former members of Executive Management linked to the participation in demerger launch incentives expires in January 2004. After this period it may be envisioned that launch incentive participants will reduce their shareholdings in Novo Nordisk B shares.

*) Calculation of the market value at year-end is based on the quoted share prices at the end of the year.

**) Shares held by former Board members are reported as sold in the above table regardless of continued holding.

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Notes Additional information The Novo Nordisk Group

31 Hedging activities

The major part of Novo Nordisk s sales is in currencies other than DKK, whereas a significant part of the costs are in DKK. Thus, exchange rate fluctuations may have a significant impact on both the profit and loss account and on the balance sheet in the form of transaction risk and translation risk.

Novo Nordisk hedges the transaction risk for existing balances and expected cash flows up to several months forward in major currencies. Recognised assets and liabilities in foreign currency and the hedging hereof are shown in the table below. The table includes assets and liabilities in currencies other than basis currency in each entity within the Group. Gains and losses on the assets and liabilities (hedged items) and the hedging of financial instruments (derivatives) are included in the profit and loss account.

Hedging of assets and liabilities in foreign currency

DKK million	Assets	Liabilities	Net assets	Hedged via financial instruments	Net assets with transaction risk
USD	1,467	208	1,259	1,259	
JPY	483	226	257	257	
GBP	193	18	175	175	
EUR	2,551	1,304	1,247		1,247
Other	449	100	349	260	89
	5,143	1,856	3,287	1,951	1,336

The translation risk illustrated in the table below is the risk arising from translation of net investments in foreign subsidiaries into DKK. The gains/losses are recognised in Other comprehensive income under shareholders funds.

Hedging of net investments in foreign subsidiaries

DKK million	Net investment in foreign subsidiaries *)	Hedged via currency swaps	Net invest-ments with translation risk
USD	1,201	389	812
JPY	437	298	139
GBP	140		140
EUR	678		678
CHF	556		556
Other	1,082		1,082
	4,094	687	3,407

*) Adjusted for intercompany receivables and payables in DKK.

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32 Financial instruments

Novo Nordisk hedges commercial exposure only and consequently does not enter into speculative positions. Currency forwards and options hedging transaction risk are recorded at market value in the balance sheet, and value adjustments are recognised in the profit and loss account. Unrealised gains and losses on financial contracts hedging expected cash flows (cash flow hedges) are deferred from the profit and loss account via Other comprehensive income under shareholders funds, until the hedged item is recognised.

The following table illustrates financial contracts and deferred gains and losses at the balance sheet date.

DKK million	Contract amount	Gain/(loss) in revaluation to market value at 31 Dec 2002	Gain/(loss) included in 2002 profit and loss account	Gain/(loss) recognised in share-holders' funds 31 Dec 2002	Deferred gain/(loss) via share-holders' funds	Interest margin p a	Hedging period/ maturity
Forward exchange contracts, net sales							
USD	4,759	428	195		233		12 months
JPY	2,006	120			120		13 months
GBP	716	23	8		15		8 months
Other	442	31	8		23		N/A
	7,923	602	211		391		
Options							
EUR/USD (purchased USD put)	1,596	79			79		5 months
EUR/JPY (purchased JPY put)	1,656	64			64		5 months
	3,252	143			143		
Currency and interest rate swaps							
JPY/DKK	314	30	30			4.05%	Dec 2011
JPY/JPY	480					(0.26%)	Dec 2007
DKK/DKK	150	(10)	(10)			(2.47%)	Dec 2011
DKK/DKK	160	(9)	(9)			(2.33%)	Dec 2011
	1,104	11	11				
Total hedging of transaction risk	12,279	756	222		534		
Currency and interest rate swaps							
USD/DKK	252	39		40	(1)	0.73%	Nov 2003
USD/DKK	216	39	1	39	(1)	0.68%	Jul 2004
JPY/DKK	156	9	1	7	1	3.27%	Sep 2003
JPY/DKK	149					2.93%	Jun 2004
Total hedging of translation risk	773	87	2	86	(1)		

The financial contracts existing at the end of the year cover expected cash flow of key currencies in the following number of months:

USD	17 months
JPY	18 months
GBP	8 months

The Group is not considered to have significant credit risk on financial counterparties. For further information on financial risk factors, please refer to Financial discussion .

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Notes Additional information The Novo Nordisk Group

33 Contingent assets, contingent liabilities and pending litigation

DKK million	2002	2001
Contingent liabilities		
Rental and lease commitments expiring within the following periods as from the balance sheet date:		
Within 1 year	**248**	229
Between 1 and 2 years	**196**	195
Between 2 and 3 years	**154**	143
Between 3 and 4 years	**120**	118
Between 4 and 5 years	**110**	108
After 5 years	**324**	340
	1,152	1,133

The above rental and lease commitments are related to non-cancellable operating leases primarily related to premises, company cars and office equipment. Approximately 62% of the commitments are related to leases outside Denmark The rental/lease costs for 2002 and 2001 were DKK 570 million and DKK 428 million respectively

Contractual obligations relating to investments in tangible fixed assets	**658**	1,347
The commitments primarily relate to investments under the production facility expansion programme to be completed in 2003 and 2004		
Obligations relating to research and development projects	**983**	1,793
Novo Nordisk has engaged in research and development projects with a number of external corporations. The major part of the obligations include fees and milestone payments on the AERx® iDMS project which is conducted in cooperation with Aradigm Corporation; option fee on proteins developed by ZymoGenetics Inc and fees on the NovoSeven® expansion programmes. Most of the costs will incur in 2003 and 2004 according to the plans, whereas all commitment could incur in 2003 in case a project is terminated		
Other guarantees and commitments	**535**	1,071
Other commitments primarily include purchase agreement commitments regarding medical equipment and consumer goods, which will be purchased in 2003		
Security for debt		
Land, buildings and equipment etc at carrying amount	**833**	798
Credit guarantee regarding asset securitisation	**65**	59
Novo Nordisk has asset securitisation programmes with two external credit institutions regarding the major part of the trade debtors in the Japanese subsidiary with the purpose to accelerate the receipt of cash related to those receivables. On a part of the sold receivables Novo Nordisk has issued a credit guarantee of up to 15% of the sold trade debtors		

World Diabetes Foundation
At the Annual General Meeting of Novo Nordisk A/S the shareholders agreed on a donation to the World Diabetes Foundation obligating Novo Nordisk A/S for a period of 10 years from 2002 to make annual donations to the Foundation of 0.25% of the net insulin sales of the Novo Nordisk Group in the preceding financial year. However, annual donations shall not exceed the lower of DKK 65 million or 15% of the taxable income of Novo Nordisk A/S in the financial year in question. The donation in 2002 is recognised in the profit and loss account.

Pending litigation
In Poland the local customs authorities have investigated a number of international companies, alledging misstatement of customs values regarding the period until April 2002 when new legislation came into effect. Regarding Novo Nordisk the authorities have investigated 1999, and claimed misstatement of approximately DKK 130 million. Novo Nordisk has not received claims regarding 2000, 2001 nor 2002. In the opinion of Management, Novo Nordisk has acted in compliance with Polish legislation. In spite of that, there is a risk of further legal actions against Novo Nordisk from the Polish authorities. The outcome of possible legal actions and consequences hereof are uncertain.

In addition the Novo Nordisk Group is engaged in certain litigation proceedings. In the opinion of Management, settlement or continuation of these proceedings will not have a material effect on the financial position of the Group.

Liability for the debts and obligations of Novozymes following the demerger of Novozymes in 2000.
Novo Nordisk A/S and Novozymes A/S are subject to joint and several liability for any obligation which existed at the time of the announcement of the demerger in 2000. At the end of the year the remaining part of the joint and several liability in Novozymes A/S amounted to DKK 840 million.

Debts and obligations pertaining to the period before 1 January 2000, which are recognised after 1 January 2000 and which cannot be clearly attributed to either Novo Nordisk A/S or Novozymes A/S will be distributed proportionally between the two.

