Annual Report 1997/98

Coloplast

Contents

The Annual General Meeting will be held at the Radisson SAS Falconer Center Copenhagen, Denmark, on 14 December 1998 at 3 pm.

Enquiries from investors and analysts should be addressed to Group Director Carsten Lønfeldt and Corporate Communications Manager Carsten Foghsgaard.

Financial year:
1 October 1997 – 30 September 1998

Works by Bent Holstein are included in this report. For details on the artist and his works, please see page 42.

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Coloplast – in brief

Coloplast was founded in 1957. The company's shares were listed at the Copenhagen Stock Exchange in 1983. Coloplast develops, manufactures and markets medical disposables helping people overcome a physical impairment. Based on skin-friendly adhesives, medical devices have been developed within six business areas:

- ostomy products for people whose intestinal outlet has been surgically rerouted to the stomach
- incontinence products for people with bladder control problems
- dressings for chronic wounds
- skin care products for prevention and treatment
- breast forms and special textiles for women after breast surgery
- special dressings for the consumer products market.

The market

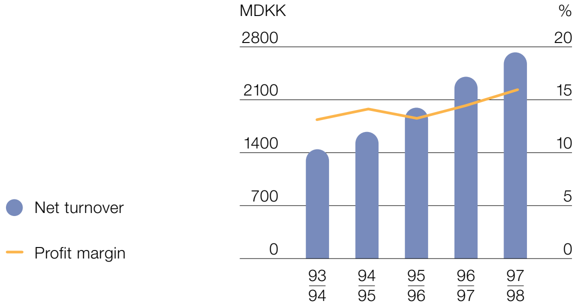
Coloplast is operating in niche markets with few big suppliers. The majority of products are reimbursed by healthcare authorities in the Western World, and generally it is a nurse who chooses the product or guides the patient to do so. Coloplast has in-depth knowledge of the respective countries' healthcare systems and is represented by own subsidiaries in most markets.

More than 97% of Group turnover is generated in countries outside Denmark, including about 70% in Europe and 20% in the USA.

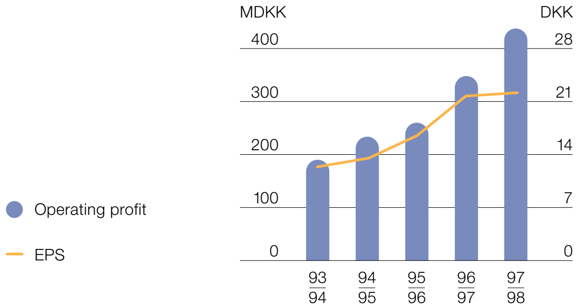
Objective and strategy

The Group has set an objective of achieving a turnover exceeding DKK 6 billion by the year 2005 and to maintain a profit margin of 15%. The turnover objective will be achieved through organic growth and acquisition of new business. Market shares are gained through the development of new products and services.

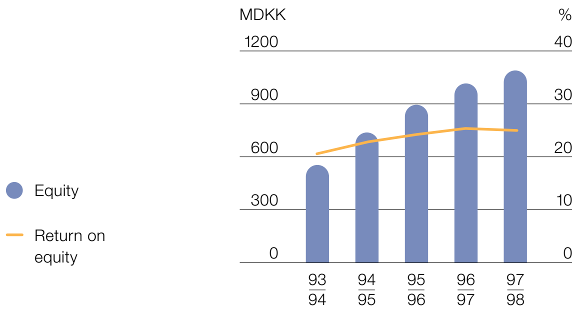
Net turnover and profit margin



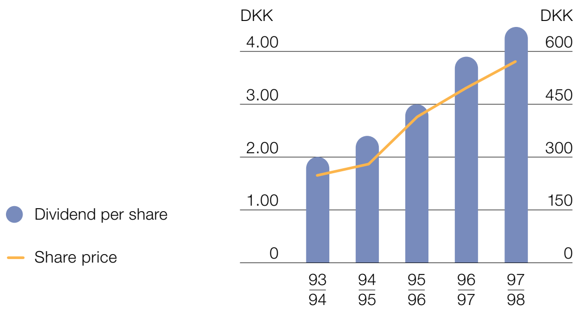
Operating profit and EPS



Equity and return on equity



Dividend and share price



Definitions according to the Danish Society of Financial Analysts

Employees at year-end is employees converted into full-time equivalents

Profit margin $\frac{\text{Operating profit}}{\text{Net turnover}} \times 100$

Return on assets $\frac{\text{Operating profit}}{\text{Average assets}} \times 100$

Return on capital employed $\frac{\text{Operating profit + financial income}}{\text{Average working capital}} \times 100$

Return on equity $\frac{\text{Adjusted net profit}}{\text{Average equity}} \times 100$
Net profit adjusted for extraordinary items

Net asset value $\frac{\text{Equity at year-end x adjustment factor}}{\text{Number of shares at year-end}}$
Adjusted for share issues

Earnings per share $\frac{\text{Adjusted net profit}}{\text{Average number of shares}} \times 100$
Adjusted for share issues

Price/earnings ratio $\frac{\text{Share price}}{\text{Earnings per share}}$
Market price per share at year-end

***Operating profit** is profit before tax, interest, extraordinary items and minority interests.*

***Average working capital** is total liabilities except non-interest-bearing liabilities.*

***Adjusted net profit** is profit after tax adjusted for extraordinary items, tax on extraordinary items and minority shareholders' share of profit after tax.*

10 years' key figures and ratios

MDKK	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Net turnover	727.0	817.4	991.1	1,121.9	1,301.8	1,449.2	1,683.7	1,974.5	2,398.5	**2,723.9**
Operating profit	86.9	102.6	134.6	161.2	174.2	189.5	233.3	260.0	346.8	**433.9**
Profit on ordinary activities	92.3	106.8	141.7	147.1	163.6	168.0	205.3	279.8	342.0	**395.4**
Profit after tax and minority interests	64.1	67.5	75.3	86.8	105.0	129.7	150.5	184.8	237.4	**264.8**
Dividend	9.8	11.8	13.4	15.1	18.9	19.4	28.4	35.5	46.2	**52.8**
Liquid funds	164.4	218.0	165.2	178.9	231.9	519.4	487.0	447.8	364.6	**212.6**
Total assets	608.9	712.0	836.3	959.4	1,092.9	1,453.8	1,530.2	1,636.4	1,848.9	**1,906.7**
Share capital	61.5	84.0	84.0	84.0	84.0	129.5	157.8	157.8	240.0	**240.0**
Equity at year-end	355.5	415.5	478.4	543.1	626.4	554.3	738.1	895.0	1,015.7	**1,104.7**
Net cash flow	33.4	53.6	(52.8)	13.7	52.9	287.5	(45.3)	(39.2)	(103.0)	**(158.6)**
Cash flow, ord. operations	82.4	93.3	143.3	149.2	130.0	209.1	321.7	234.1	271.6	**371.1**
Capital expenditure	49.9	71.4	88.2	193.7	173.0	78.9	94.8	168.4	194.9	**235.4**
Financial investments				1.4		242.4	486.4		100.8	**126.4**
Depreciation	42.3	48.5	59.9	70.6	84.6	94.0	102.7	109.5	127.2	**139.2**
Write-off, goodwill						233.4	396.2		89.2	**116.1**
Employees at year-end	1,134	1,232	1,528	1,633	1,734	1,996	2,400	2,588	2,888	**3,269**
Profit margin, %	12.0	12.6	13.6	14.4	13.4	13.1	13.9	13.2	14.5	**15.9**
Return on assets, %	15.2	15.5	17.4	18.0	17.0	14.9	15.6	16.4	19.9	**23.1**
Return on capital employed, %	24.8	24.0	28.4	29.5	27.8	24.6	28.5	27.8	32.1	**35.5**
Return on equity, %	19.6	18.3	19.3	18.8	18.2	20.4	22.7	24.0	25.2	**25.0**
Equity share, %	58.4	58.4	57.2	56.6	57.3	38.1	48.2	54.7	54.9	**57.9**
Net asset value, DKK	38.5	44.0	50.6	57.5	66.3	57.1	62.4	75.6	84.6	**92.1**
EPS, earnings per share, DKK	7.0	7.5	9.1	10.2	11.2	12.2	13.6	16.6	19.9	**22.1**
Share price at year-end	107	124	193	200	284	247	290	416	494	**573**
Share price/net asset value	2.8	2.8	3.8	3.5	4.3	4.3	4.7	5.5	5.8	**6.2**
PE, price/earnings ratio	15.3	16.5	21.2	19.7	25.3	20.2	21.3	25.1	24.8	**25.9**
Dividend per share, DKK	1.07	1.24	1.42	1.60	2.00	2.00	2.40	3.00	3.90	**4.40**

The Board and Group Management

Group Management

From left:
Niels O. Johannesson, Group Director
Aktieselskabet Nordisk Solar Compagni (BM)
Jensen Industrial Group A/S (BM)

Carsten Lønfeldt, Group Director
Flex Dental A/S (BM)
Scandinavian Mobility International A/S (BM)
LICenergy A/S (BM)
Nykredit (CM)

Sten Scheibye, Chief Executive
A/S Th. Wessel & Vett, Magasin du Nord (BM)
Birch & Krogboe A/S (BM)
Den Danske Bank Aktieselskab (BM)

Members of the Board of Directors and Group Management of Coloplast A/S have indicated their management responsibilities with other Danish companies (except 100% owned subsidiaries) at 16 November as follows:

(C) Chairman of the Board, (DC) Deputy Chairman of the Board, (BM) Member of the Board, (CM) Member of the Nykredit Governing Council

Board of Directors

Chairman
Palle Marcus, Director
Den Danske Bank Aktieselskab (DC)
Novo Nordisk A/S (DC)
Carlsberg A/S (BM)
Gyldendalske Boghandel, Nordisk Forlag, Aktieselskab (BM)

Deputy Chairman
Niels Peter Louis-Hansen

Helle Bechgaard, Senior Vice President, Nycomed Pharma A/S
Radiometer A/S (BM)
Take•Care A/S (BM)

Jytte Gliim, Project manager
Elected by the employees

Torsten E. Rasmussen, Director
InWear Group A/S (C)
Best Buy Group A/S (C)
JAI A/S (DC)
Bruhn Holding Aps (DC)
uni-chains International A/S (DC)
J. Friisberg & Partners A/S (DC)
A/S Det Østasiatiske Kompagni (DC)
Scandinavian Mobility International A/S (BM)
Vest-Wood A/S (BM)
Vestas Wind Systems A/S (BM)
DTF Serviceselskab A/S (BM)
Bang & Olufsen Holding A/S (BM)
VariantSystemet International A/S (BM)
TK Development A/S (BM)

Per Magid, Attorney
Højgaard Holding a/s (C)
Nunaoil A/S (DC)

Bjarne Nielsen, Mechanic
Elected by the employees

Kurt Anker Nielsen, Deputy CEO, Novo Nordisk A/S
Incentive A/S (BM)

Knud Øllgård, Electrician
Elected by the employees

Board report

Highlights

- Coloplast's Group turnover was DKK 2,723.9 million, representing an increase of DKK 325.4 million or 14% over 1996/97.
- Operating profit was DKK 433.9 million, corresponding to 15.9% of turnover.
- Profit before extraordinary items and tax was DKK 395.4 million compared with DKK 342.0 million last year, an increase of 16%.
- Profit after tax and minority interests was DKK 264.8 million, which is DKK 27.4 million better than last year, corresponding to an increase of 12%.
- The Board will propose that dividend payments are increased to DKK 4.40 per share of 20 DKK.
- Turnover increase reflects organic growth.
- In Europe sales have increased by 13%.
- In North America, a declining total market has resulted in a lower than expected turnover growth.
- Cooperation with Johnson & Johnson in North America has got off to a satisfactory start.
- During 1997/98 approx. DKK 120 million has been invested in distribution and service companies.
- Coloplast has issued its first environmental statement.
- IT systems have been prepared for the millennium and the introduction of the Euro.

For financial review, see page 10.

The 1997/98 financial performance was satisfactory, and the expectations expressed in the interim financial statement were met, turnover and profit before tax having increased by approx 15% compared with the year before.

The increase in turnover for the year resulted from sales growth of existing products plus new product launches. Partnerships with distribution and service companies in some markets have also contributed to the turnover growth.

Turnover rose by nearly 13% in Europe, with France, Germany and Austria making significant contributions to the fine result. The growth is higher than overall market growth, so Coloplast is gaining market shares. There have been fewer major political restraints in the healthcare sector than the year before, but prices are still under pressure, and in most markets competition is intensifying.

The US market for medical disposables is experiencing budget cuts and consolidation through mergers of hospitals, healthcare providers and insurance companies. The total market has been declining for the first time but, despite these unfavourable market conditions, we have achieved a growth of 3% in own sales of medical disposables, gaining market share. Adjustments to the organisation have been made to allow for the changes in the US healthcare sector and the company has entered into cooperation agreements which are expected to lead to stronger growth in turnover.

The relationship with Johnson & Johnson Consumer Products Company for their marketing of special dressings in the USA consumer products market has been satisfactory and is expected to be extended, new activities being planned. The turnover growth for consumer products has been more than 60%.

Coloplast has also performed well in all other markets, showing handsome growth rates. The financial crisis in Asia has only marginally affected Coloplast's results.

The Breast Care Division in the US and particularly Amoena GmbH in Germany have developed sales satisfactorily, based on innovative breast forms and textiles.

In 1997/98 Coloplast's ambition to get closer to the market resulted in the acquisition of shares in companies specialising in distribution and service to the end users of the products. During the financial year, these acquisitions amounted approx. DKK 120 million.