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The Novo Nordisk Group Notes Additional information

34 Related party transactions

Related parties are considered to be the Novo Nordisk Foundation, Novo A/S, the Novozymes Group due to joint ownership, associated companies, the directors and officers of these entities and the Management of Novo Nordisk. Following the demerger, Novo Nordisk has access to certain assets of and can purchase certain services from Novo A/S and the Novozymes Group and vice versa. All agreements relating to such assets and services have been negotiated at arm s length, and most of these agreements are for one year.

The Novo Nordisk Group has had the following material transactions with related parties:

DKK million	2002 Purchase/ (sale)	2001 Purchase/ (sale)
Novo A/S		
Services provided by the Novo Nordisk Group	**(6)**	(23)
Facilitation and stakeholder relation services etc	**35**	60
The Novozymes Group		
Services provided by the Novo Nordisk Group	**(382)**	(438)
Services provided by the Novozymes Group	**134**	93
Sales of assets	**30**	
Associated companies		
Sales to associated companies	**(84)**	(103)
Fees and royalties etc paid to associated companies	**309**	351
Equity contribution to associated companies	**53**	210

There have not been any material transactions with the Novo Nordisk Foundation, or with any director or officer of Novo Nordisk A/S, the Novozymes Group, Novo A/S, the Novo Nordisk Foundation or associated companies. For information on remuneration to the Management of Novo Nordisk A/S, please refer to note 30.

Apart from the balances included in the balance sheet under Fixed asset investments , Other debtors and Other creditors there are no unsettled transactions with related parties at the end of the year.

35 Reconciliation to US GAAP

A description of the Group s accounting policies is set out on in note 1. The accounting principles generally accepted in the United States (US GAAP) differ within certain areas from the Group s accounting policies.The principal areas for which US GAAP differ can be summarised as follows:

a) Employee shares according to Danish GAAP employee shares issued or sold at a favourable price are recorded under shareholders funds irrespective of the discount. According to US GAAP the difference between market price and the sales price should be recorded as an expense in the profit and loss account.

b) Options and share-based awards under Danish GAAP, no expense is recorded because these schemes are hedged by own shares. Under US GAAP, for fixed plans the intrinsic value of the option is recorded as an expense in the profit and loss account at the date of grant. If the plan is variable, the intrinsic value of the option is adjusted in subsequent reporting periods until the time when the terms of the award can be determined, and the intrinsic value is expensed in the profit and loss account over the service period.

c) Financial instruments according to Danish GAAP foreign exchange contracts and options hedging future cash flow are measured at market value and unrealised value adjustments are deferred via

shareholders funds. Novo Nordisk has not adopted hedge accounting under US GAAP, hence the value adjustments in accordance with US GAAP, must be recognised in the profit and loss account.

d) Restructuring costs under Danish GAAP costs in connection with the restructuring were taken to the profit and loss account in 1999. Under US GAAP such costs can only be charged to the profit and loss account when the costs have been incurred.

e) Unrealised capital gain on investments in research and development companies according to Danish GAAP the gain on a capital injection, where the shareholding of Novo Nordisk is diluted, is recognised in the profit and loss account. Under US GAAP the gain is recognised in shareholders funds when the issued securities are not common stock or the main activity of the investee is research and development.

f) Goodwill on investments in research and development companies according to Danish GAAP goodwill is capitalised and amortised over the expected useful life of the asset. Under US GAAP costs in excess of net assets is considered to be in-process research and development costs which are charged to the profit and loss account immediately.

g) Goodwill according to Danish GAAP goodwill must be capitalised and amortised systematically over the useful life (not to exceed 20 years). Under US GAAP goodwill is not amortised, but tested for impairment.

h) Business combinations the excess capital paid for a company has to be transferred to all identifiable assets in a business combination under Danish GAAP as it has to be under US GAAP. The application of the rules is however more strict under US GAAP, where more intangible assets are identified compared to the generally accepted Danish practice.

i) Discontinued operations (Novozymes A/S) under US GAAP the results of discontinued operations have been included until the date of the demerger. Consequently the results of Novozymes have been included until 13 November 2000. The income recorded during 2000 becomes part of the net assets which are distributed in the form of dividend to shareholders in connection with the demerger.

j) In the Statement of cash flow and financial resources financial resources comprise current asset investments and cash less short-term bank loans. According to US GAAP, cash and cash equivalents consist solely of cash and current asset investments with a remaining term to maturity of less than three months. Current asset investments with remaining term to maturity exceeding three months are presented as investing activities, and short-term bank loans are recorded as financing activities.

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35 Reconciliation to US GAAP (continued)

The application of the US GAAP described would have resulted in the following adjustments:

DKK million	2002	2001	2000	1999	1998
Net turnover (no adjustments)	**25,187**	23,776	20,811	16,423	13,647
Adjustments to net profit:					
Net profit in accordance with Danish GAAP	**4,095**	3,865	3,087	2,001	2,016
a) Employee shares	**(56)**	(213)		(90)	(323)
b) Options and share-based awards	**(20)**	(27)	(93)		
c) Financial instruments	**346**	(139)	327	73	(114)
d) Restructuring costs			(125)	125	
e) Unrealised capital gain on investments in research and development companies	**(236)**	(48)	(19)		
f) Goodwill on investments in research and development companies		(60)			
g) Goodwill amortisation and write-down, Danish GAAP	**88**				
h) Intangible assets amortisation, US GAAP	**(6)**				
Tax on the above-mentioned differences between Danish GAAP and US GAAP *)	**34**	114	(29)	(43)	38
Net profit from continuing operations in accordance with US GAAP	**4,245**	3,492	3,148	2,066	1,617
i) Net profit from discontinued operations (Novozymes)			408	392	284
Net profit in accordance with US GAAP	**4,245**	3,492	3,556	2,458	1,901
Adjustments to shareholders funds:					
Shareholders funds in accordance with Danish GAAP	**22,928**	20,137	16,981	15,876	15,776
d) Restructuring costs				125	
f) Goodwill on investments in research and development companies		(60)			
g) Goodwill amortisation and write-down, Danish GAAP	**28**				
h) Intangible assets amortisation, US GAAP	**(6)**				
i) Net assets of discontinued operations according to US GAAP			3,758	3,350	2,678
i) Net assets of discontinued operations dividend to shareholders			(3,758)		
Tax arising from the difference between Danish GAAP and US GAAP	**(5)**		(105)	(40)	24
Shareholders funds in accordance with US GAAP	**22,945**	20,077	16,876	19,311	18,478

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The Novo Nordisk Group Notes Additional information

35 Reconciliation to US GAAP (continued)

DKK million	2002	2001	2000	1999	1998
Adjustments to balance sheet:					
Total assets in accordance with DK GAAP	**31,496**	28,905	24,920	23,082	22,085
Intangible fixed assets	**22**				
Fixed asset investments		(60)			
Net assets of discontinued operations				3,350	2,678
Total assets in accordance with US GAAP	**31,518**	28,845	24,920	26,432	24,763
Total liabilities and provisions in accordance with DK GAAP	**8,568**	8,768	7,939	7,036	6,285
Provisions	**5**		105		
Current liabilities				85	
Total liabilities and provisions in accordance with US GAAP	**8,573**	8,768	8,044	7,121	6,285
Earnings per share/ADR from continued operations in accordance with US GAAP in DKK	**12.24**	10.10	9.01	5.78	4.36
Earnings per share/ADR diluted from continued operations in accordance with US GAAP in DKK	**12.23**	10.03	8.98	5.69	4.34
Earnings per share/ADR in accordance with US GAAP in DKK	**12.24**	10.10	10.18	6.87	5.12
Earnings per share/ADR diluted in accordance with US GAAP in DKK	**12.23**	10.03	10.14	6.76	5.09
Earnings per ADR from continued operations in USD **)	**1.73**	1.20	1.12	0.72	0.54
Earnings per ADR from continued operations diluted in USD **)	**1.73**	1.19	1.12	0.71	0.54
Earnings per ADR in accordance with US GAAP in USD **)	**1.73**	1.20	1.27	0.85	0.64
Earnings per ADR diluted in accordance with US GAAP in USD **)	**1.73**	1.19	1.26	0.84	0.63
Dividend per share/ADR in DKK	**3.60**	3.35	2.65	1.95	1.55
Dividend per ADR in USD ***)	**0.51**	0.39	0.32	0.25	0.22

*) The tax amount for 2002 include the effect of the tax deduction on the 1998 employee share program allowed by the Danish Supreme Court in 2002.

**) For translation into USD, the exchange rate per 31 December is used.

***) Dividends are translated at Danmarks Nationalbanks (the central bank of Denmark) official exchange rate on the respective payment dates, for 1998 2001. For 2002 proposed dividend is translated using the exchange rate per 31 December 2002. For 31 December 2002 USD 1= DKK 7.0822.

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Profit and loss account Novo Nordisk A/S

DKK million	Note	2002	2001
Net turnover	2	**17,355**	18,347
Production costs	3	**8,275**	7,149
Gross profit		**9,080**	11,198
Sales and distribution costs	3	**2,809**	3,348
Research and development costs	3	**3,417**	3,347
Administrative expenses	3, 4	**806**	789
Licence fees and other operating income (net)	5	**788**	795
Operating profit		**2,836**	4,509
Profit before tax in subsidiaries	10	**2,928**	1,131
Share of profit in associated companies	10	**27**	48
Financial income	6	**696**	457
Financial expenses	6	**187**	115
Profit before taxation		**6,300**	6,030
Income taxes	7	**2,205**	2,165
Net profit		**4,095**	3,865
Proposed appropriation of net profit:			
Dividends		**1,243**	1,161
Net revaluation reserve according to the equity method		**2,688**	190
Retained earnings		**164**	2,514
		4,095	3,865

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Novo Nordisk A/S Balance sheet

DKK million	Note	31 Dec 2002	31 Dec 2001
ASSETS			
Intangible fixed assets	8	**11**	10
Tangible fixed assets	9	**14,298**	11,731
Fixed asset investments	10	**4,595**	1,953
Total fixed assets		**18,904**	13,694
Stocks	11	**5,023**	3,921
Trade debtors		**1,196**	1,155
Amounts owed by affiliated companies		**4,047**	3,360
Tax receivable		**331**	391
Other debtors		**1,270**	1,344
Debtors		**6,844**	6,250
Current asset investments		**306**	1,387
Cash at bank and in hand		**1,158**	1,393
Total current assets		**13,331**	12,951
Total assets		**32,235**	26,645
SHAREHOLDERS FUNDS AND LIABILITIES			
Share capital		**709**	709
Share premium account		**2,565**	2,565
Net revaluation reserve according to the equity method		**3,032**	344
Retained earnings		**16,622**	16,519
Total shareholders funds	12	**22,928**	20,137
Provision for deferred tax (net)		**879**	1,033
Other provisions	13	**349**	309
Total provisions		**1,228**	1,342
Banks and other credit institutions	14	**159**	160
Amounts owed to affiliated companies		**524**	533
Long-term debt		**683**	693
Bank loans		**13**	8
Trade creditors		**560**	594
Amounts owed to affiliated companies		**4,590**	1,519
Other creditors		**2,233**	2,352
Short-term liabilities		**7,396**	4,473
Total long-term debt and short-term liabilities		**8,079**	5,166
Total shareholders funds and liabilities		**32,235**	26,645

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Notes Profit and loss account Novo Nordisk A/S

1 Accounting policies

The parent company financial statements have been prepared in accordance with the Danish Financial Statements Act, Danish Accounting Standard and other accounting regulations for companies listed on the Copenhagen Stock Exchange.

The accounting policies for the parent company are the same as for the Group with the following additions. For a description of the accounting policies of the Group please see note 1 in the Consolidated financial statements.

SUPPLEMENTARY ACCOUNTING POLICIES FOR THE PARENT COMPANY

FIXED ASSET INVESTMENTS In the parent company financial statements investments in subsidiaries and associated companies are recorded under the equity method, ie at the respective share of the net assets in subsidiaries or associated companies. Any cost in excess of net assets in the acquired company is capitalised in the parent company under Fixed asset investments as part of investments in subsidiaries (Goodwill). For amortisation of goodwill, see Intangible fixed assets in note 1 to the Consolidated financial statements.

Net profit of subsidiaries less unrealised intercompany profits is recognised in the profit and loss account of the parent company.

To the extent it exceeds declared dividends from such companies, net revaluation of investments in subsidiaries and associated companies is transferred to net revaluation reserve according to the equity method under shareholders funds.

CASH FLOW STATEMENT No separate cash flow statement has been prepared for the parent company please see the Consolidated cash flow statement.

2 Net turnover

DKK million	**2002**	**2001**
Net turnover by therapy areas:		
Diabetes care	**14,432**	12,985
Haemostasis management (NovoSeven®) *)		2,335
Growth hormone therapy	**1,481**	1,549
Hormone replacement therapy	**1,055**	1,065
Other	**387**	413
Total net turnover	**17,355**	18,347
Net turnover by geographical areas **):		
Europe	**8,984**	8,607

	Minimum lease payments	
Estimated unguaranteed residual value (1)	$135,352	$93,840
Initial direct costs, net of amortization (2)	11,246	13,001
Less: Unearned lease income	847	859
Investment in direct financing and sales-type leases—net	(12,224)	(9,360)
	$135,221	$98,340

(1) Includes estimated unguaranteed residual values of $2,457 thousand and $1,790 thousand as of March 31, 2010 and 2009, respectively, for direct financing leases which have been sold and accounted for as sales under Codification Topic Transfers and Servicing.

(2) Initial direct costs are shown net of amortization of $810 thousand and $940 thousand as of March 31, 2010 and 2009, respectively.

Future scheduled minimum lease rental payments as of March 31, 2010 are as follows (in thousands):

Year ending March 31, 2011	$79,527
2012	38,883
2013	12,257
2014	3,272
2015 and thereafter	1,413
Total	$135,352

Our net investment in direct financing and sales-type leases is collateral for non-recourse and recourse equipment notes. See Note 7, “Recourse and Non-Recourse Notes Payable.”

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INVESTMENT IN OPERATING LEASE EQUIPMENT—NET

Investment in operating lease equipment—net primarily represents leases that do not qualify as direct financing leases or are leases that are short-term renewals on a month-to-month basis. The components of the net investment in operating lease equipment—net are as follows:

	As of	
	March 31, 2010	March 31, 2009
	(in thousands)	
Cost of equipment under operating leases	$ 46,639	$ 53,227
Less: Accumulated depreciation and amortization	(26,377)	(30,712)
Investment in operating lease equipment—net (1)	$ 20,262	$ 22,515

(1) Includes estimated unguaranteed residual values of $9,750 thousand and $14,178 thousand as of March 31, 2010 and March 31, 2009, respectively, for operating leases.

During the years ended March 31, 2010 and March 31, 2009, we sold portions of our lease portfolio. The sales were reflected on our Consolidated Financial Statements as sales of leased equipment totaling approximately $5.4 million and $4.6 million, and cost of leased equipment of $5.3 million and $4.4 million for the year ended March 31, 2010 and March 31, 2009, respectively. There was a corresponding reduction of investment in leases and leased equipment—net of $5.3 million and $4.4 million at March 31, 2010 and 2009, respectively.