The financial performance in 1997/98 has been only slightly affected by exchange-rate developments, and the average value of Coloplast's invoicing currencies was less than 1% above its average value the year before. The underlying organic growth has been calculated at 13%.

Product launches in 1997/98

- **Assura** one-piece – new, improved ostomy bag
- Paste for better seal around stoma
- Special ostomy bags for use right after the operation

- **Conveen** leg bags and urisheaths, new sizes

- **Biatain** – 3D polymer for exudating wounds
- **Comfeel** Plus Sacral – for pressure sores
- **CircAid** – compression bandage

- **Balancia** – partial breast form
- **CoolPad** – pad preventing moisture and heat
- Special textiles

- **Compeed Kidz** – dressing for children
- **Compeed** vitamin cream and softening cream

Among the new products launched in 1997/98 were special bras and swimware for women after surgery.

Business areas

Ostomy care

Turnover exceeded DKK 1 billion in 1997/98. This figure reflects an 11% growth, so Coloplast continued to increase its market shares in all important markets. The UK, France, Germany, Spain, Japan and Denmark particularly contributed to the positive development.

The extensive **Assura/Alterna** product programme continues to grow strongly. A new one-piece ostomy bag with significant user benefits including better adhesion properties, a superior filter and more aesthetic appearance (see page 33) has been launched in several markets. Some of these improvements will be incorporated into a number of other products. New introductions include a paste for improving the seal around the stoma and special accessories for urostomists.

Continence care

Sales rose by 19%, with particularly the precoated **EasiCath** catheter and the non-latex Security+ urisheath/liner driving growth; but other products in the portfolio have also added growth. There has been a decline in sales of absorbent pads as a consequence of reduced reimbursement in several markets.

Nearly all European markets have recorded good turnover growth, with France standing out and Italy, Germany and Holland also performing very well. The same applies to Australia and markets where Coloplast is represented by sales offices and distributors.

Within continence care, the major group of end users is spinal-cord injured. Based on Coloplast technologies we plan to continuously extend the product range for this segment.

A new improved version of the **Conveen** Continence Guard for women is being developed and clinical trials are under way with the objective of a 1999 launch.

Wound care

There has been progress in most markets, especially in Norway, Germany, Italy and Spain. However, a worldwide growth rate of 8% is not satisfactory when the total market is growing at a higher rate.

In the wound care field new product technologies were launched in 1997/98, including a 3D polymer dressing for exudating wounds, **Biatain**, which has so far only been launched in a few European countries. **Comfeel** Plus Sacral is another new dressing launched, being ideal for the difficult-to-dress bone at the small of the back. In the USA, Coloplast has started marketing the **CircAid** compression bandage for the treatment and prophylaxis of leg ulcers.

The range of products for the treatment of chronic ulcers became broader in 1997/98 with the new product launches, and the growth rate is expected to readjust to the average market level.

Skin care

Skin care products are mainly sold in the USA. The flat US market and technical problems with the water supply for production, now overcome, meant that total turnover for this area did not increase. Selected products have been launched in Europe.

To ensure future product innovation, the Skin Care Division's development department has been strengthened in 1997/98 by the establishment of a new laboratory and the recruitment of several employees. Several product launches are planned for 1998/99.

The production of skin adhesives has been established in the facilities in Minnesota, USA, primarily for the purpose of making wound dressings for the US market. The Skin Care Division has introduced the same quality management system as in the other Coloplast factories.

Breast care

Coloplast's position as global market leader in the breast care field was consolidated in 1997/98. Turnover grew by 9%. The launch in several countries of a new **Amoena** breast form with integral adhesive, which attaches directly to the chest wall and needs no supporting bra, and lightweight breast forms have been successful and have had a positive impact on sales of the other products. Progress has been most significant in Europe and, in the USA, Coloplast has achieved market leadership in special textiles.

In addition to improved versions of existing products, a partial breast form, **Balancia**, for women who have had surgery conserving part of their breast, and **CoolPad**, a textile pad which prevents moisture and resulting heat under the breast form, have been launched.

Consumer products

Turnover for this business area grew by 62% in 1997/98. This increase is due to the fact that the marketing of **Compeed** for foot care under the Johnson & Johnson Band-Aid brand in North America got off to a very satisfactory start. Negotiations to extend the cooperation to other overseas markets are carried on.

The extended **Compeed Hydro Cure** System range has ensured continued progress in well-established European markets.

In the consumer products market a special dressing for children, **Compeed Kidz**, has been test marketed in Denmark, and a vitamin cream and a softening cream have been launched in Europe.

Investments

The Continence Care Division's new production hall in Kokkedal has been completed and there is now sufficient capacity for manufacturing **EasiCath** catheters.

A comprehensive renovation of the adhesives production facilities in Espergærde and the establishment of adhesives production in Minnesota, USA, have also been completed.

A new and bigger factory has been leased in Costa Rica to meet the demand for special textiles designed for use with breast forms after surgery.

Capital expenditure amounted to DKK 235.4 million in 1997/98, which is DKK 40.5 million more than last year.

Group capital reserves amounted to DKK 1.5 billion at year-end. These reserves include credit facilities with more than 12 months'

The marketing of **Compeed** dressings for foot care under the Johnson & Johnson Band-Aid brand has got off to a very satisfactory start.

We involve professional care-givers to ensure users' needs are optimally met. In 1997/98 our endeavours to develop quality products were supported by our cooperation with more than 700 nurses and doctors.

notice and are estimated to be sufficient to finance investments and potential acquisitions some years ahead.

Constant improvements

Human resources

The commitment and job satisfaction of our employees is vital to Coloplast's development. Therefore, all companies within the Group measure employee satisfaction by a uniform method. Measurements show that employees are generally satisfied with working with Coloplast, but that there is also room for improvement (see intellectual capital accounts, page 40).

In 1997/98 a corporate human resource function was established. The new department's objective will be to attract and retain highly qualified employees within Coloplast. Activities to achieve this objective will include strengthening the knowledge of Coloplast with relevant target groups, furthering international career opportunities and enhancing educational activities for the whole Group.

Environmental affairs

In August 1998 Coloplast published its first environmental statement, including verification by EMAS. **E**co **M**anagement **A**udit **S**cheme is a voluntary EU scheme for companies which have introduced environmental management at a high level.

The environmental statement covers the financial year 1996/97. It describes the activities of Coloplast A/S and Coloplast Consumer Products A/S and their effects on the environment. The environmental management system of these companies has been certified according to the BS 7750 and ISO 14001 standards. Amoena GmbH in Germany has also obtained EMAS verification as the first company within the field of breast care. Activities to protect the environment have resulted in both significant improvements and also financial savings. Better utilisation of raw materials has reduced the amount of waste by 10%. The amount of process energy consumed has been reduced by 9%, while water consumption has been cut by 20%. Total environmental improvements have meant savings of DKK 2 million.

On 20 October Coloplast was awarded a diploma for preparing the best first-time environmental report in 1998. The Danish Society of State-Authorised Accountants and the financial daily 'Børsen' have instituted the environmental award (more about the environment in the section on risk factors, page 15).

Prepared for the Euro

In September 1997 Coloplast set up task forces within IT, sales and marketing, logistics, legal affairs and financial departments to prepare for the introduction of the Euro. From 1 January 1999 all corporate policies, systems and structures will be geared to the implementation of the Euro, and all customers in Euro countries will have the option of trading in Euros. From October 2000 all subsidiaries involved will be reporting in Euro.

IT and year 2000

Like other companies, Coloplast is

dependent on IT systems achieving millennium compliance. Conversion of software and equipment allowing for the change has proceeded smoothly both in subsidiaries and product divisions. The remaining conversion jobs will take place in early 1999.

Research and development

Coloplast's expenditure on research and development activities corresponds to nearly 5% of Group turnover.

Product development is the responsibility of the individual product divisions in Denmark, the USA, Germany and China. Research is conducted by the Coloplast Research team at Humlebæk. The research centre was established in 1995 and is working within the fields of materials technology, biology and wound physiology and with advanced analysis technology. The research team's achievements include innovations within materials technology used in recent products.

In 1997/98 Coloplast Research recruited another six employees and the team now totals 21.

Organisation

At the Annual General Meeting on 12 December 1997 Mr Kurt Anker Nielsen, Deputy CEO, Novo Nordisk A/S, was elected to a seat on the Board of Directors of Coloplast A/S.

At year-end the Group employed 3269 persons converted into full-time equivalents (1996/97: 2888), 1683 of them in Denmark (1996/97: 1476).

Future prospects

In 1989 Coloplast set the objective of achieving a turnover of DKK 3 billion by the year 2000. This objective is expected to be achieved in the financial year 1998/99, one year early. The company has therefore set a new long-term objective: to achieve a turnover exceeding DKK 6 billion in year 2005.

The demand for Coloplast's products is expected to increase in line with the patients' wish for higher quality of life. However, growth may be dampened, particularly in Western Europe and the USA, by endeavours to limit the increase in public healthcare costs. Outside these geographic areas markets are growing more strongly.

In order to capture new market growth and win market shares, Coloplast will continue to develop new and improved products. Considerable investments in research, product development, new production equipment and marketing will be required also in future. The achievement of our long-term objective also implies acquisition of new business.

During the financial year 1998/99 we expect a turnover growth of approx. 10% in Europe and slightly higher in the other markets. To this may be added growth resulting from the acquisition of new businesses.

Coloplast will in each financial year strive to achieve an operating profit of 15% of turnover and will endeavour to increase competitiveness through constant improvements in all business areas.

Our possibilities of doing so may be affected by unforeseeable major government measures in the healthcare sector or by substantial fluctuations in the rates of important currencies.

Annual General Meeting

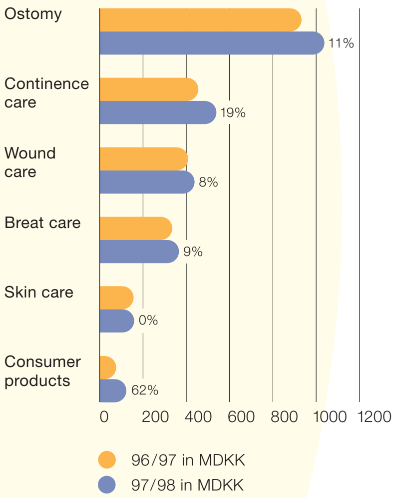
The Board of Directors proposes to the Annual General Meeting:

- that dividends are paid at DKK 4.40 per share (in 1996/97 DKK 3.90 per share)
- that the Board is authorised to acquire own shares in accordance with the Danish Companies Act, section 48, through buying up to 10% of the company's share capital. Such authority to be valid until the Annual General Meeting in 1999.

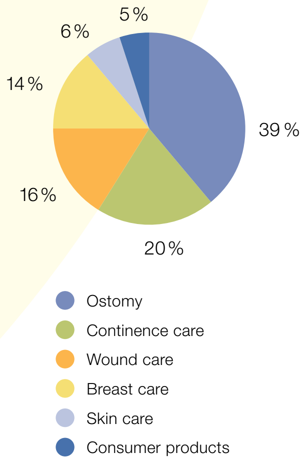
Employee commitment and welfare are vital to Coloplast's development. We therefore measure employee satisfaction at regular intervals.

Financial review

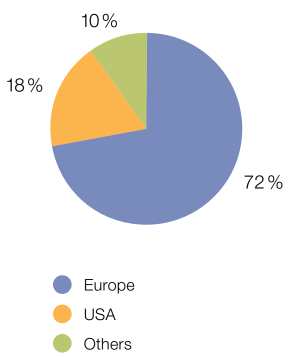
Turnover development per product area



Group turnover by business area in 1997/98



Geographical distribution of turnover in 1997/98



Group turnover was DKK 2,723.9 million, an increase of 14% from DKK 2,398.5 million in 1996/97. Profit on ordinary activities increased by 16% to DKK 395.4 million from last year's DKK 342.0 million. Profit after tax and minority interests was DKK 264.8 million compared to DKK 237.4 million last year, an increase of 12%.

Operating profit was DKK 433.9 million, which is 25% up on 1996/97. The profit margin – calculated as operating profit in per cent of turnover – thereby reached 15.9%, exceeding last year's 14.5%. It is very gratifying that the Group's objective of achieving a profit margin of 15% has been met.

Turnover and operating profit are stated at the year's average exchange rates, which were about 1% above the 1996/97 average. However, the declining rates of certain key currencies in August and September caused an adjustment of approx. DKK 12 million in financial items. Overall, the net effect of exchange-rate developments on profit before tax has been neutral compared with the previous year.

Despite declining exchange rates towards the end of the financial year, the 1997/98 financial performance of the Group was well in line with the expectations published in the 1996/97 annual report and the interim financial statement issued in May 1998.

Turnover development

In fixed terms, turnover increased by 13% with growing market shares and sales of new products.

Particularly in the European market progress has been recorded, with all subsidiaries increasing sales – most by two-digit rates. The subsidiaries in Europe achieved a turnover increase of 13%. The subsidiaries in Japan, Australia and Argentina have increased sales by a comfortable 14%, and sales through distributors grew by 17%.

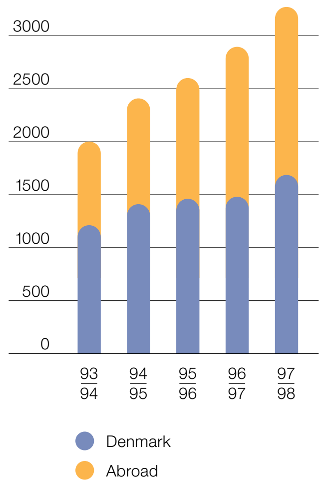
The US market has, in contrast, been affected by a general decline in sales of medical disposables to the hospital sector. In this declining total market Coloplast managed to achieve a modest increase of approx. 3% in own sales of medical devices. Sales of breast forms and special textiles in the North American market rose by approx. 8%.

Looking at the main business areas, sales of ostomy products exceeded DKK 1 billion, recording an 11% growth in fixed prices. Continuous improvement of the **Assura** product range ensured that it remained competitive and therefore gained market shares.

Continence care products achieved the highest growth in absolute terms, turnover exceeding DKK 0.5 billion, corresponding to a 19% increase. Disregarding absorbent product sales, which declined, there is handsome growth for the urine bag, urisheath and intermittent catheter ranges.

The growth recorded for wound care products was 8% for the year. The total market is estimated to grow by about 15%, driven by high growth rates for foam dressings. A newly developed 3D polymer dressing, **Biatain**, for highly exudating wounds was launched in June in Holland and Denmark, and the wound care range is expected to resume two-digit growth rates in the coming year.

Number of employees



Sales of skin care products were affected by the flat US market, and problems with the water supply for production temporarily halted the launch of a new product.

As global market leader in the field of breast care with an overall market share exceeding 50%, a realised growth of 9% is satisfactory. New products have contributed to good sales progress in Europe. In the USA, the company has achieved market leadership within mastectomy bras in four years.

More than 97% of Group turnover is generated outside Denmark, and 93% of the parent company's output is exported.

The contributions of the individual business areas to total Group turnover have changed only marginally compared to 1996/97.

The geographical split of Group turnover was nearly unchanged compared to the previous year.

Expenses, profit margin and human resources

Expenditure for raw materials, ancillary materials, human resources and external services rose by a little less than 12% to DKK 2,179 million, and depreciation rose by slightly more than 9%. Consequently total Group expenses increased by less than turnover, and the profit margin – in per cent of net turnover – rose from 14.5% to 15.9%.

Hence, the 15% Group profit margin objective was exceeded.

A continued dedicated effort to reduce production costs through rationalisation and by improving the efficiency of operating equipment, again reduced total unit costs compared with the previous year. Gross margins were slightly higher than last year.

However, it is still impossible to increase selling prices to compensate for the effect of inflation. Besides, the strongest growth in 1997/98 was recorded for products and markets where the price level and gross margins are below the Group average. Therefore, efforts were intensified during the year to increase the value added by overhead costs.

Finally, the output volume was increased and the relatively high level of manufacturing costs incurred for products launched last year was reduced, so today their contribution ratios are satisfactory.

The higher average level of exchange rates had a slightly positive effect compared with the year before. Some 30% of the capacity costs and the greater part of depreciation are incurred in Danish kroner.

The continued globalisation of the company's activities and acquisition of foreign manufacturing operations will gradually provide a better balance between income and expenditure in various currencies. The European Monetary Union and the Euro will mean that some 50% of Group turnover from new year 1999 will be denominated in a very stable currency. It will be crucial that as many of the company's European costs as possible can be incurred in Euro.

At year-end, the Group employed 3,269 people (including 1,683 in Denmark) compared with 2,888 last year (1,476 in Denmark). The turnover per employee was therefore almost unchanged compared with the previous year.

Exchange-rate developments

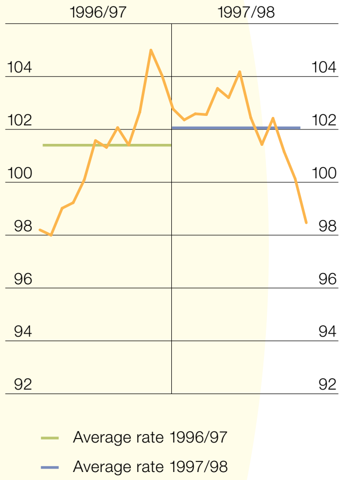
The weighted average value for 1997/98 of Coloplast's invoicing currencies was 0.6 percentage points above their 1996/97 level. As mentioned above, currency movements had a slightly positive effect on operating profit compared with the previous year. During the last few months of the financial year, however, a negative trend prevailed because GBP, USD, NOK and SEK, which are all important currencies, were losing ground.

Therefore we had to make a downward adjustment of the balance sheet items at 30 September 1998. The incurred currency loss was entered under financial items. The loss, which was unrealised at the end of the financial year, was partly compensated for by forward cover transactions.

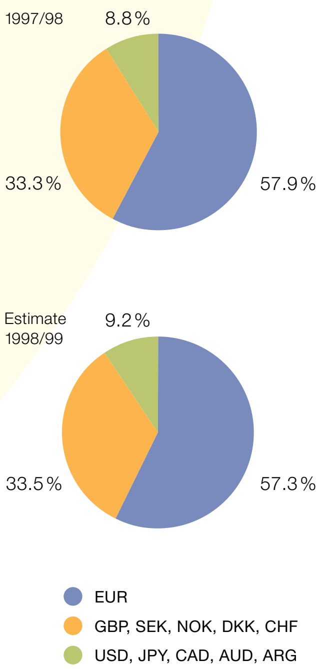
If the exchange rates of our invoicing currencies remain at this lower level, a negative effect on the financial result must, however, be anticipated in the financial year 1998/99.

According to the company's currency position strategy we strive to minimise currency risks by hedging any currency holdings and anticipated net currency inflows for the com-

Development of Coloplast's average invoicing currencies
Index 100: 1 October 1994



Realised and expected net ingoing payments by currency group



ing 3-12 months against currency risks, using financial instruments like forward cover and options. This practice was established in 1996 and has served its purpose well since then. At 30 September 1998 currency covered amounted to DKK 709 million, corresponding to actual holdings plus 3.5 months' net inflow of currency.

Forward currency contracts and options are only made to cover commercial transactions.

Development of net financial and extraordinary items and tax

Financial items include interest receivable and payable, cash discounts, capital gains and losses on securities sold, exchange-rate gains and losses on currency holdings, debts and financial contracts. Also included is the parent company's share of the profit generated by associated companies.

Net financial expenditure amounted to DKK 39.1 million in 1997/98, a DKK 33.7 million increase over 1996/97. The increase derived mainly from exchange-rate adjustments of DKK 27.6 million, an increase in cash discounts of DKK 3.2 million and a decline in exchange-rate gains on securities of DKK 7.9 million.

Total debts at year-end amounted to DKK 751.1 million, including DKK 259.2 million of interest-bearing debts. DKK 157.5 million represents debt raised for terms of more than one year.

Coloplast's portfolio of securities and mortgage credit loans is actively managed according to a determined policy assessing interest rate, duration and risk of declining prices. During the year, capital gains of DKK 2.6 million have been realised. Unrealised capital losses at 30 September 1998 of DKK 2.0 million have been charged to expenses in 1997/98.

The average duration of securities was increased during the year from 4.1 to 4.3 at 30 September 1998. Average yield to maturity was approx. 6.9% p.a.

Cash discounts, which are dictated by standard conditions in some markets, amounted to DKK 28.7 million in 1997/98 as compared with DKK 25.5 million the year before.

Profit from associated companies includes Coloplast's shares of calculated or stated net profit of the distributing companies in Germany and the USA and in the Chinese company.

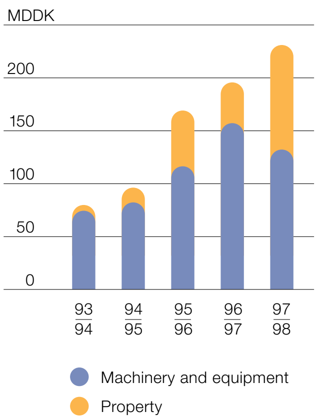
In 1997/98 extraordinary items accounted for DKK 0.2 million of net outgoing costs compared with outgoing costs of DKK 1.0 million the year before.

The total tax liability for the Group was DKK 128.1 million compared with DKK 102.1 million in 1996/97. The company tax rate was 32.4% compared with 29.9% last year. The tax liability is higher mainly because the geographic distribution of profits differs from last year, with a larger share generated in Europe and a smaller share generated by the US company. Also the gradual phasing out of the Danish tax relief relating to profits generated abroad has increased the company's tax liability.

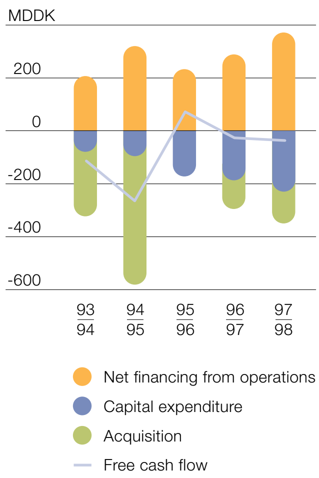
The DKK 2.3 million paid to minority shareholders relates to minority interests in Amoena GmbH.

Investments

Investments in assets amounted to DKK 235.4 million in 1997/98 compared with DKK 194.9 million the year before. A total of DKK 131.8 million was spent for technical plant and equipment; this represents a decrease of just over 16% compared with 1996/97. In addition, Capital expenditure



Cash flow



investments in land and buildings for manufacturing facilities amounted to DKK 98.6 million. Investments in machinery, land and buildings were made in Denmark, the USA and Germany (Raubling).

Cash flow statement

The year's cash flow from ordinary operations was DKK 371.2 million, an increase of DKK 98.2 million compared with 1996/97. After deduction of investments in fixed assets of DKK 235.4 million, the acquisition of own shares and of shares in associated companies totalling DKK 126.2 million, there was a negative net cash flow in 1997/98 of DKK 37.9 million. Last year there was a negative net cash flow of DKK 23.3 million.

The other items included in the cash flow statement are extraordinary items and adjustments of fixed assets under construction, assets sold and exchange rate adjustments of subsidiariy companies' equity. Dividends disbursed to shareholders in 1996/97 amounted to DKK 46.2 million. Sourcing by loans was reduced by DKK 86.8 million, bringing net financing from operations to a total of DKK 120.6 million.

Liquid funds were reduced over the year by DKK 158.6 million, and by 30 September 1998 they amounted to DKK 206.0 million.

Liquidity from operations less investments in fixed assets is expected to remain positive for the coming years. Allowance should, however, be made for possible acquisitions.

Development of balance and equity

Equity amounted to DKK 1,104.7 million, representing 57.9% of the total balance at 30 September 1998, which is slightly higher than the 54.9% equity share at the beginning of the year. The profit for the year yields a return on equity of 25.0%, which is close to last year's 25.2%.

The return on assets rose to 23.1% from last year's 19.9%. The return on capital employed was 35.5% compared with 32.1% in 1996/97.

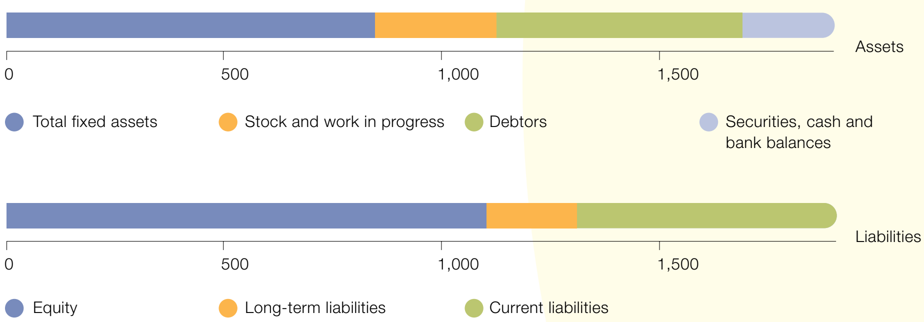
Equity increased from DKK 1,015.7 million at the beginning of the year to DKK 1,104.7 million at 30 September 1998. This increase is composed of the following items: Profit for the year after deduction of dividends was DKK 212.0 million. Exchange-rate adjustment of capital interests in subsidiaries amounted to DKK 6.9 million. Finally, DKK 116.1 million of goodwill has been written directly to equity in accordance with Coloplast's accounting policies. The goodwill relates to the acquisition of shares in associated companies.

Accounting policies

Since its listing on the Copenhagen Stock Exchange in 1983, Coloplast has only made few changes to its accounting policies. These changes were made to comply with Danish accounting guidelines.

We are aware that changes to the Danish accounting standards are underway to comply with international standards. Coloplast has decided to adapt to such changes in its accounting policies as they materialise.

Balance



Risk factors

Fire risks have been minimised in the projecting and layout of buildings.

Prepared for emergencies

Coloplast has established fire and environmental emergency systems in all Group facilities to ensure quick action in case of major accidents and to limit their consequences to people and the environment.

Our emergency system will identify and remove risks that may threaten the company in the short or long term. The lay-out of the buildings and design of processing equipment serve to reduce the risk of fire to a minimum but effective equipment has been installed to limit any damage if there is a fire. All employees in the permanent fire groups have been trained to fight fires and give first aid. The groups are active participants in drills organised on site by the local fire service.

Skin-friendly adhesives are used in many Coloplast products, and the adhesives technology is vital to the Group's business. In the past, adhesives were manufactured only in the Espergærde factory. From 1998 adhesives are also being manufactured in the Minnesota facility, USA.

Currency risks

Less than 3% of Group turnover is invoiced in Danish kroner while more than half of the costs are incurred in Danish kroner. The resulting currency risk is covered under our hedging strategy by always having balance sheet items in foreign exchange and the anticipated net currency inflow for the coming six months covered by financial instruments, including forward contracts and options. Currency deals are primarily concluded in Denmark.

Acquisitions are included in the Group strategy. With potential acquisition of companies with manufacturing operations outside Denmark, our net currency exposure will be reduced over time.

If Denmark joins the European Monetary Union, our overall currency risks will also be considerably reduced.