Future scheduled minimum lease rental payments as of March 31, 2010 are as follows (in thousands):

Year ending March 31, 2011	$7,288
2012	3,672
2013	2,299
2014	862
2015 and thereafter	181
Total	$14,302

3. IMPAIRMENT OF GOODWILL

Goodwill is recorded in excess of the purchase price over the fair value of the identifiable net assets acquired in purchase transactions. Our annual impairment test for goodwill is performed during the third quarter of our fiscal year, or when events or circumstances indicate there might be impairment, and follows the two-step process prescribed in Intangibles- Goodwill and Other. We have two reportable segments based on the product and services offered – the financing business segment and the technology sales business segment. Below business segments are reporting units. Based on the nature of products, the nature of production, the type of customers and management, we have four reporting units. Our reporting units are Leasing, Technology, Software Procurement and Software Document Management, three of which contained goodwill as of October 1, 2009. During the year ended March 31, 2010, we recognized a goodwill impairment charge in the amount of $4.0 million for our Leasing reporting unit, leaving no goodwill remaining in the Leasing reporting unit. The following table summarizes the amount of goodwill allocated to our reporting units:

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	Financing Business Segment	Technology Sales Business Segment			
	Leasing	Technology	Software Procurement	Software Document Management	Total
Balance April 1, 2009					
Goodwill	$ 4,029	$ 16,483	$ 4,644	$ 1,089	$ 26,245
Accumulated impairment losses	-	-	(4,644)	-	(4,644)
	4,029	16,483	-	1,089	21,601
Impairment of goodwill	(4,029)	-	-	-	(4,029)
Balance March 31, 2010					
Goodwill	4,029	16,483	4,644	1,089	26,245
Accumulated impairment losses	(4,029)	-	(4,644)	-	(8,673)
	$ -	$ 16,483	$ -	$ 1,089	$ 17,572

During the third quarter of our fiscal year, we perform our annual goodwill impairment test. The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including prices for similar assets and liabilities and other valuation techniques. We employed both the market approach and the income approach to determine fair value. The market approach measures the value of an entity through an analysis of recent sales or by comparison to comparable companies. The income approach measures the value of reporting units by discounting expected future cash flows.

Consideration was given to applying the transaction method which examines sales of stock of private or public companies, which are in the same industry or similar lines of business and are of comparable size and capital structure. However, we concluded that there were insufficient transactions of similar firms with available current financial information to make a valid comparison.

Under the market approach, we used the guideline public company method whereby valuation multiples of guideline companies were applied to the historical financial data of our reporting units. We analyzed companies that were in the same industry, performed the same or similar services, had similar operations, and are considered competitors. In addition, the majority of the companies selected were also used in the impairment test performed last year.

Multiples that related to some level of earnings or cash flow were most appropriate for the industry in which we operate. The multiples selected were based on our analysis of the guideline companies' profitability ratios and return to investors. We compared the reporting units' size and ranking against the guidelines, taking into consideration risk, profitability and growth along with guideline medians and averages. We then selected pricing multiples, adjusted appropriately for size and risk, to apply to the reporting unit's trailing twelve month financial data.

Multiples were weighted based on the consistency and comparability of the guideline companies along with the respective reporting units, including margins, profitability and leverage. For each of the reporting units, we used the following multiples: the price to earnings before tax ("EBT"), price to net income ("NI"), market value of invested capital ("MVIC") to earnings before interest, taxes, depreciation and amortization ("EBITDA"), and MVIC to earnings before interest and taxes ("EBIT").

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Under the income approach, we used the discounted future cash flow method to estimate the fair value of each of the reporting units by discounting the expected future cash flows of the reporting units. We used the weighted average cost of capital to discount the expected future cash flows for the reporting unit to its present value. The weighted average cost of capital is the estimated rate of return on alternative investments with comparable risks. The weighted average cost of capital involves estimating the cost of debt and the cost of equity. In addition, we also considered factors such as risk-free rate of return, market equity risk premium, beta coefficient and firm specific risk. We estimated our weighted average cost of capital at 8.3%, 12.9% and 13.6% for the Leasing, Technology and Software document management reporting units, respectively. In addition, we estimated the average annual compound cash flow growth rate for a five-year period of (3.3%), 11.7% and 21%, for the Leasing, Technology, and Software Document Management reporting units. Also, we estimated a long term growth rate for the Leasing reporting unit of 2.0%, and a long term growth rate 3.5% for both the Technology and Software document management reporting units.

The estimated fair value of our reporting units is dependent on several significant assumptions involving our forecasted cash flows and weighted average cost of capital. The forecasted cash flows are based on management's best estimates of economic and market conditions over the projected period including business plans, growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Any adverse change including a significant decline in our expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated competition; or slower growth rates may impact our ability to meet our forecasted cash flow estimates.

We averaged the results of the income and market methods and compared the estimated fair value to our market capitalization which was computed by multiplying our closing stock price to the shares outstanding on October 1, 2009. Comparison of the average fair values of the reporting units to the overall market value of our equity indicated an implied control premium of 33.5%. This percentage falls within the range of currently observable market data.

During our third quarter when preparing the annual impairment test, the U.S. economy and the global credit crisis weakened the demand for leasing. As a result of this reduced demand and a reduction in our overall portfolio from prior sales of tranches of leases in our portfolio, we projected a temporary decline in revenue in our Leasing reporting unit, which lowered the fair value estimates of the reporting unit using the discounted cash flow method. The result of averaging the estimated fair value computed using the guideline public company and the discounted cash flow methods was that the fair value of the Leasing reporting was below its carrying value.

During the three months ended December 31, 2009, we recorded an estimated impairment charge of $4.0 million in our Leasing reporting unit. This represented the full amount of goodwill recorded for the Leasing reporting unit. We believed that after assigning the fair value of the Leasing reporting unit to all of the assets and liabilities during the second step of the goodwill testing, there would be not be any excess fair value over the amounts assigned to allocate to goodwill. Therefore, the Leasing reporting unit's goodwill was fully impaired at October 1, 2009.

The Technology and Software Document Management reporting units' fair values exceeded their carrying values. Had the fair value been 10% lower than calculated on each of the three reporting units, the results would not have changed for any of the reporting units. The fair value of the Technology reporting unit was 12.2% higher than the carrying value and the fair value of the Software document management reporting unit was 245.8% higher than the carrying value.

During the fourth quarter of fiscal 2010, we performed the second step of the goodwill impairment test in accordance with Codification Topic Intangibles- Goodwill and Other. Based on this analysis, no additional impairment was recorded. We did not have any triggering events between our annual test date and March 31, 2010. We have $16.5 million and $1.1 million of goodwill remaining in our Technology and Software Document Management reporting units, respectively.

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4. RESERVES FOR CREDIT LOSSES

As of March 31, 2010 and 2009, activity in our reserves for credit losses are as follows (in thousands):

	Accounts Receivable	Lease-Related Assets	Total
Balance April 1, 2008	$ 1,702	$ 1,355	$ 3,057
Provision for Bad Debts	(139)	503	364
Recoveries	91	-	91
Write-offs and other	(161)	(259)	(420)
Balance April 1, 2009	$ 1,493	$ 1,599	$ 3,092
Provision for Bad Debts	420	308	728
Recoveries	69	49	118
Write-offs and other	(327)	(26)	(353)
Balance March 31, 2010	$ 1,655	$ 1,930	$ 3,585

Included in our Consolidated Statements of Operations are an increase in bad debt expenses of $728 thousand for the year ended March 31, 2010 and an increase in bad debt expense of $364 thousand for the year ended March 31, 2009.

5. PROPERTY AND EQUIPMENT—NET

Property and equipment—net consists of the following:

	As of	
	March 31, 2010	March 31, 2009
	(in thousands)	
Furniture, fixtures and equipment	$ 8,588	$ 8,542
Vehicles	268	268
Capitalized software	6,447	6,498
Leasehold improvements	2,236	2,167
Less: Accumulated depreciation and amortization	(15,482)	(14,162)
Property and equipment - net	$ 2,057	$ 3,313

For the years ended March 31, 2010 and 2009, depreciation expense on property and equipment—net was $1,775 thousand and $2,139 thousand, respectively.