Patents

Coloplast's key technologies are adhesives, plastics and process technology. Within these areas Coloplast is endeavouring, like our competitors, to protect inventions through patents.

Coloplast is operating independently of third party rights. This freedom is ensured through our patent policy, through supervision and evaluation by our internal patent department of patents issued in relevant fields. Coloplast also consistently strives to secure universal rights to new developments, whenever possible, but we are not dependent on specific patents.

Owing to the complexity of our patents there is a certain risk that Coloplast becomes a party to patent infringement lawsuits. During 1997/98 there have been no lawsuits, involving substantial financial risks, against Coloplast.

Suppliers

A limited part of Coloplast's products is based on raw materials of a very special nature. For these raw materials Coloplast has, where possible, obtained a supplier's guarantee.

The environment

Coloplast's environmental impact is relatively modest. The main environmental effects derive from the production of imported polymers (plastics) and from waste. Most of the products are incinerated after use.

Coloplast's European factories (in Denmark and Germany) have been approved and verified according to the Eco Management and Audit Scheme (EMAS). EMAS is a voluntary EU system for companies practising environmental management at a high level.

The environmental certification of Coloplast's manufacturing operations included procedures for the systematic identification and reduction of risk factors. Environmental procedures ensure that no new materials or processes are implemented without detailed requirements for their management at operational level having first been defined. These procedures refer specifically to product parts which imply health hazards to people, or put machinery, buildings or the external environment at risk.

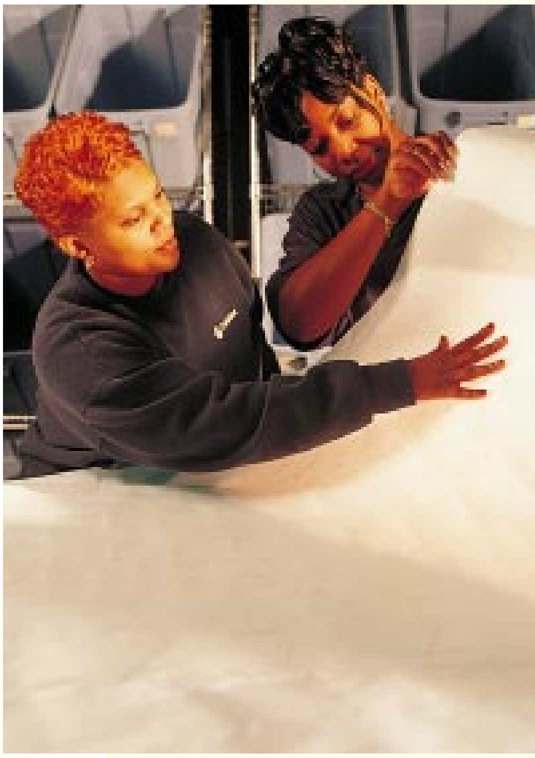
In 1998 Coloplast issued its first environmental statement covering the Danish sites. Next year the environmental statement will include the German manufacturing site, too.

Medical breakthroughs

Today, no medical treatment exists which can replace ostomy surgery or breast surgery or materially reduce the number of these patients. Medical research in a number of fields may, however, affect the need for these types of surgery in the long term. If pharmaceutical or other solutions are found, a further development time of 5-7 years must be anticipated. Besides, end users who have undergone surgery in the past will continue to need appliances.

Similarly, there are no known medical solutions which may reduce the need for incontinence products or dressings for patients with chronic leg ulcers or pressure sores, or are likely to make these products redundant.

All members of the permanent fire fighting groups have been trained to fight fires and give first aid.



Shareholder information

Shareholder value

We strive to give shareholders long-term, stable returns on their investment through increases in the share price and through dividend payments. We believe it is crucial to the generation of shareholder value to have the best possible relations with customers, employees and society.

Coloplast wishes to respond quickly to acquisition opportunities, should they arise. The size of our liquid funds and our solvency ratio as well as established credit facilities are sufficient to meet this wish.

Dividends

The Board of Directors will propose to the Annual General Meeting that dividends be paid at the rate of DKK 4.40 per share of DKK 20. This is an increase of DKK 0.50 or 13%. Last year dividends were raised by 30% to DKK 3.90 per share. Payment of dividends to shareholders at a rate of approx. 20% of the year's net profit is in line with previous years' policy.

Dividends will be paid out automatically through the Securities Centre no later than 5 business days after the Annual General Meeting.

Shareholders

The Danish Companies Act, section 28 (a) and (b), requires shareholders owning more than 5% of the share capital or voting rights of a company to be known to the public. According to the records, Coloplast has four such shareholders. They are: Mrs J. Louis-Hansen of Randers, Mr N.P. Louis-Hansen of Vedbæk, The Memorial Foundation of Aage and Johanne Louis-Hansen of Vedbæk, and ATP (Labour Market Supplementary Pension) of Hillerød.

There have been only minor changes in ownership over the year. The number of shareholders increased from 7,335 to 7,661. According to the company's Articles of Association a share must be registered in the name of the shareholder to carry voting rights. 95.6% of all shares are registered in the names of their holders, and ownership by foreign shareholders is 16%.

Since Coloplast obtained exchange listing in 1983, there have been five issues of employee shares, and most of Group employees now own shares in the company. Active ownership is an important means of keeping employees motivated and committed in their daily work.

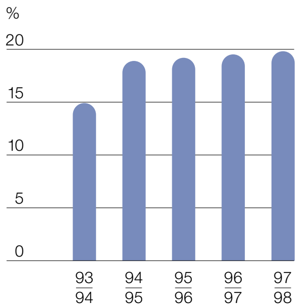
During the summer of 1998 Coloplast has bought 11,500 Coloplast B shares worth DKK 7 million. The shares will be included in the company's securities portfolio and may be used in connection with acquisitions.

Trade and share price

In November 1995 the Coloplast B shares were included in the Copenhagen Stock Exchange index of ultraliquid shares (KFX index), and their status of being among the twenty most traded shares quoted was reconfirmed in November 1998. Consequently, Coloplast B shares will continue to be classified as ultraliquid shares on the Copenhagen Stock Exchange in 1999.

In 1997/98 the average number of shares traded each month was 339,748 while in 1996/97 the average was 408,763 shares per month.

Dividends in percentage of Group net profits



Ownership of Coloplast shares at 30 September 1998

	A shares 1000 units	B shares 1000 units	Ownership percentage	Per cent of voting rights
Holders of A shares	900	4,432	44.4	66.8
Labour Market Suppl. Pension		1,556	13.0	7.7
Other institutional investors		3,306	27.6	16.4
Remaining shareholders		1,273	10.6	6.3
Non-registered shareholders*		533	4.4	
Total	900	11,100	100.0	97.3

** Only shares registered in the name of the holders carry voting rights*

On the first trading day of financial year 1997/98, the Coloplast share price was 492. It closed at 573, representing an increase of 16%, which is 16% above the average increase for shares in the KFX index during the period.

The year closed with the market value of Coloplast B shares at DKK 6.3 billion (compared with DKK 5.5 billion at 30 September 1997).

Coloplast B shares are registered in the Copenhagen Stock Exchange securities system under code DK 00 1019295 4. Deals concluded through the international clearing houses Euroclear and Cedel should refer to securities code 004322088.

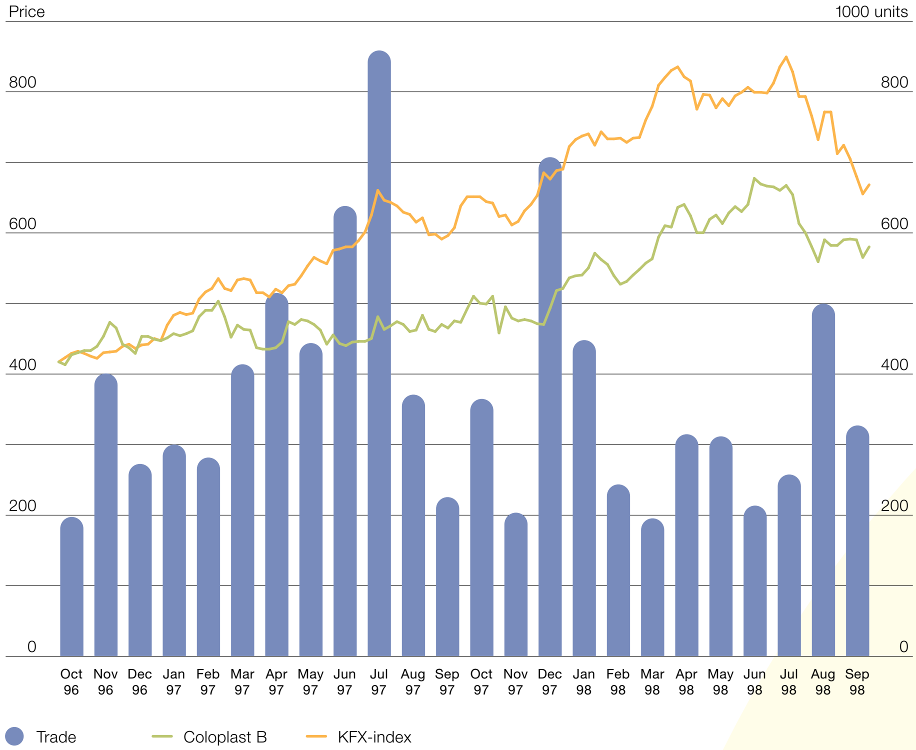
Investor relations

Coloplast entertains an open dialogue with the market players to ensure that they receive the best possible information about the company – with due respect to the Stock Exchange Code of Ethics. Therefore, Coloplast regularly holds meetings with shareholders, investors, financial analysts and other interested parties. In 1997/98 major presentations have been made in Copenhagen, Edinburgh, London and Stockholm.

Internet

Coloplast's corporate homepage has sections on Finance (including all information to the Copenhagen Stock Exchange, daily listed price and key figures in worksheet format), News and Business Areas. The homepage address is: www.coloplast.com.

Trade and share price development



Information to the Copenhagen Stock Exchange in 1997/98

17 Nov 97	Financial statement for the year 1996/97
20 Nov 97	**Compeed** to be distributed by Johnson & Johnson Consumer Products Company in North America
7 May 98	Coloplast acquires shareholding in distribution company
19 May 98	Interim financial statement for 1997/98
11 Jun 98	Coloplast buys share in US distribution company
19 Aug 98	Coloplast publishes environmental statement for 1996/97
16 Nov 98	Financial statement for the year 1997/98

Financial calendar for 1998/99

1 Dec 98	Publication of Annual Report for 1997/98
14 Dec 98	Annual General Meeting at the Radisson SAS Falconer Center, Copenhagen
21 Dec 98	Payment of dividends for 1997/98
20 May 99	Interim Financial Statement for 1998/99
17 Nov 99	Financial Statement for the year 1998/99

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Accounting policies

The annual accounts and Group accounts of Coloplast for 1997/98 have been prepared in accordance with the Danish Company Accounts Act and the rules for listed companies as laid down by the Copenhagen Stock Exchange. The accounting policies are consistent with those applied last year.

Group consolidated accounts
The Group accounts comprise the parent company, Coloplast A/S, and subsidiaries in which the Coloplast Group controls more than 50% of the voting rights or otherwise has a controlling interest.

The Group accounts are prepared based on audited accounts for the parent company and subsidiaries by aggregating similiar financial statement items. The accounts used for consolidation purposes have been prepared using the accounting policies of the Group. On consolidation, intra-group entries have been eliminated.

Companies which are not subsidiaries but in which the Coloplast Group owns 20% or more of the voting rights or otherwise has considerable management influence, are regarded as associated companies.

Newly acquired or divested companies are included in the profit and loss account for the period of ownership.

Comparative figures have not been corrected for newly acquired or divested companies.

At the acquisition of subsidiaries, the acquired share of a company's net asset value is determined according to the Group´s accounting policies. Where the purchase price differs from the net asset value, the difference is to the extent possible allocated to assets and liabilities. Purchase price in excess hereof has been written directly to reserves.

Profit and loss account

Net turnover
The net turnover is included in the profit and loss account for the year of delivery and invoicing.

Other operating income and expenses
Other operating income and expenses comprises items that are secondary in nature to the primary operations of the company.

Research and development costs
The research and development costs are written off as incurred.

Conversion of foreign currency
Accounts receivable and accounts payable in foreign currency have been converted into Danish kroner at the exchange rates quoted on the balance sheet date. Both realised and unrealised exchange gains and losses on current assets or debt have been included in the profit and loss account as financial items.

The profit and loss accounts of the foreign sales subsidiaries have been converted at average exchange rates for the period. Their balance sheets have been converted at official exchange rates at 30 September. Currency differences arising from conversion of the profit and loss account at average exchange rates for the period and from conversion of balance sheet at official exchange rates at 30 September have been included as financial items in the consolidated accounts.

The profit and loss accounts of the foreign manufacturing subsidiaries have been converted at average exchange rates for the period while their balance sheets have been converted at official exchange rates at 30 September. Currency differences arising from conversion of the profit and loss account at average exchange rates for the period and from conversion of the balance sheet at official exchange rates at 30 September have been written directly to reserves.

Exchange-rate adjustment of subsidiaries' value at the beginning of the year have been written directly to reserves.

Financial instruments
The turnover of the parent company and the Danish subsidiaries is primarily invoiced in foreign currency. To take out forward cover of accounts receivable and payable in foreign currencies the parent company uses forward contracts and options.

For forward contracts and options taken out to cover accounts receivable and payable in foreign currencies, the forward contract rate or the binding or agreed rate, respectively, is used for stating the items covered. Realised exchange gains and losses on such forward contracts and options have been included in the profit and loss account as financial items.

Extraordinary items
Extraordinary items include income and expenses deriving from activities other than the ordinary operations of the Group.

Taxes
Tax payable on the result for the year is charged to the profit and loss account together with changes in the provision for deferred taxation. Deferred taxation is provided for timing differences between net book and taxable values of assets and liabilities, except for deferred tax relating to participating interests in subsidiaries and associated companies.

Coloplast A/S has joined the tax prepayment scheme. Additions, deductions and compensations regarding the tax payment are included in the profit and loss account and balance sheet together with the current tax liability.

Coloplast A/S is jointly taxed with some of its wholly-owned Danish and foreign subsidiaries. The net tax payment on jointly taxed income is included in the parent company accounts.

Balance sheet

Non-tangible fixed assets
Non-tangible fixed assets are stated at the original cost less accumulated depreciation and write-offs. These assets are written off over their expected lifetime, the maximum being 20 years.

Purchased goodwill, patent and trademark rights up to DKK 5 million are written off in full in the year of acquisition.

Tangible fixed assets
Tangible fixed assets are stated at the original cost less accumulated depreciation and write-offs and are written off over their expected lifetimes. Depreciation and write-offs are charged to the profit and loss account in full in the year of purchase. Expected lifetimes are:

Buildings	25 years
Technical installations in buildings	10 years
Technical plant and machinery	5 years
Other plant, operating equipment and furniture	5 years

Tangible fixed assets with a cost of less than DKK 20,000 are charged to the profit and loss account in the year of acquisition. Minor building conversion and improvement costs not considered to add permanent value, are charged to the profit and loss account in the year in which they are incurred.

Shares in subsidiaries and associated companies
Shares in subsidiaries and associated companies are stated in the accounts of the parent company at the value of the proportional ownership share of the respective companies' equity (equity method) and reduced by unrealised intra-Group profit. If the equity of a subsidiary is negative, an amount corresponding to the negative equity is set off against accounts receivable from the subsidiary or is allocated to reserves.

The profit for the year and the parent company's equity are therefore equal to those of the Group.

Stocks
Raw materials and ancillary materials are stated in the accounts at cost price.

Semi-manufactured and finished goods are valued at calculated cost price (for raw materials and semi-manufactures at purchase price with an additional amount for processing and other costs directly attributable to the individual product). No addition is made for indirect production costs.

Products whose net realisable value after deduction of any processing and selling cost is lower than the actual or calculated cost price, respectively, are priced at net realisable value.

Commodities are stated at the lower of cost price and net realisable value.

Costs are based on the FIFO principle of calculation.

Accounts receivable
Accounts receivable are stated at face value, reduced by any depreciation in anticipation of losses subject to individual assessment.

Securities
Own shares are stated at cost or at the price quoted on balance sheet date, if lower. An allocation to equity capital is made of the equivalent of the financial value of the shares.

Other securities are stated in the accounts at the price at which they were bought or at market value, if lower, based on a total portfolio assessment. Unrealised losses are entered in the profit and loss account as financial items.

Debt
Debt, including mortgage debt, is stated at nominal value.

Cash flow statement
The cash flow statement uses the indirect method, based on profit before extraordinary items and tax.

The statement shows the Group's cash flow for the year and the liquidity position at year-end. The cash flow originates from, or is applied in, three main areas: operations, investments and financing.

Liquidity includes liquid funds and securities shown as current assets.

Liquidity deriving from operations is adjusted for non-cash operational items, changes in working capital and company tax paid.

Working capital includes current assets and short-term debt, but not short-term items included in liquidity.

Investments include fixed assets purchased or sold, prepayments on fixed assets during the building phase, increases in capital holdings in subsidiaries or associated companies and dividends paid by associated companies.

Financial items include issue of share capital and long- and short-term loans.

Positive amounts indicate incoming payments while negative amounts indicate outgoing payments.

Profit and loss account

1 October – 30 September

DKK '000	Note	Group 1997/98	Group 1996/97	Parent company 1997/98	Parent company 1996/97
Net turnover	1	2,723,876	2,398,547	1,254,797	1,017,375
Change in stocks of finished goods and work in progress	2	24,350	5,579	16,053	47,410
Other operating income		28,208	23,481	21,639	15,142
Income from operations		**2,776,434**	**2,427,607**	1,292,489	1,079,927
Costs of raw materials and consumables		-415,986	-368,658	-291,796	-242,311
Other external costs		-790,683	-703,123	-262,068	-245,865
Employee costs	3	-996,635	-881,773	-461,166	-417,984
Profit before depreciation		**573,130**	**474,053**	277,459	173,767
Depreciation	5	-139,232	-127,223	-97,504	-89,732
Operating profit		**433,898**	**346,830**	179,955	84,035
Income from participating interests	6	0	0	142,377	145,622
Profit, associated companies	6	3,891	-1,515	-2,863	-1,515
Financial income	7	46,421	56,823	62,083	72,832
Financial charges	8	-88,808	-60,147	-39,478	-17,082
Profit on ordinary activities		**395,402**	**341,991**	342,074	283,892
Extraordinary income	9	37	2,291	0	1,400
Extraordinary charges	10	-273	-3,294	0	-3,000
Profit before tax		**395,166**	**340,988**	342,074	282,292
Company tax	11	-128,096	-102,096	-77,284	-44,904
Profit for the year		**267,070**	**238,892**	264,790	237,388
Minority interests		-2,280	-1,504		
Coloplasts share of the profit for the year		**264,790**	**237,388**	264,790	237,388

Profit distribution

The Board of Directors will propose to the shareholders at the Annual General Meeting that they approve the following distribution of the profit for the year:

	Parent company 1997/98	Parent company 1996/97
Dividend DKK 4.40 per share	52,800	46,157
Statutory subsidiary reserves	52,342	70,661
Free reserves	159,648	120,570
Total	264,790	237,388

Balance sheet

At 30 September

		Group		Parent company	
DKK '000	**Note**	**1997/98**	**1996/97**	1997/98	1996/97
Patents and trademarks	5	4,000	0	4,000	0
Intangible assets		**4,000**	**0**	4,000	0
Land and buildings	5	454,174	387,627	151,782	111,972
Technical plant and machinery	5	172,163	166,801	155,504	150,574
Other operating equipment	5	96,143	87,287	39,861	36,202
Payments on account for tangible assets and tangible assets under construction	5	107,775	70,318	69,888	49,619
Tangible assets		**830,255**	**712,033**	417,035	348,367
Shares in subsidiaries	5	0	0	94,764	70,984
Amounts due from subsidiaries		0	0	62,374	71,361
Participating interests in associated companies	5	14,242	8,543	4,835	8,543
Amounts due from associated companies		0	423	0	423
Financial assets		**14,242**	**8,966**	161,973	151,311
Total fixed assets		**848,497**	**720,999**	583,008	499,678
Stock and work in progress	12	**279,815**	**249,448**	127,795	107,055
Trade debtors		477,109	449,741	50,198	38,555
Amounts due from subsidiaries	13	0	0	533,152	453,801
Amounts due from associated companies		2,090	0	2,090	0
Other debtors	14	68,075	53,066	5,855	16,691
Accruals		18,506	11,038	5,211	1,487
Debtors		**565,780**	**513,845**	596,506	510,534
Securities	15	**117,895**	**94,225**	117,295	93,620
Cash and bank balances		**94,735**	**270,372**	33,588	171,799
Current assets		**1,058,225**	**1,127,890**	875,184	883,008
Total assets		**1,906,722**	**1,848,889**	1,458,192	1,382,686
Share capital		240,000	240,000	240,000	240,000
Share premium account		9,688	9,712	9,688	9,712
Subsidiaries' reserves		0	0	146,805	101,354
Reserves for own shares		6,590	0	6,590	0
Transferred profit		848,389	766,000	701,584	664,646
Total equity capital	16	**1,104,667**	**1,015,712**	1,104,667	1,015,712
Minority interests		**4,124**	**1,736**	0	0
Provisions for deferred taxes	17	24,192	13,314	24,580	13,320
Other provisions	18	22,568	19,406	6,000	6,000
Provisions		**46,760**	**32,720**	30,580	19,320
Mortgages	19	153,504	154,950	28,408	4,067
Bank loans	19	3,962	125,929	0	120,368
Long-term liabilities		**157,466**	**280,879**	28,408	124,435
Mortgages	19	10,676	8,798	1,354	460
Bank loans	19	91,049	56,330	15,693	9,676
Trade creditors		133,475	109,314	63,376	56,656
Amounts due to subsidiaries		0	0	6,548	906
Company tax	20	36,864	43,783	15,858	734
Other creditors		268,841	253,460	138,908	108,630
Dividend		52,800	46,157	52,800	46,157
Current liabilities		**593,705**	**517,842**	294,537	223,219
Total current and long-term liabilities		**751,171**	**798,721**	322,945	347,654
Total liabilities		**1,906,722**	**1,848,889**	1,458,192	1,382,686
Other liabilities	21				

Consolidated cash flow statement

DKK '000	Note	Group 1997/98	Group 1996/97
Profit on ordinary activities		395,402	341,991
Adjustment for non-cash operating items	A	149,879	116,118
Changes in working capital	B	-55,149	-90,578
Extraordinary items		37	1,400
Company tax paid		-118,986	-95,941
Liquidity from operations		**371,183**	**272,990**
Investments in patents and trade marks		**-5,000**	**0**
Investments in land and buildings		-98,615	-37,995
Investments in technical plant and equipment		-131,821	-156,883
Investments in financial assets		-119,204	-100,783
Adjustment of capital assets under construction		-37,780	-14,101
Fixed assets sold		7,301	5,238
Investments in own shares		-7,014	0
Exchange-rate adjustment of subsidiary equity capital		-17,001	8,229
Investments		**-409,134**	**-296,295**
Proceeds from capital increase		12,366	0
Dividend to shareholders		-46,157	-35,505
Financing through share issue		**-33,791**	**-35,505**
Financing through long-term loans		-123,413	167,501
Financing through short-term loans		36,597	-211,648
Financing		**-120,607**	**-79,652**
Net cash flow		**-158,558**	**-102,957**
Liquidity at 1 October		364,597	447,782
Adjustment of liquidity due to acquisition		0	19,772
The year's decrease in liquidity		-158,558	-102,957
Liquidity at 30 September		**206,039**	**364,597**
Liquidity includes:			
Securities		111,304	94,225
Liquid funds		94,735	270,372
		206,039	**364,597**

The consolidated cash flow statement cannot be extracted directly from the published financial statements

		1997/98	1996/97
A	**Adjustment for non-cash operating items**		
	Depreciation	139,232	127,223
	Profit share, associated companies	3,891	1,515
	Change in provisions	3,162	-12,620
	Exchange rate adjustments, subsidiaries	1,313	0
	Exchange rate adjustments, securities	2,281	0
		149,879	**116,118**
B	**Changes in working capital**		
	Stock and work in progress	-30,367	-27,996
	Trade debtors	-29,458	-83,418
	Other debtors	-34,867	65,198
	Suppliers and other creditors	39,543	-44,362
		-55,149	**-90,578**

Audit report and approvals

The annual report and accounts for 1997/98 for Coloplast A/S and the Group, which show a consolidated profit for the year of tDKK 264,790 and an equity capital of tDKK 1,104,667, is hereby approved by Group Management and the Board of Directors.

Humlebæk, 16 November 1998

Group Management	**Board of Directors**		
Sten Scheibye Chief Executive	Palle Marcus Chairman	Niels Peter Louis-Hansen Deputy Chairman	Helle Bechgaard
Niels O. Johannesson	Jytte Gliim	Per Magid	Bjarne Nielsen
Carsten Lønfeldt	Kurt Anker Nielsen	Torsten E. Rasmussen	Knud Øllgård

Audit report

We have audited the annual accounts of Coloplast A/S and the Group for 1997/98 as presented by the Management and Board of Directors.

Basis of opinion

In accordance with generally accepted auditing principles we planned and conducted the audit to obtain reasonable assurance about whether the annual accounts are free from material errors or omissions. Based on an assessment of materiality and risk our audit includes examining evidence supporting the amounts and other disclosures in the annual accounts. An audit also includes assessing the accounting policies used and estimates made by management as well as evaluating the adequacy of the presentation of information in the financial statements.

The audit did not give rise to any qualifications.

Opinion

In our opinion the annual accounts have been properly prepared in accordance with the accounting provisions of Danish legislation, and give a true and fair view of the financial position of the Group and parent company, the assets and liabilities as well as the result of their operations.