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6. OTHER ASSETS AND ACCRUED EXPENSES AND OTHER LIABILITIES

Our other assets and accrued expenses and other liabilities consist of the following:

	As of March 31, 2010	March 31, 2009
	(in thousands)	
Deferred costs related to sales of bundled hardware and services	$ 19,879	$ 10,427
Other	7,433	6,382
Other assets	$ 27,312	$ 16,809

	As of March 31, 2010	March 31, 2009
	(in thousands)	
Deferred revenue related to sales of bundled hardware and services	$ 22,289	$ 12,111
Other	18,213	16,891
Accrued expenses and other liabilities	$ 40,502	$ 29,002

Other assets includes deferred costs, prepaid assets, certain intangible assets and intercompany accounts. We had $27.3 million and $16.8 million of other assets as of March 31, 2010 and March 31, 2009, respectively, an increase of 62.5%. This increase is primarily driven by the deferred costs of $19.9 million, an increase of $9.5 million at March 31, 2010, as compared to March 31, 2009. The deferred costs is related to bundled hardware and service arrangements that were not completed by the end of the quarter. We will recognize revenue on multiple deliverable revenue arrangements when service is completed.

Accrued expenses and other liabilities includes deferred expenses, deferred revenue and amounts collected and payable, such as sales taxes and lease rental payments due to third parties. We had $40.5 million and $29.0 million of accrued expenses and other liabilities as of March 31, 2010 and March 31, 2009, respectively, an increase of 39.7%. The increase is primarily driven by deferred revenue of $22.3 million, an increase of $10.2 million at March 31, 2010, as compared to March 31, 2009. The deferred revenue is related to bundled hardware and service arrangements that were not completed by the end of the quarter. We will recognize revenue on multiple deliverable revenue arrangements when service is completed.

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7. RECOURSE AND NON-RECOURSE NOTES PAYABLE

Recourse and non-recourse obligations consist of the following:

	As of	
	March 31, 2010	March 31, 2009
	(in thousands)	
First Bank of Highland Park recourse note payable at 5.5% expires on April 1, 2011 or when the early termination option of a lease is enacted.	$ 102	$ 102
Non-recourse equipment notes secured by related investments in leases with interest rates ranging from 4.00% to 9.50% for the year ended March 31, 2010 and 4.34% to 8.76% for the year ended March 31, 2009.	$ 53,577	$ 84,977

Principal and interest payments on the non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the lessee under the leases that collateralize the notes payable. Under recourse financing, in the event of a default by a lessee, the lender has recourse against the lessee, the equipment serving as collateral, and us. Under non-recourse financing, in the event of a default by a lessee, the lender generally only has recourse against the lessee, and the equipment serving as collateral, but not against us.

Our technology sales business segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation (“GECDF”). This facility provides short-term capital for our reseller business. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $57.6 million and $45.1 million as of March 31, 2010 and March 31, 2009, respectively. Under the accounts receivable component, we had no outstanding balances as of March 31, 2010 and March 31, 2009. As of March 31, 2010, the facility agreement had an aggregate limit of the two components of $125 million, and the accounts receivable component had a sub-limit of $30 million, which bears interest at prime less 0.5%, or 4.75%. Availability under the GECDF facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include, but are not limited to, a minimum total tangible net worth and subordinated debt of ePlus Technology, inc., and maximum debt to tangible net worth ratio of ePlus Technology, inc. We were in compliance with these covenants as of March 31, 2010. Either party may terminate with 90 days’ advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit its ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of up to $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2009, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology sales business and as an operational function of our accounts payable process.

On October 26, 2009, we entered into an agreement with 1st Commonwealth Bank of Virginia to provide us with a $0.5 million credit facility, which will mature on October 26, 2010. This credit facility is available for use by us and our affiliates and the lender has full recourse to us. Borrowings under this facility bear interest at the Wall Street Journal U.S. Prime rate plus 1%. The primary purpose of the facility is to provide letters of credit for landlords, taxing authorities and bids. As of March 31, 2010, we have no outstanding balance on this credit facility.

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National City Bank (a wholly-owned subsidiary of PNC Financial Services Group, Inc.) provided a credit facility which could have been used for all ePlus inc.'s subsidiaries. This credit facility expired July 10, 2009. Borrowings under our $35 million line of credit from National City Bank were subject to certain covenants. We had no balance on this facility as of the expiration date.

Non-recourse notes payable as of March 31, 2010, mature as follows:

	Non-Recourse Notes Payable (in thousands)
Year ending March 31, 2011	$ 32,659
2012	13,215
2013	5,147
2014	2,265
2015 and thereafter	291
	$ 53,577

8. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2010, we leased approximately 55,880 square feet for use as our principal headquarters from Norton Building 1, LLC for a monthly payment of approximately $102 thousand which includes rent and operating expenses. Norton Building 1, LLC is a limited liability company owned in part by Mr. Norton's spouse and in part in trust for his children. Mr. Norton, our President and CEO, has no managerial or executive role in Norton Building 1, LLC. On June 18, 2009, we entered into Amendment No. 2 to the office lease agreement with Norton Building 1, LLC pursuant to which we will continue to lease 55,880 square feet for use as our principal headquarters. The term of the amended lease began on January 1, 2010, and will continue through December 31, 2014. In addition, we have the right to terminate the lease on December 31, 2012 in the event that the facility no longer meets our needs, by giving six months' prior written notice, with no penalty fee. The annual base rent, which includes an expenses factor, is $21.50 per square foot for the first year, with an annual rent escalation for operating cost increases, if any, plus 2.75% of the annual base rent, net of the expenses factor, for each year thereafter. The amended lease was approved by the Nominating and Corporate Governance Committee in accordance with our Related Person Transactions Policy, and was subsequently approved by our Board of Directors, with Mr. Norton abstaining. We paid rent, which includes operating expenses, in the amount of $1,220 thousand during the year ended March 31, 2010, and $1,126 thousand during the same period in 2009.

9. COMMITMENTS AND CONTINGENCIES

We lease office space and certain office equipment to conduct our business. Annual rent expense relating to these operating leases was $2.4 million for the year ended March 31, 2010 and $2.7 million for the year ended March 31, 2009. As of March 31, 2010, the future minimum lease payments are due as follows (in thousands):

	(in thousands)
Year ended March 31, 2011	$ 1,628
2012	1,135
2013	971
2014	740

2015	560
	$ 5,034

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Litigation

We have been involved in several matters relating to a customer named Cyberco Holdings, Inc. ("Cyberco"). The Cyberco principals were perpetrating a scam, and at least five principals have pled guilty to criminal conspiracy and/or related charges, including bank fraud, mail fraud and money laundering. One lender who financed our transaction with Cyberco, Banc of America Leasing and Capital, LLC ("BoA"), filed a lawsuit against ePlus inc. in the Circuit Court for Fairfax County, Virginia on November 3, 2006, seeking to enforce a guaranty in which ePlus inc. guaranteed ePlus Group's obligations to BoA relating to the Cyberco transaction. Although discovery has not begun, we believe the suit against ePlus inc. seeks attorneys' fees BoA incurred in ePlus Group's appeal of BoA's suit against ePlus Group, expenses BoA incurred in Cyberco's bankruptcy proceedings, and other attorneys' fees BoA has incurred relating in any way to the Cyberco matter. ePlus Group has already paid to BoA $4.3 million, which was awarded to BoA in a prior lawsuit regarding the Cyberco matter. The suit has been stayed pending the resolution of other Cyberco-related matters. We are vigorously defending this suit. As we do not believe a loss is probable or the amount is reasonably estimable, we have not accrued for this matter.

The shareholder derivative action that was filed against us in 2007 has been concluded. In April 2010, a Stipulation of Dismissal was filed with the United States Court of Appeals for the District of Columbia Circuit, dismissing the plaintiff's appeal of the trial court's dismissal of the action. The suit, which related to stock option practices, named ePlus inc. as nominal defendant and personally named eight individual defendants who at the time were directors and/or executive officers of ePlus.

On May 19, 2009, we filed a complaint in the United States District Court for the Eastern District of Virginia against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. During July and August 2009, we entered into settlement and license agreements with three of the defendants. Pursuant to the settlement agreements, we received payments in the aggregate amount of approximately $3.5 million, and the complaint has been dismissed with prejudice with regard to those three defendants. The settlement agreements also grant each of those defendants a license in specified ePlus patents. With regard to the remaining defendant, we are seeking injunctive relief and an unspecified amount of monetary damages. While we believe that we have a basis for our claims, these types of cases are complex in nature, are likely to have significant expenses associated with them, and we cannot predict whether we will be successful in our claims for damages, whether any award ultimately received will exceed the costs incurred to pursue these matters, or how long it will take to bring these matters to resolution.