Hellerup, 16 November 1998

PricewaterhouseCoopers

Morten Iversen
State Authorized Public Accountant

John Schmidt
State Authorized Public Accountant

Revisionsfirmaet Helge Bom A/S

Helge Bom
State Authorized Public Accountant

Notes

	Group		Parent company	
DKK '000	**1997/98**	**1996/97**	1997/98	1996/97
1. Net turnover				
Denmark	71,818	62,149	93,747	59,643
Rest of the world	2,652,058	2,336,398	1,161,050	957,732
Total	**2,723,876**	**2,398,547**	1,254,797	1,017,375
Turnover rest of the world in %	97%	97%	93%	94%
2. Change in stock of finished goods and work in progress	22,475	-20,093	14,178	21,738
Elimination of intra-Group profit	1,875	25,672	1,875	25,672
Total	**24,350**	**5,579**	16,053	47,410
3. Employee costs				
Wages, salaries and directors' fees	879,861	779,384	430,869	393,941
Pension scheme contribution	33,637	29,270	19,832	17,307
Other social security costs	79,096	70,777	7,421	5,275
Holiday pay adjustment	4,041	2,342	3,044	1,461
Total	**996,635**	**881,773**	461,166	417,984
Average number of employees	3,180	2,852	1,593	1,478
Number of employees at 30 September, full-time equivalents	3,269	2,888	1,631	1,430
The following amounts are included in the total employee costs:				
Management remuneration, pension and pension contributions			6,692	6,394
Directors' fees			1,359	996
4. Total fee to auditors elected at the Annual General Meeting				
Total fee to PricewaterhouseCoopers			1,530	1,225
Total fee to Helge Bom A/S			100	90
Of this fee for audit to PricewaterhouseCoopers			660	640
Of this fee for audit to Helge Bom A/S			100	90

5. Fixed assets

Group 1997/98

DKK '000	Intangible assets	Tangible assets				
		Land and buildings	Technical plant and machinery	Other operating equipment	Tangible assets under construction	Total tangible assets
Total purchase price at 1 October 1997	1,971	515,422	582,428	269,362	70,318	1,437,530
Transfer to/from other items	0	42,909	22,800	4,270	-69,979	0
Exchange rate adjustments	0	-4,362	-2,283	-3,294	-323	-10,262
New equipment and improvements during the year	5,000	55,706	54,037	50,714	107,759	268,216
Disposals during the year	-1,971	-5,563	-19,981	-41,501	0	-67,045
Total purchase price at 30 September 1998	**5,000**	**604,112**	**637,001**	**279,551**	**107,775**	**1,628,439**
Total revaluations at 1 October 1997	0	0	0	0	0	0
Exchange rate adjustments	0	0	0	0	0	0
Revaluations of the year	0	0	0	0	0	0
Total revaluations at 30 September 1998	**0**	**0**	**0**	**0**	**0**	**0**
Total depreciation and write-offs at 1 October 1997	1,971	127,795	415,627	182,075	0	725,497
Transfer to/from other items	0	0	-2,685	2,685	0	0
Exchange rate adjustments	0	-774	-1,928	-3,099	0	-5,801
Depreciation and write-offs of assets sold	-1,971	-763	-18,361	-35,594	0	-54,718
Depreciation and write-offs of the year	1,000	23,680	72,185	37,341	0	133,206
Total depreciation and write-offs at 30.9.1998	**1,000**	**149,938**	**464,838**	**183,408**	**0**	**798,184**
Book value at 30 September 1998	**4,000**	**454,174**	**172,163**	**96,143**	**107,775**	**830,255**
Book value at 30 September 1997	**0**	**387,627**	**166,801**	**87,287**	**70,318**	**712,033**
Depreciation and write-offs of the year	1,000	23,680	72,185	37,341	0	133,206
Loss of the year on fixed assets sold	0	2,316	1,528	2,171	0	6,015
Profit of the year on fixed assets sold	0	0	0	-989	0	-989
Total depreciation of the year	**1,000**	**25,996**	**73,713**	**38,523**	**0**	**138,232**
Cash value of land and buildings in Denmark according to the latest official valuation at 1 January 1998						**237,240**

Parent company 1997/98

DKK '000	Intangible assets	Tangible assets				
		Land and buildings	Technical plant and machinery	Other operating equipment	Tangible assets under construction	Total tangible assets
Total purchase price at 1.10.1997	1,971	179,057	522,496	112,152	49,619	863,324
Fixed assets under contruction at 1 October 1997	0	22,549	26,346	724	-49,619	0
New equipment and improvements during the year	5,000	30,046	47,693	18,962	69,888	166,589
Transfer to/from other items	0	0	-3,546	3,546	0	0
Disposals during the year	-1,971	-2,861	-19,966	-22,338	0	-45,165
Total purchase price at 30 September 1998	5,000	228,791	573,023	113,046	69,888	984,748
Total revaluations at 1 October 1997	0	0	0	0	0	0
Revaluations of the year	0	0	0	0	0	0
Total revaluations at 30 September 1998	0	0	0	0	0	0
Total depreciation and write-offs at 1 October 1997	1,971	67,085	371,922	75,950	0	514,957
Transfer to/from other items	0	0	-2,685	2,685	0	0
Depreciation and write-offs of assets sold	-1,971	-763	-18,346	-20,699	0	-39,808
Depreciation and write-offs of the year	1,000	10,687	66,628	15,249	0	92,564
Total depreciation and write-offs at 30.9.1998	1,000	77,009	417,519	73,185	0	567,713
Book value at 30 September 1998	4,000	151,782	155,504	39,861	69,888	417,035
Book value at 30 September 1997	0	111,972	150,574	36,202	49,619	348,367
Depreciation and write-offs of the year	1,000	10,687	66,628	15,249	0	92,564
Loss of the year on fixed assets sold	0	2,098	1,528	638	0	4,264
Profit of the year on fixed assets sold	0	0	0	-324	0	-324
Total depreciation of the year	1,000	12,785	68,156	15,563	0	96,504
Cash value of land and buildings in Denmark according to the latest official valuation at 1 January 1998						123,194

5. Financial assets

Group/Parent company 1997/98

DKK '000	**Group**		Parent company	
	Equity in subsidiaries	**Equity in associated companies**	Equity in subsidiaries	Equity in associated companies
Total purchase price	0	12,838	526,788	12,838
Capital investments in the financial year	0	119,204	43,424	0
Total purchase price at 30 September 1998	**0**	**132,042**	570,212	12,838
Revaluation beginning of the year	0	0	161,308	0
Adjustment of revaluation beginning of the year	0	0	2,389	0
Profit from subsidiaries	0	6,754	149,993	0
Disposals during the year	0	0	0	0
Adjustment of profit at exchange rates at balance sheet date	0	-126	-4,882	0
Received dividend	0	0	-88,084	0
Total revaluation	**0**	**6,628**	220,724	0
Write-off beginning of the year	0	-4,294	-747,612	-4,294
Exchange-rate adjustment of reserves beginning of the year	0	-21	10,064	-21
Adjustment of reserves beginning of the year	0	-831	0	-831
Corporate goodwill written directly to reserves	0	-116,373	-116,373	0
Deficit subsidiaries	0	-2,863	-7,616	-2,863
Disposals during the year	0	0	0	0
Adjustment at exchange rates at balance sheet date	0	796	543	6
Total write-off	**0**	**-123,586**	-860,994	-8,003
Set-offs in accounts receivable, subsidiaries	**0**	**0**	227,411	0
Value of financial assets	**0**	**15,084**	157,353	4,835
Intra-Group profit	0	-842	-62,589	0
Book value at 30 September 1998	**0**	**14,242**	94,764	4,835

	Group		Parent company	
DKK '000	**1997/98**	**1996/97**	1997/98	1996/97
6. Income from participating interests				
Profit from subsidiaries			149,993	146,926
Loss from subsidiaries			-7,616	-1,304
Income from participating interests			142,377	145,622
Profit, associated companies	**3,891**	**-1,515**	-2,863	-1,515
Dividend payable to Coloplast A/S from associated companies and subsidiaries	0	0	88,084	78,621
7. Financial income				
Interest receivable	17,569	20,357	32,814	39,943
Value adjustment of securities	533	8,477	533	8,477
Exchange rate adjustments	28,319	27,989	28,736	24,412
Total	**46,421**	**56,823**	62,083	72,832
8. Financial charges				
Interest payable	19,788	22,295	5,095	8,810
Exchange rate adjustments	40,336	12,370	34,383	8,272
Cash discounts	28,684	25,482	0	0
Total	**88,808**	**60,147**	39,478	17,082
9. Ekstraordinary income				
Net adjustment of provision for patent suits	0	213	0	0
Compensations	37	2,078	0	1,400
Total	**37**	**2,291**	0	1,400
10. Extraordinary charges				
Provision for lawsuits	273	0	0	0
Provision for patent suits	0	3,000	0	3,000
Compensations	0	294	0	0
Total	**273**	**3,294**	0	3,000
11. Tax				
Tax on profit for the year	116,100	92,310	61,994	35,065
Change in deferred tax	11,074	9,597	11,260	9,650
	127,174	**101,907**	73,254	44,715
Adjustment regarding previous years	922	189	4,030	189
Total	**128,096**	**102,096**	77,284	44,904
Tax specification:				
Tax on operating profit	127,250	102,208	73,254	45,195
Adjustment of previous years' tax	922	189	4,030	189
Tax on extraordinary profit	-76	-301	0	-480
Total	**128,096**	**102,096**	77,284	44,904

DKK '000	Group 1997/98	Group 1996/97	Parent company 1997/98	Parent company 1996/97
12. Stock and work in progress				
Raw materials and consumables	99,170	86,772	54,737	48,175
Work in progress	30,649	27,618	25,699	23,162
Finished goods	149,996	135,058	47,359	35,718
Stock and work in progress 30 September	**279,815**	**249,448**	127,795	107,055
13. Amounts due from subsidiaries	0	0	580,778	458,201
Negative equity in subsidiaries	0	0	-47,626	-4,400
Total	**0**	**0**	533,152	453,801
14. Other debtors/receivables				
Share capital due	0	13,012	0	13,012
Other debtors/receivables	68,075	40,054	5,855	3,679
Total	**68,075**	**53,066**	5,855	16,691
15. Securities	117,895	94,225	117,295	93,620

Securities at 30 September 1998 consist mainly of Danish bonds, duration 4.3.

Own Shares

Holding at 30.9.1998 was 11,500 shares with a nominal value of DKK 230,000, which is 0.1% of the total nominal share value.

During the year, no own shares were sold while 11,500 were bought. Their nominal value was DKK 230,000. Average buying price was 609.9, the total price paid being DKK 7,013,750.

Own shares were purchased for use in possible acquisition deals.

16. Equity capital

DKK '000	Share capital A shares	Share capital B shares	Premium at issue	Non-distrib. profit in subsidiaries	Reserves for own shares	Transferred profit	Total equity capital
Balance at 1 October 1997	18,000	222,000	9,712	101,354	0	664,646	1,015,712
Adjustment issue 1996/97			-24				-24
Reserves for own shares					6,590	-6,590	0
Profit for the year				52,342		212,448	264,790
Declared dividends				0		-52,800	-52,800
Changes in opening values and other adjustments regarding subsidiaries				-6,891			-6,891
Write-off, goodwill on acquisition of companies and rights						-116,373	-116,373
Adjustment write-off at exchange rates at balance sheet date						253	253
Balance at 30 September 1998	**18,000**	**222,000**	**9,688**	**146,805**	**6,590**	**701,584**	**1,104,667**

DKK '000	Group 1997/98	Group 1996/97	Parent company 1997/98	Parent company 1996/97
17. Provisions for deferred taxes				
Deferred tax, opening balance	13,314	3,951	13,320	3,670
Exchange rate adjustment	-196	4	0	0
Change in deferred tax	11,074	9,359	11,260	9,650
Balance at 30 September	**24,192**	**13,314**	24,580	13,320
18. Other provisions				
Other provisions, opening balance	19,406	7,802	6,000	3,000
Changes in other provisions	3,162	11,604	0	3,000
Balance at 30 September	**22,568**	**19,406**	6,000	6,000
19. Mortgage and bank loans				
Due in				
Less than 1 year	101,725	65,128	17,047	10,136
1 to 5 years	69,633	172,167	6,333	122,564
More than 5 years	87,833	108,712	22,075	1,871
Total	**259,191**	**346,007**	45,455	134,571

20. Company tax

Company tax due includes calculated company tax for the financial year 1997/98 and company tax payable for 1996/97. Tax paid during the year includes tax payments for 1996/97 and payments on account for this financial year.

DKK '000	Group 1997/98	Group 1996/97	Parent company 1997/98	Parent company 1996/97
Tax due, opening balance	43,783	45,184	734	25,225
Exchange rate adjustment	-4,955	1,487	0	0
Adjustment, previous years	922	189	4,030	189
Tax on profit for the year	116,100	92,864	61,994	36,377
Tax paid during the year	-118,986	-95,941	-50,900	-61,057
Balance at 30 September	**36,864**	**43,783**	15,858	734

21. Other liabilities and information

DKK '000	Group 1997/98	Group 1996/97	Parent company 1997/98	Parent company 1996/97
Contingent liabilities: At year-end Coloplast had guaranteed subsidiary loans and commitments in the sum of DKK	109,246	110,838	102,591	110,838
Leasing liabilities: Liabilities on leasing contracts at 30 September 1998 amount to DKK	21,088	18,512	2,219	2,773

Minor lawsuits are pending against the Group. These will have no influence on the company's future earnings.

Coloplast is obliged to acquire in certain circumstances the remaining shares in the associated companies. In Group Management's opinion such acquisition will not materially influence the finanaical position of the Group.

Logistics supports the customer

Physical properties are basic to the customer's perception of a product, but the importance of customised service is increasing. This trend provides scope for the logistics function to play a proactive role in customer relations. Pressure for savings in the national economies will continue to challenge suppliers to the healthcare sector. We will need to develop new forms of co-operation and seize emerging opportunities for meeting customer needs.

Within 24 hours

More than a million customer order lines are handled by the corporate logistics system every year. Any one order will pass a number of employee computer screens in the process. Decisions regarding material purchases, production plans and carriage taken in this chain have been delegated to keep communication lines short. This makes for efficiency.

In 1985 Coloplast introduced just-in-time production, which meant that the production units replaced manufacturing for stocks with manufacturing to meet actual needs in the sales subsidiaries.

Automatic reordering prompted by sales meant higher efficiency, and back orders were reduced to a minimum. Today, our goal is for subsidiaries to deliver 98.5% of all products within 24 hours of receipt of order.

This and other initiatives have reduced the time of delivery from product division to subsidiary/distributor from thirteen to three weeks. We continue to work at shortening delivery times further.

Customised service

Many customers wish Coloplast to do more than just deliver the product on time. Some distributors wish to hold consignment stocks and settle accounts monthly. Hospitals may wish their supplies to be packed per department and home healthcare providers may need tailored product packages for their visiting nurses.

To comply with such needs, Coloplast is strengthening corporate competences in logistics. A cross-organisational task force has been mapping individual links in the order handling process, highlighting any items in the business process that may be handled more efficiently. This scrutiny has served to reduce the average time spent on each order by more than 16%, says project manager Dietmar Vollmer, who is responsible for logistics in the German sales subsidiary.

Logistics is a vital process in modern, customer-oriented companies. We have developed our logistics services to meet future customer needs

Involving the users

What would an ostomy bag for the collection of faeces, following cancer surgery, look like, if ostomists were allowed to design it themselves? Or if all the features recommended by stoma care nurses could be included?

About a year ago the Ostomy Products Division decided to invite users to participate in the first phase of a new development project. The stoma care nurses on Coloplast's permanent panels, the Coloplast Ostomy Forum, welcomed the idea. The voice of end users would be heard from panels set up in the UK, Denmark, Germany and Spain.

The groups met for design days and were given materials and accessories for making the best conceivable ostomy bag. That bag is now on the market.

Influencing design

Ostomy bags look alike and quality features are not always apparent. The personal experience of the individual end user is therefore vital to product choice.

- The new user-designed **Assura** ostomy bag appeals both to emotional and logical intelligence, says project manager Lene Heegaard. Its clinical appearance has been toned down. The bag is now available with a soft front, in skin colour and with a discreet blue pattern. We have sought to change the end user's perception of wearing a bag, from it being seen as a hospital product to it being seen more as a garment.

It is vital to the quality of life of users that our products meet their needs. The users designed an ostomy bag and toned down its clinical appearance

Security in social life

One of the ostomists who participated in the creative process is Torben Hansen. He finds the new bag so well thought-through that the only desirable feature missing now is "noise-proofing".

- It has been very rewarding to use my practical experience in the design process. The new filter is really effective. I suggested a valve on the bag, but with the new filter design this is unnecessary. I also like the new anatomical shape. It means less conflict with clothes.

Stoma care nurse Doris Wohlfeil participated in a design session in Germany. In addition, she subsequently conducted clinical trials with the **Assura** one-piece bag.

- The **Assura** bag definitely lives up to expectations, also in practical use. Particularly the oval shape of the adhesive and the effective filter make users feel secure in social life. I have also received positive feedback on the design. End users feel it makes the bag seem less like a hospital product.

Vertical absorption – a benefit

Nurse Tove Brink-Kjær from the Wound Healing Knowledge Centre at Bispebjerg University Hospital treats patients with leg ulcers. She knows what it is like to realise that, after a few days' treatment with a traditional alginate dressing, the wound has grown in size. Alginates are used for dressing wounds because they can absorb large amounts of wound exudate and form a protective gel. The moist environment is good for wound healing but bad for the surrounding healthy skin.

- In order to reduce maceration of the skin around the wound, I need to change the dressing quite often. This may disturb the healing process, which is best left alone, says Tove Brink-Kjær.

- The cost of frequent dressing changes puts pressure on healthcare budgets. Besides, otherwise mobile and fit elderly persons in their home would prefer the wound to look after itself and not be time-consuming.

Preventing skin damage

The Wound Care Division's product developers found a solution to this problem in the mid-1990s. They developed the first – and still unequalled – alginate product which prevents wound liquids from macerating the healthy skin around the wound.

Conventional alginate dressings consist of loose fibres. They absorb liquids very quickly, but the moisture spreads throughout the dressing.

- Our task was to develop an alginate dressing which did not disintegrate on removal, nor leave alginate fibres in the wound. We also wanted to be able to control its absorption, to make a dressing structure which would channel liquids upwards rather than sidewards, explains R&D manager Peter Sylvest Nielsen.

Undisturbed healing

- We knew from previous development work that alginate forms a soft, homogenous material when freeze-dried. A special freezing process changed the alginate structure and organised the pores neatly across the dressing, at right angles to the wound. This structure enables our **SeaSorb** dressing to absorb wound liquids vertically without horizontal spreading.

The technology is patented and, for the wound patient, this controlled absorption means healing can proceed undisturbed with fewer dressing changes. In this way it improves quality of life. It also reduces the workload of the nursing staff. They need not change dressings as often, nor is there a need to treat the skin around the wound with prophylactic cream.

Freeze-drying technology has made it possible to prevent the spreading of wound liquids in alginate dressings. Local absorption prevents maceration of the skin around chronic ulcers with heavy exudation

Easy access to knowledge

Information technology strengthens all processes in the organisation and ensures easy access to shared information

At Coloplast we use information technology as a tool for strengthening performance in sales and marketing, customer contacts, product development, manufacturing processes, logistics and management. All employees worldwide use the same standard software package with access to shared databases.

The work of international project groups across business units and borders has become easier with the extensive use of corporate databases. A project group working in a shared database environment with documents relating to the project may quickly communicate relevant information via e-mail. The use of identical software packages enables the whole organisation to share information and knowledge independently of function, time and place.

Electronic overview

Customer complaints is one of the areas where IT has served to increase transparency. Until spring 1997 complaints were only recorded on paper in the subsidiaries and sent to the product divisions' quality departments in Denmark. This paperwork has been replaced by a common, global database. The customer service person in a subsidiary who receives the complaint now enters the relevant details on product, customer and defect in predefined categories. The file data will also indicate if a product is on its way for analysis in the quality laboratory.

Customer service in the subsidiaries can follow complaints through the system and check up on their status. Time for processing complaints has been more than halved after the introduction of electronic registration. When the system is completely run in, the processing time is expected to be further reduced.

Better products

- Systematic reporting of customer complaints is a valuable source of information for the product divisions in their efforts to improve the products, says corporate quality assurance manager Ingrid Malmberg.

- The shared database enables us to process complaints data statistically and helps us identify functional problems at an early stage and have them corrected.

Management through dialogue

The Coloplast management is convinced that satisfied employees means satisfied customers and better results. Every year employee satisfaction surveys are conducted throughout the Group. Once a year development interviews are scheduled between all employees and their immediate superior. Here employees have an opportunity to discuss all aspects of their job, from individual commitment and cooperation with others to management visibility.

Self-managing teams

In 1994 the Ostomy Products Division production management decided to abandon the traditional organisational set-up. Operations occupied nearly all management resources, leaving no room for development.

- We realised that we would have to revise our concept of leadership to better utilise human resources, recalls production manager Marianne Ovesen.

- We did so by introducing self-managing production teams and process management in the production centres. Each production team selected seven coordinators who were given responsibility for operations-related tasks in specific areas: personnel, quality, logistics, technology, administration, service and constant improvements. Some of the previous production centre managers, who used to have both operations-related and project-related tasks, were given responsibility for a single process across production groups. The other managers were released for such tasks as constant improvements, new production and operations development. The role of the leader was no longer to give orders, but to support and guide.

The team coordinators, who are all hourly paid employees with production-related tasks, each reports to the relevant process leader. They have their own networks across teams for sharing experience in their respective fields and are also responsible for day-to-day operations.

Wholehearted commitment

This reorganisation of routines was heavily supported by educational activities and training. After a year, the new team set-up was really beginning to pay back.

If you ask the 140 employees what it is they like about self-managing production teams, they will say that they like to use their brains at work; that they are involved in production planning and can impact their own working day.

- In four years, employee turnover has fallen by more than 50%, absence due to sickness has been reduced similarly, and productivity has increased, explains Marianne Ovesen. The wastage rate has nearly halved and delivery performance and production economy have improved significantly.

The self-managing production groups in the Ostomy Products Division rely on leaders to support and guide them rather than to give orders

Weight is all-important

Coloplast develops better breast forms. The right weight is important to maintain balance in the body and avoid strain to the back and shoulders

There are good reasons for a woman to choose to wear an external silicone breast form after surgery. The silicone gel provides the drape and look of a natural breast. Its texture feels like breast tissue and in the mastectomy bra it moves naturally with the body.

Although the size and weight of the breast form match that of the remaining breast, the form is often perceived as heavier because it is supported by the bra and not by the chest wall tissues.

- It was a challenge to develop a breast form which was lighter, but had sufficient strength and met user preferences regarding appearance and feel, explains development manager Robert Halley, Breast Care Division in the USA.

Light as air

One potential method to make a breast form lighter is to entrap air bubbles in the silicone gel. However, it is not as easy as it sounds.

- Adding air to silicone gel changes its strength, appearance and feel. We reformulated the silicone again and again to improve its strength while maintaining its texture and response, says Robert Halley.

The biggest technical challenge was to ensure a uniform dispersion of the entrapped air in the silicone. Special pumps and mixing equipment were built to deliver the silicone accurately to our molds so that the silicone would cure to a precise texture and feel.

Moves with the body

To meet the needs regarding appearance, we chose to combine different silicones: the standard silicone used in the Breast Care Division's other breast forms and the new lightweight silicone.

The two-layer solution opened possibilities for modifying the shape of the breast form to better fit new surgeries and lifestyles. Its ability to move with the body has improved because the firmness of the two layers differs, which makes for a more natural response to body movements.

- By stretching the potential of the silicone for incorporating air we achieved a 30% weight reduction in the inner layer while maintaining the other user benefits, says Robert Halley.

Intellectual capital accounts

At Coloplast we wish to assess the value of "knowledge management" as a potential tool to support our objective of combining profitable growth with a high degree of customer and employee satisfaction.

We have therefore decided to participate in a project to develop a model for intellectual capital accounts. The project has been initiated by the Danish Agency for Trade and Industry and will run for a period of three years. Several Danish companies have joined the project.

Intellectual capital includes such assets as employees' knowledge and competencies, customer confidence in the company and its products, the company's infrastructure – eg IT systems – and the efficiency of business processes.

We consider the knowledge accumulated in the company vital to its development. With the increasing complexity of business structures, with employees who job rotate and work across borders and time zones, it is desirable that we optimise information technology to both measure and anchor our knowledge base and develop our competencies. Knowledge management is therefore a project requiring close interplay between human resource management and information technology.

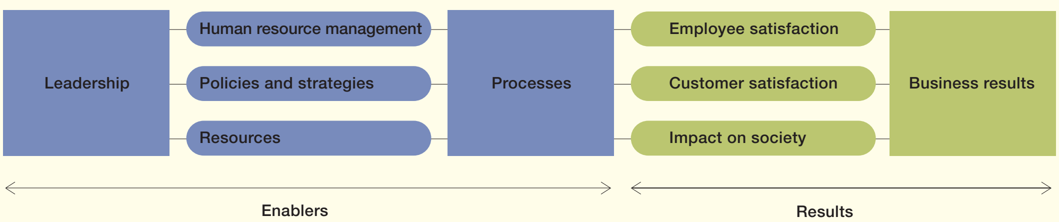
Knowledge management and quality

We believe that knowledge management is a natural extension of Coloplast's work with Total Quality Management (TQM), where quality is the guiding principle for all the company's activities. In 1995 Coloplast made its first self-evaluation, an in-depth analysis involving managers at the three top levels. Each manager evaluated the efforts and results achieved by Coloplast. The self-evaluation was based on the TQM model developed by the European Foundation of Quality Management (EFQM). In recognition of many years' efforts to achieve quality, Coloplast won the Danish Quality Award in 1996.

In 1998 another self-evaluation was made. It showed that initiatives taken to improve items identified in 1995, had had the desired effect.

The TQM model, which is shown below, is based on the company's ability to describe the relationship between the effort made and the desired outcome. The company's objectives are divided into four groups. Only when strategic choices and decisions consider cus-

The Coloplast TQM model



tomer satisfaction, employee satisfaction, the effect on society and excellent financial results, can the company be said to be operating according to TQM principles.

'Business performance' is described in the financial section of this annual report. 'Effect on society' is explained in Coloplast's Environmental Statement for 1996/97, issued in August 1998. Employee and customer satisfaction are accounted for in this first attempt at making intellectual capital accounts.

We have divided our measurements into three sections. In the same way as the TQM model, we have evaluated the relationship between effort and results.

- What do we have? (status)
- What do we do? (enablers)
- What do we get? (results)

The first tentative step towards preparing Coloplast intellectual capital accounts includes employees and customers; it is published as part of the project initiated by the Danish Agency for Trade and Industry. The measurements relating to employees comprise Denmark (Coloplast A/S), while the measurements involving customers comprise the whole Group. The figures show developments over the past three financial years.

Employees

	95/96	96/97	97/98
Status			
No. of employees in Denmark	1,472	1,487	1,685
Age spread			
Average age, Denmark	36.6 yrs	37.1 yrs	38.2 yrs
-35 years	700	702	803
36-50 years	563	573	646
51+ years	209	210	236
Seniority			
Average, Denmark	5.4 yrs	5.7 yrs	5.5 yrs
0 – 1 year	426	433	503
2 – 5 years	501	505	570
6 – 10 years	309	305	348
over 10 years	235	245	264
Employees (> 3 years' further education)			
Total % of salaried employees	41%	44%	46%
% of all employees	13%	15%	15%
Personnel turnover in %			
Salaried employees	6.7%	9.6%	6.3%
Hourly-paid employees	23.3%	17.3%	15.8%
Focus areas			
Internal job rotations (salaried) extending employee's job/responsibilities	10%	10%	9%
Internal training days per employee	4.1	5.3	4.0
Training costs per employee (in DKK)	5,497	4,541	4,741
Results			
Employee satisfaction (on a 1-5 scale)	3.59	3.65	3.66

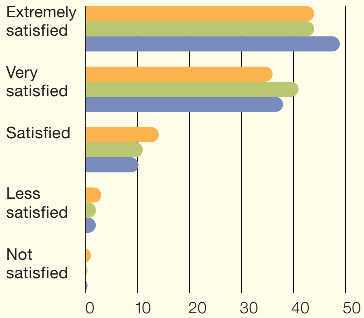
High **personnel turnover** means heavy introduction and training costs, more waste in production and is a general impediment to employee welfare. Therefore, Coloplast in 1996 set the specific goal of reducing personnel turnover for hourly-paid employees by 50%. To ensure this goal was achieved, a number of initiatives were taken. Two such initiatives were the establishment of a job centre and appointment of an employee per product division with responsibility for human resources. These should ensure quality in the selection of job candidates. Another was the introduction of new co-operation and management methods (self-managing groups). Quarterly reporting served to measure the effect of the new initiatives. You will see from the table that personnel turnover for hourly-paid employees has, over the last three years, been reduced by nearly 10 percentage points and that the goal seems to be within reach.