We are also engaged in other ordinary and routine litigation incidental to our business. While we cannot predict the outcome of these various legal proceedings, management does not believe that the ultimate resolution will have a material effect on our financial condition, results of operations, or cash flows.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the basic weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net income by the basic weighted average number of shares of common stock outstanding plus incremental shares issuable upon the assumed exercise of "in-the-money" stock options and other common stock equivalents during each period.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net income per common share as disclosed on our Consolidated Statements of Operations for the year ended March 31, 2010 and March 31, 2009 (in thousands, except per share data):

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	Year ended March 31,	
	2010	2009
Net income available to common shareholders—basic and diluted	$ 12,745	$ 12,829
Weighted average shares outstanding — basic	8,267	8,219
Effect of dilutive shares	202	234
Weighted average shares outstanding — diluted	$ 8,469	$ 8,453
Income per common share:		
Basic	$ 1.54	$ 1.56
Diluted	$ 1.50	$ 1.52

Unexercised employee stock options to purchase 151,000 and 282,500 shares of our common stock were not included in the computations of diluted EPS for the year ended March 31, 2010 and March 31, 2009, respectively. These options were excluded because the options' exercise prices were greater than the average market price of our common stock during the applicable periods. Inclusion of these options in our diluted EPS calculation would have been anti-dilutive.

11. INCOME TAXES

We account for our tax position in accordance with Codification Topic Income Taxes. Under the guidance, we evaluate our uncertain tax position based on the two-step approach. The first step is to evaluate each uncertain tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained in an audit, including resolution of related appeals or litigation processes, if any. For tax positions that are more likely than not of being sustained upon audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement.

As of March 31, 2009, we had $525 thousand of total gross unrecognized tax benefits. This amount consists of $64 thousand recorded in accordance with Codification Topic Contingencies prior to the implementation of uncertain income tax position, and $461 thousand recorded for uncertain income tax position in accordance with Income Taxes in the Codification. During the year ended March 31, 2010, we filed Amended Tax Returns for the period ending March 31, 2005 and March 31, 2007, which reduced this liability by $64 thousand.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

	March 31, 2010	March 31, 2009
Beginning Balance	$ 525	$ 712
Additions based on positions related to current year	-	-
Additions for tax positions of prior years	-	-
Reductions for settlement of tax positions of prior years	(64)	(187)
Ending Balance	$ 461	$ 525

At March 31, 2010, if the unrecognized tax benefits of $461 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would have been $583 thousand. At March 31, 2009, if the unrecognized tax benefits of $525 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would have been $561 thousand.

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In accordance with our accounting policy, we recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the fiscal years ended March 31, 2010 and 2009, we recognized $35 thousand and $43 thousand, respectively, of interest related to uncertain tax positions, and did not recognize any additional penalties. We had $128 thousand and $93 thousand accrued for the payment of interest and penalties at March 31, 2010 and 2009, respectively.

We file income tax returns, including returns for our subsidiaries, with federal, state, local, and foreign jurisdictions. Tax years 2006, 2007 and 2008 are subjected to examination by federal and state taxing authorities. Various state and local income tax returns are also under examination by taxing authorities. We do not believe that the outcome of any examination will have a material impact on our financial statements.

A reconciliation of income taxes computed at the statutory federal income tax rate of 35% to the provision for income taxes included in the Consolidated Statements of Operations is as follows (in thousands, except percentages):

	For the Year Ended March 31,			
	2010		2009	
	(in thousands)			
Statutory federal income tax rate	35	%	35	%
Income tax expense computed at the U.S. statutory federal rate	$ 7,379		$ 7,717	
State income tax expense—net of federal benefit	865		1,170	
Non-deductible executive compensation	264		-	
Share based compensation	-		60	
Other	(171)		272	
Provision for income taxes	$ 8,337		$ 9,219	
Effective income tax rate	39.6	%	41.8	%

The components of the provision for income taxes are as follows (in thousands):

	For the Year Ended March 31,	
	2010	2009
	(in thousands)	
Current:		
Federal	$ 7,760	$ 6,975
State	1,698	1,681
Foreign	33	283
Total current expense	9,491	8,939
Deferred:		
Federal	(865)	118
State	(289)	162
Total deferred expense (benefit)	(1,154)	280
Provision for income taxes	$ 8,337	$ 9,219

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities were as follows (in thousands):

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	For the Year Ended March 31,	
	2010	2009
	(in thousands)	
Deferred Tax Assets:		
Accrued vacation	$ 1,037	$ 940
Provision for bad debts	1,325	1,203
State net operating loss carryforward	1,210	748
Basis difference in fixed assets	539	851
Book compensation on discounted stock options	793	1,253
Deferred compensation	637	567
Deferred revenue	247	255
Foreign tax credit	40	194
Other accruals and reserves	768	959
Gross deferred tax assets	6,596	6,970
Less: valuation allowance	(1,250)	(941)
Net deferred tax assets	5,346	6,029
Deferred Tax Liabilities:		
Basis difference in operating lease items	(6,820)	(7,658)
Basis difference in tax deductible goodwill	(329)	(1,328)
Total deferred tax liabilities	(7,149)	(8,986)
Net deferred tax liabilities	$ (1,803)	$ (2,957)

The net effective income tax rate for the year ended March 31, 2010 was 39.6%, decreased from 41.8% of the previous fiscal year. The decrease in effective income tax rate is primarily due to a reduction in state income tax, partially offset by an increase in non-deductible compensation expense.

We have state net operating losses of approximately $25.0 million, which will begin to expire in the year 2022. We also have foreign tax credit carryforwards of approximately $40 thousand. Credits will begin to expire at March 31, 2015.

The valuation allowance of $1,250 thousand resulted from management's determination, based on available evidence, that it was more likely than not that the foreign tax credit deferred tax asset of $40 thousand and state net operating loss deferred tax asset balance of $1,210 thousand may not be realized.

12. SHARE REPURCHASE

On August 11, 2009, our Board authorized a share repurchase plan commencing on September 16, 2009. The share repurchase plan is for a 12-month period ending September 15, 2010 for up to 500,000 shares of ePlus' outstanding common stock. The previous stock repurchase program commenced on July 31, 2008 and expired on September 15, 2009. On February 12, 2010, our Board amended the current share repurchase plan, which commenced September 16, 2009. Under the plan, as amended the Company may repurchase up to 500,000 shares of ePlus' outstanding common stock beginning February 15, 2010 through September 15, 2010. The purchases may be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes.

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During the year ended March 31, 2010, we repurchased 377,967 shares of our outstanding common stock at an average cost of $16.18 per share for a total purchase price of $6.1 million. Since the inception of our initial repurchase program on September 20, 2001, as of March 31, 2010, we have repurchased 3,793,621shares of our outstanding common stock at an average cost of $11.43 per share for a total purchase price of $43.3 million.

13. SHARE-BASED COMPENSATION

Share-Based Plans

We have issued share-based awards under the following plans: (1) the 1998 Long-Term Incentive Plan (the “1998 LTIP”), (2) Amendment and Restatement of the 1998 Stock Incentive Plan (2001) (the “Amended LTIP (2001)”), (3) Amendment and Restatement of the 1998 Stock Incentive Plan (2003) (the “Amended LTIP (2003)”), (4) the 2008 Non-Employee Director Long-Term Incentive Plan (“2008 Director LTIP”) and (5) the 2008 Employee Long-Term Incentive Plan (“2008 Employee LTIP”). Currently, awards are only issued under the 2008 Director LTIP and the 2008 Employee LTIP. Sections of these plans are summarized below. All the share-based plans require the use of the previous trading day's closing price when the grant date falls on a date the stock was not traded.

Vesting periods varied for the 1998 LTIP, the Amended LTIP (2001), and the Amended LTIP (2003) depending on individual award agreement. Vesting periods for the 2008 Director LTIP and the 2008 Employee LTIP are discussed below.

1998 Long-Term Incentive Plan

The 1998 LTIP was adopted by the Board on July 28, 1998, which is its effective date, and approved by the shareholders on September 16, 1998. The allowable number of shares under the 1998 LTIP was 20% of the outstanding shares, less shares previously granted and shares purchased through our then-existing employee stock purchase program. It specified that options shall be priced at not less than fair market value. The 1998 LTIP consolidated our preexisting stock incentive plans and made the Compensation Committee of the Board of Directors (“Compensation Committee”) responsible for its administration. The 1998 LTIP required that grants be evidenced in writing, but the writing was not a condition precedent to the grant of the award.

Under the 1998 LTIP, options were to be automatically awarded to non-employee directors the day after the annual shareholders meeting to all non-employee directors in service as of that day. No automatic annual grants may be awarded under the LTIP after September 1, 2006. The LTIP also permits for discretionary option awards to directors.

Amended and Restated 1998 Long-Term Incentive Plan

Minor amendments were made to the 1998 LTIP on April 1, April 17 and April 30, 2001. The amendments change the name of the plan from the 1998 Long-Term Incentive Plan to the Amended and Restated 1998 Long-Term Incentive Plan. In addition, provisions were added “to allow the Compensation Committee to delegate to a single board member the authority to make awards to non-Section 16 insiders, as a matter of convenience,” and to provide that “no option granted under the Plan may be exercisable for more than ten years from the date of its grant.”
The Amended LTIP (2001) was amended on July 15, 2003 by the Board and approved by the stockholders on September 18, 2003. Primarily, the amendment modified the aggregate number of shares available under the plan to a fixed number (3,000,000). Although the language varies somewhat from earlier plans, it permits the Board or Compensation Committee to delegate authority to a committee of one or more directors who are also officers of the corporation to award options under certain conditions. The Amended LTIP (2003) replaced all the prior plans, and covered option grants for employees, executives and outside directors.

On September 15, 2008, our shareholders approved the 2008 Director LTIP and the 2008 Employee LTIP. Both of the plans were adopted by the Board on June 25, 2008. As a result of the approval of these plans, we do not intend to grant any awards under the Amended LTIP (2003) or any earlier plan.

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2008 Non-Employee Director Plan

Under the 2008 Director LTIP, 250,000 shares were authorized for grant to non-employee directors. The purpose of the 2008 Director LTIP is to align the economic interests of the directors with the interests of shareholders by including equity as a component of pay and to attract, motivate and retain experienced and knowledgeable directors. Under the 2008 Director LTIP, each non-employee director received a one-time grant of a number of restricted shares of common stock having a grant-date fair value of $35 thousand. The grant-date fair value for this one-time grant was determined based on the share closing price on September 25, 2008. In addition, each director will receive an annual grant of restricted stock having a grant-date fair value equal to the cash compensation earned by an outside director during our fiscal year ended immediately before the respective annual grant-date. Directors may elect to receive their cash compensation in restricted stock. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. Half of these shares will vest on the one-year and second-year anniversary from the date of the grant.

2008 Employee Long-Term Incentive Plan

Under the 2008 Employee LTIP, 1,000,000 shares were authorized for grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, or other share-based awards to ePlus employees. The purposes of the 2008 Employee LTIP are to encourage our employees to acquire a proprietary interest in the growth and performance of ePlus, thus enhancing the value of ePlus for the benefit of its stockholders, and to enhance our ability to attract and retain exceptionally qualified individuals. The 2008 Employee LTIP is administered by the Compensation Committee. Shares issuable under the 2008 Employee LTIP may consist of authorized but unissued shares or shares held in our treasury. Shares under the 2008 Employee LTIP will not be used to compensate our outside directors, who may be compensated under the separate 2008 Director LTIP, as discussed above. Under the 2008 Employee LTIP, the Compensation Committee will determine the time and method of exercise of the awards.

Stock Option Activity

During the years ended March 31, 2010 and March 31, 2009, there were no stock options granted to employees and all options were vested. We issue shares from our authorized but unissued common stock to satisfy stock option exercises.

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A summary of stock option activity during the two years ended March 31, 2010 is as follows:

	Number of Shares	Exercise Price Range	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (in years)	Aggregate Intrinsic Value
Outstanding, April 1, 2008	1,240,813	6.23 - $$17.38	$9.78		
Options exercised	(293,436)	6.24 - $$9.31	$7.92		
Options forfeited	(39,087)	6.86 - $$17.38	$11.65		
Outstanding, March 31, 2009	908,290	6.23 - $$17.38	$10.29	2.2	$2,403,133
Vested at March 31, 2009	908,290		$10.29	2.2	$2,403,133
Exercisable at March 31, 2009	908,290		$10.29	2.2	$2,403,133
Outstanding, April 1, 2009	908,290	6.86 - $$17.38	$10.29	2.2	$2,403,133
Options exercised (1)	(393,690)	6.86 - $$13.00	$7.89		$2,956,560
Options forfeited	(6,900)	9.00 - $$17.38	$15.07		
Outstanding, March 31, 2010	507,700	6.86 - $$17.38	$12.09	2.3	$2,770,219
Vested at March 31, 2010	507,700		$12.09	2.3	$2,770,219
Exercisable at March 31, 2010	507,700		$12.09	2.3	$2,770,219

(1) The total intrinsic value of stock options exercised during the year ended March 31, 2010 was $3.0 million.

Additional information regarding options outstanding as of March 31, 2010 is as follows:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Contractual Life Remaining
$6.86 - $9.00	193,700	$ 7.25	1.7
$9.01 - $13.50	123,000	$ 12.22	5.0
$13.51 - $17.38	191,000	$ 16.93	1.1

$6.86 - $17.38	507,700	$ 12.09	2.3

Restricted Stock Activity

Under the 2008 Director LTIP, each director will receive an annual grant of restricted stock having a grant-date fair value equal to the cash compensation earned by an outside director during our fiscal year ended immediately before the respective annual grant-date. Directors may elect to receive their cash compensation in restricted stock. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. These shares will vest over a two-year period and we will recognize share-based compensation expense over the service period. We estimate the forfeiture rate of the restricted stock to be zero. As of March 31, 2010, we have granted 59,427 shares under the 2008 Director LTIP.

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Under the 2008 Employee LTIP, employees may receive grants of restricted stock as determined by the Compensation Committee. These restricted shares are prohibited from being sold, transferred, assigned, pledged or otherwise encumbered or disposed of. The vesting schedule of restricted stock will be determined by the Compensation Committee, at its discretion. We estimate the forfeiture rate of the restricted stock to be zero. As of March 31, 2010, we have granted 85,000 restricted shares under the 2008 Employee LTIP.

A summary of restricted stock activity during the year ended March 31, 2010 is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Outstanding, April 1, 2009	38,532	$ 10.90
Shares granted (1)(2)(3)	105,895	$ 15.72
Shares forfeited	-	
Outstanding, March 31, 2010	144,427	$ 14.43

(1) Three of our non-employee directors received restricted shares in lieu of their quarterly cash compensation. Therefore, during the three months ended June 30, 2009, September 30, 2009, December 31, 2009 and March 31, 2010, the directors were issued 748 shares each with a grant-date fair value of $11.69 per share, 587 shares each with a grant-date value of $14.91 per share, 569 shares each with a grant-date value of $15.36 per share, and 523 shares each with a grant-date value of $16.73 per share, respectively.

(2) Includes an annual grant of restricted shares to all six of our non-employee directors of 2,269 shares each with a grant-date value of $15.42 per share.

(3) Includes grants of 85,000 restricted shares to employees with a grant-date value of $15.88 per share. One third of these shares will vest on the one-year, second-year and third-year anniversary from the date of the grant.