10% of salaried employees rotate to other jobs each year and thereby help spread knowledge across the organisation. **Job rotation** increases the business understanding and career opportunities of individuals.

Many employees completed six weeks of **supplementary training** in 1996/97 in connection with the setting up of self-managing groups in production centres (please see page 36). Therefore, the number of internal training days per employee was lower in 1997/98.

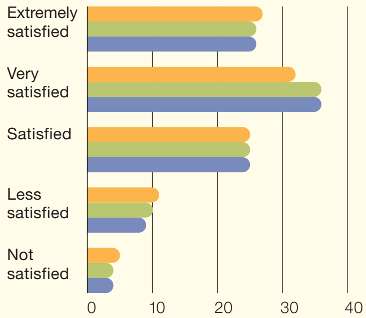
An increasing number of **courses** is developed and held internally. This means better quality and relevance of the training offered. At the same time the cost of training per employee is slightly lower.

Welfare



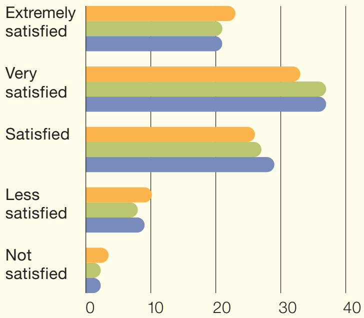
Are you generally satisfied with working at Coloplast?

The job



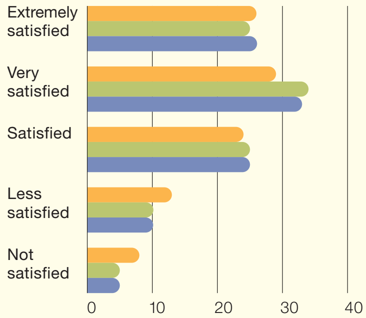
This section includes questions on employee commitment, professional and personal development opportunities, job security, pay, etc.

Cooperation



This section includes questions on the split of tasks, cooperation across departments, etc.

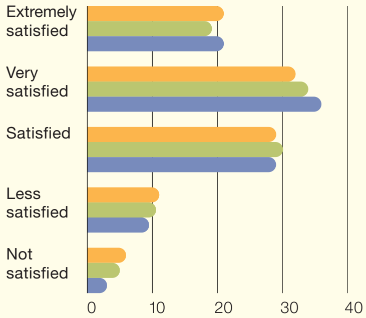
Immediate superior



This section includes questions on the credibility of the employee's immediate superior: responsiveness, ability to handle conflicts, etc.

96 in %
97 in %
98 in %

General



This section includes questions on the management's skills at communicating objectives and strategy, skills at practising what they preach, etc.

Employee satisfaction measurements (ESM)

Coloplast has carried out ESMs for three consecutive years. The survey consists of 47 questions covering five areas: welfare, the job, cooperation, immediate superior, general (see charts). The figures are average figures, and it will be seen that employee satisfaction is high and on the increase from year to year.

Although employee satisfaction is high at Coloplast, these measurements are a valuable tool for improvement. Activities have been initiated to empower managers at all levels to practise what they preach, particularly in day-to-day interaction with their teams, in a manner complying with the Coloplast Mission and Values.

Other changes arising from the ESMs include the setting up of a corporate human resource department having the objectives of increasing international career opportunities, identifying new management courses in conflict handling, communication and cross-functional cooperation and formulating a policy on part-time employment.

Customers

Index 100 = 1995/96	**95/96**	**96/97**	**97/98**
Status			
Defects in delivered products (indexed figures for Coloplast A/S)	100	70	59
Delivery within 24 hours (Group)	98.9%	98.5%	95.5%
Complaints received (indexed for Group)	100	92	106
Turnover share generated by new products, % (Coloplast A/S and Coloplast Consumer Products A/S)	32.9%	32.8%	23.1%
Focus areas			
No. of internal, trained auditors	25	25	25
Internal audits (Coloplast A/S)	75	75	75
No. of non-conformances during Lloyd's audits (Coloplast A/S)	4	3	1
Meetings with end users, nurses and doctors (indexed figures for Group)	100	133	167
Costs of clinical documentation (indexed figures for Coloplast A/S)	100	129	159
R&D expenditure (indexed figures for Coloplast A/S)	100	111	137
Results			
Overall customer satisfaction, % (Group)	93.7%	90.8%	94.6%

Absence of defects in delivered products and **delivery performance** are vital for customer satisfaction. Non-conformance reports, internal audits and trained auditors are areas where we can add focus to improve quality of output and delivery performance.

This year's strike impaired the Group's delivery performance and has left its clear mark.

The number of **complaints** did increase, primarily due to a temporary problem with an adhesive for one of our incontinence products. The introduction of a new electronic complaints system – see mention on page 35 – has increased awareness of the complaint handling process. Electronic registration allows statistical processing, thereby improving our possibilities of overcoming problems quickly and adequately.

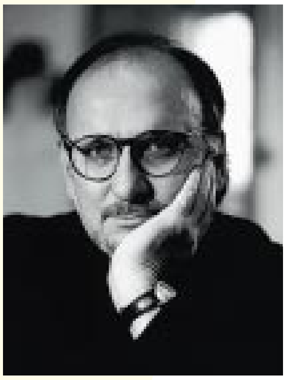
At Coloplast we have set the goal that at least 20% of Group turnover in any financial year must be generated by **new products**. For this purpose a product is defined as being new for four years after its launch. In 1997/98, new products made up 23% of sales. Although this share is lower than the two previous years, it is considered a very satisfactory level which should ensure the Group's future growth.

Clinical documentation is becoming increasingly important to the development and marketing of new products. Documentation must be provided to ensure that products perform as intended and improve the quality of life for end users. Documentation is also required to prove that products are cost-effective in use.

Spending on R&D is also increasing. Each product division is responsible for developing its own product portfolio. Coloplast Research, which was established in 1995, is responsible for general research and is also carrying out a number of special tasks in cooperation with the product divisions. The activities of Coloplast Research have grown considerably and the centre now employs 21 people.

Coloplast is using the same standards for measuring customer satisfaction in all subsidiaries and product divisions. **Overall customer satisfaction** shows that about 95% of Coloplast users are satisfied with our products and services. This is a very gratifying result and one we intend to sustain.

Implied tension



Artist of the year, Bent Holstein

A wasp attracted by a freshly opened beer is swished away determinedly. There must be more wasps in the trimmed wilderness of this garden surrounded by pine, birch and beech, but only one is addicted to beer. On the wall of the painter's studio opposite tall, tilted windows, hangs a nylon rope with gull feathers found on the beach and a sign saying: "gone fishing". The attractions of nature are not far away.

In Bent Holstein's studio in Asserbo, North West Zealand, is an equal number of finished and unfinished canvases. In summer, the artist can benefit from the very special light of a scenery dominated by the presence of water on all sides. The strong light reflected by water brings a light note into nearly all of Bent Holstein's paintings. Soft, beige shades in combination with pale blue, green, dark violet and gold, here and there contrasting with rectangles in powerful colours. Many of the paintings hide bits and pieces from nature: a flower, a leaf, a fossil, a fish.

The canvases will come to life when Bent Holstein picks up his artist's tools. His main sources of inspiration are nature and impressions from his travels, but he never paints thematically and also finds that painting can be too culture-specific.

If there is a motif in his paintings, it is the clash between man-made and natural phenomena. He will have precise shapes define the surface, while other elements suggest layers and depth. That way he fools the onlooker into perceiving more than two dimensions.

Bent Holstein, who is 56, is self-taught. In his early years, his paintings were naturalistic with a touch of unexpected, startling detail. Once he had proved that he was able to depict what the eyes see, repeating it lost its appeal. After all, you are challenged by the techniques you do not yet master, as he puts it.

In winter, Bent Holstein works in his studio in Copenhagen, making etchings and using other graphic techniques. Over the years, his works have been regularly on view at the Galerie Asbæk, Copenhagen, but also elsewhere in Denmark and the rest of the world. He has held separate exhibitions at the Art Stockholm (1997), Galerie Art Collector, London (1993), Galerie ABCD, Paris (1983), Hirschsprungs Museum, Copenhagen (1980), Århus Museum of Art (1974).

Bent Holstein's decorations can be seen eg at the Scandinavian Tobacco Company, Niels Brock's College, Danmarks Nationalbank, Høje Taastrup Station, Hotel Scandinavia and the Ministry of Foreign Affairs. He is represented at the Århus Museum of Art, the Danish National Gallery, Copenhagen, the National Gallery of Art, Washington, the Museum of Modern Art, New York, and the Art Library, Berlin.

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Associated companies

Zhuhai Investments B.V., Holland
(50% owned)
Sterling Medical Services, Inc., USA
(50% owned)
Coloplast Beteiligungs GmbH, Germany
Home SUPPLY + Care Beteiligungs
GmbH, Germany
Home SUPPLY + Care GmbH & Co.
Verwaltungs KG, Germany

Other companies

(100% owned unless otherwise stated)

Coloplast Ejendomsaktieselskab,
Denmark
Co-Inject ApS, Denmark

Amoena GmbH subsidiaries:
Amoena Medizin-Orthopädie-Technik
Verwaltungs GmbH, Germany
Amoena (UK) Ltd., Great Britain
Amoena France S.A., France
Amoena Scandinavia AB, Sweden
Amoena Medizin-Orthopädie-Technik
Verwaltungs GmbH & Co., Germany
Biomagnetics Medizintechnik GmbH,
Germany
Amoena Niederlandische Antillen,
Antilles
Amoena Polska Sp.z.o.o., Poland
Amoena spol.s.r.o., The Czech Republic
(50% owned)
Amoena Kft., Hungary
(50% owned)
Amoena Portugal Lda., Portugal
(50% owned)

Executives in the parent company

at 1 December 1998

Sales Divisions

Michael Jørgsholm	Regional Manager, European Subsidiaries
Jens E. Stovgaard	General Manager, Overseas Subsidiaries, Distributors and Coloplast Consumer Products A/S
Maxwell S. Stringer	General Manager, European Subsidiaries

Product Divisions

Jens Borelli-Kjær	General Manager, Ostomy Products Division
Sven Lange	General Manager, Wound Care Division
Lars Rasmussen	General Manager, Continence Care Division
Mogens Wismann	Operations Manager, Ostomy Products Division

Corporate Staff

Bente Laursen	Corporate Human Resource Manager
Hans Otto Valentiner	General Manager, IT and Environmental Affairs
Peter Volkers	Corporate Legal Affairs Manager
Jens Øhrwald	Corporate Controller

Executives in subsidiaries

Europe

Sigrun Kain	Austria, Country Manager
Eric Bursens	Belgium, General Manager
Finn Ketler	Denmark, Country Manager
Michel Mayneris	France, Président du Directoire
Andreas Joehle	Germany, Geschäftsführer
Cornelius Rechenberg	Germany, Amoena, Geschäftsführer
Bernd Wensauer	Germany, Amoena, Geschäftsführer
Ronald M. Kendrew	Great Britian/Ireland, General Manager
Dirk Pekelharing	Holland, Algemeen directeur
Achille Grisetti	Italy, Direttore Generale
Jesper Jul	Scandinavia, Direktør
Estrella Velasco	Spain, Directora Gerente
Isabelle Badertscher	Switzerland, Marketing- und Verkaufsleiterin

USA & Canada

David W. Heffner	President, Breast Care Division
Donald C. Looney	President, Medical Sales Division
Lou F. Malice, Jr.	Executive Vice President, Breast Care Division
Mogens Pedersen	President, Skin Care Division

Overseas

Maureen McKenzie	Australia, General Manager
Vagn Heiberg	Japan and China, General Manager

Latin America

Santiago Caratini	Argentina, Country Manager
Jan L. Sørensen	Latin America, Regional Manager

Consumer Products A/S

Jan Waage	General Manager

Coloplast's Mission

Throughout the world we wish to be perceived as dependable providers of consumable products and services. Our customers are health care professionals and users. Our primary concern is to improve the quality of life of individuals suffering from a disabling condition.

We respond quickly to market needs to ensure the highest level of customer satisfaction. We strive to offer preferred product ranges based on innovation, advanced technology and cost-effectiveness.

All employees must be recognised for their empathy with user needs and dependability in business relations. It is our ambition to attract and retain the best human resources.

As individuals and as an organisation we will act responsibly and be socially and environmentally conscious.

We strive to be the best within our businesses, thereby achieving growth and value for the company, the employees and shareholders.

Nine-year-old Frederik has been an ostomist since he was very young, and he wears an ostomy bag every day. Going swimming – which he loves – is no problem.

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