A summary of the nonvested restricted shares activity is presented as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Nonvested April 1, 2009	38,532	$ 10.90
Granted	105,895	$ 15.72
Vested	(19,272)	$ 10.90
Forefeited	-	
Nonvested March 31, 2010	125,155	$ 14.98

Share-based Compensation Expense

Share-based compensation expense for stock options is calculated by valuing all options at their grant-date fair value using the Black-Scholes option-pricing model. The Black-Scholes model uses various assumptions to estimate the fair value of these options, including: historical volatility of our stock, risk-free interest rate, and estimated forfeitures rates. The estimated fair values of these options are then amortized using the straight-line method as compensation cost over the requisite service period. Share-based compensation expense for restricted stock is calculated by multiplying the shares granted by the closing price of the shares on the date of the awards and amortizing it over the

vesting period.

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During the year ended March 31, 2010, we recognized $474 thousand of total share-based compensation expense, all of which was related to restricted stock. This amount was recorded as salaries and benefits in our Consolidated Statements of Operations.

During the year ended March 31, 2009, we recognized $166 thousand of total share-based compensation expense. Shared-based compensation recognized for the restricted stock was approximately $109 thousand for the year ended March 31, 2009. Share-based compensation expense related to stock options was $58 thousand for the year ended March 31, 2009. This amount was recognized as salaries and benefits in our Consolidated Statement of Operations.

At March 31, 2010, there was no unrecognized compensation expense related to nonvested options because all the options were vested. Unrecognized compensation expense related to the restricted stock was $1.5 million which will be fully recognized over the next 33 months.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with Codification Topic Fair Value Measurement and Disclosure. Accordingly, we established a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. For additional information, see Note 1, “Organization and Summary of Significant Accounting Policies” included elsewhere in this report. The following table summarizes the fair value hierarchy of our financial instruments:

		Fair Value Measurement Using			
	March 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Goodwill	$ 17,573			$ 17,573	$ (4,029)
Liabilities:					
Non-recourse notes payable	$ 53,577		$ 53,333		$ 244
Recourse notes payable	$ 102		$ 102		

		Fair Value Measurement Using			
	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Goodwill	$ 21,601			$ 21,601	$(4,644)
Liabilities:					
Non-recourse notes payable	$ 84,977		$84,551		$426
Recourse notes payable	$ 102		$102		

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The carrying value of $17.6 million for goodwill in our Consolidated Balance Sheets as of March 31, 2010, is net of an impairment charge of $4.0 million related to our Leasing reporting unit. This impairment charge was included in our Consolidated Statement of Operations for the year ended March 31, 2010. In accordance with the provision of Intangibles – Goodwill and Other, goodwill with a carrying amount of $4.0 million for our Leasing reporting unit was written down to its implied fair value of zero, resulting in an estimated impairment charge of $4.0 million. The carrying value of $53.6 million for non-recourse notes payable approximate the fair value of $53.3 million.

15. SEGMENT REPORTING

We manage our business segments on the basis of the products and services offered. Our reportable segments consist of our technology sales business segment and our financing business segment. The technology sales business unit sells information technology equipment and software and related services primarily to corporate customers on a nationwide basis. The technology sales business unit also provides Internet-based business-to-business supply chain management solutions for information technology and other operating resources. The financing business unit offers lease-financing solutions to corporations and governmental entities nationwide. We evaluate segment performance on the basis of segment revenue and earnings.

Both segments utilize our proprietary software and services within the organization. Sales and services and related costs of our software are included in the technology sales business segment.

	Year ended March 31, 2010			Year ended March 31, 2009		
	Technology Sales Business Segment	Financing Business Segment	Total	Technology Sales Business Segment	Financing Business Segment	Total
Sales of product and services	$625,607	$2,177	$627,784	$632,227	$3,915	$636,142
Sales of leased equipment	-	5,413	5,413	-	4,633	4,633
Lease revenues	-	37,908	37,908	-	44,483	44,483
Fee and other income	9,011	610	9,621			
Patent and license settlement income	3,525	-	3,525	11,356	1,413	12,769
Total revenues	638,143	46,108	684,251	643,583	54,444	698,027
Cost of sales	537,128	7,392	544,520	544,721	7,687	552,408
Direct lease costs	-	10,676	10,676	-	14,220	14,220
Selling, general and administrative expenses	86,409	13,400	99,809	83,458	15,441	98,899
Impairment of goodwill	-	4,029	4,029	4,644	-	4,644
Segment earnings	14,606	10,611	25,217	10,760	17,096	27,856
Interest and financing costs	77	4,058	4,135	120	5,688	5,808
Earnings before income taxes	$14,529	$6,553	$21,082	$10,640	$11,408	$22,048
Assets	$193,194	$212,437	$405,631	$181,098	$182,774	$363,872

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Included in the technology sales business segment above are inter-segment accounts payable of $37.8 million and $35.1 million for the years ended March 31, 2010 and 2009, respectively. Included in the financing business segment above are inter-segment accounts receivable of $37.8 million and $35.1 million for the years ended March 31, 2010 and 2009, respectively.

Our technology sales business segment sells products to our financing business segment. For the year ended March 31, 2010, we eliminated revenue of $2.1 million, in our technology sales business segment as a result of these intersegment transactions. For the year ended March 31, 2009, we eliminated revenue of $1.8million, in our technology sales business segment as a result of these intersegment transactions.

During the year ended March 31, 2010, we recorded an impairment of goodwill in the amount of $4.0 million in our financing business segment. During the year ended March 31, 2009, we recorded an impairment of goodwill in the amount of $4.6 million in our software procurement reporting unit, which is part of our technology sales business segment.

16. QUARTERLY DATA —UNAUDITED

Condensed quarterly financial information is as follows (amounts in thousands, except per share amounts).

	Year Ended March 31, 2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Sales	$141,938	$158,059	$163,178	$170,022	$633,197
Total revenues	152,420	172,715	178,711	180,405	684,251
Cost of Sales	121,981	135,139	141,234	146,165	544,519
Total costs and expenses	149,082	163,916	174,687	175,484	663,169
Earnings before provision for income taxes	3,338	8,799	4,024	4,921	21,082
Provision for income taxes	1,437	3,801	1,708	1,391	8,337
Net earnings	$1,901	$4,998	$2,316	$3,530	$12,745
Net earnings per common share—Basic	$0.23	$0.61	$0.27	$0.43	$1.54
Net earnings per common share—Diluted	$0.23	$0.58	$0.27	$0.42	$1.50

	Year Ended March 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Amount
Sales	$167,024	$181,673	$171,557	$120,521	$640,775
Total revenues	182,286	196,858	184,724	134,159	698,027
Cost of Sales	144,943	156,448	146,224	104,793	552,408
Total costs and expenses	176,019	186,029	181,316	132,615	675,979

Earnings before provision for income taxes	6,267	10,829	3,408	1,544	22,048
Provision for income taxes	2,574	4,409	1,446	790	9,219
Net earnings	$3,693	$6,420	$1,962	$754	$12,829
Net earnings per common share—Basic	$0.45	$0.77	$0.24	$0.10	$1.56
Net earnings per common share—Diluted	$0.43	$0.74	$0.24	$0.10	$1.52

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17. LEGAL SETTLEMENT

On May 19, 2009, we filed a complaint in the United States District Court for the Eastern District of Virginia against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. During July and August 2009, we entered into settlement and license agreements with three of the defendants which granted each of those defendants a license in specified ePlus patents. Pursuant to the settlement agreements, we received payments in the aggregate amount of approximately $3.5 million, and the complaint was dismissed with prejudice with regard to those three defendants. We do not anticipate incurring any additional costs arising as a result of these settlement agreements and there are no further actions to be taken by us. We recognize the related legal fees and expenses as they incur in the accompanying Consolidated Statements of Operations.

In addition, one of the above-referenced settlement agreements included an additional payment of $125 thousand due on or before October 20, 2010. This payment has not been recognized in our Consolidated Statements of Operations because collectability is not reasonably assured. If this payment is not received in accordance with the terms of the settlement agreement, the patent license automatically terminates.