60
years of care

Forward
together

Annual report
2016/17

Coloplast

Company registration (CVR) No. 69 74 99 17

Five-year financial highlights and key ratios

DKK million	2016/17	2015/16	2014/15	2013/14	2012/13
Income statement					
Revenue	15,528	14,681	13,909	12,428	11,635
Research and development costs	-574	-509	-442	-390	-380
Operating profit before interest, tax, depreciation and amortisation	5,635	4,624	2,020	3,573	4,160
Operating profit (EBIT) before special items	5,024	4,846	4,535	4,147	3,672
Special items[1)]	0	-750	-3,000	-1,000	0
Operating profit (EBIT)	5,024	4,096	1,535	3,147	3,672
Net financial income and expenses	-72	-13	-289	46	-46
Profit before tax	4,950	4,082	1,245	3,191	3,625
Net profit for the year	3,797	3,143	899	2,390	2,711
Revenue growth					
Annual growth in revenue, %	6	6	12	7	6
Growth breakdown:					
Organic growth, %	7	7	7	9	7
Currency effect, %	-1	-1	5	-2	-1
Acquired operations, %	1	0	0	0	0
Other matters, %	-1	0	0	0	0
Balance sheet					
Total assets	12,050	11,007	10,817	10,379	9,564
Capital invested	7,977	5,551	4,702	6,088	6,320
Equity at year end	5,952	5,068	4,706	6,283	6,769
Cash flows and investments					
Cash flows from operating activities	3,251	3,028	3,337	3,149	3,136
Cash flows from investing activities	-1,619	-603	-468	-777	-159
Investment in property, plant and equipment, gross	-661	-627	-583	-505	-409
Free cash flow	1,632	2,425	2,869	2,372	2,977
Cash flows from financing activities	-1,863	-2,868	-2,963	-2,898	-3,430
Key ratios					
Average number of employees, FTEs	10,420	9,817	9,303	8,741	8,143
Operating margin, EBIT, %	32	28	11	25	32
EBIT margin before special items, %	32	33	33	33	32
Operating margin, EBITDA, %	36	31	15	29	36
Return on average invested capital before tax (ROIC), %[2)]	61	63	62	60	58
Return on average invested capital after tax (ROIC), %[2)]	47	49	48	49	44
Return on equity, %	77	69	16	37	42
Equity ratio, %	49	46	44	61	71
Net asset value per outstanding share, DKK	28	24	22	30	32
Per share data					
Share price	511	514	473	494	314
Share price/net asset value per share	18	21	22	17	10
Average number of outstanding shares, millions	212	212	211	211	211
PE, price/earnings ratio	29	29	111	44	24
Dividend per share, DKK[3)]	15.0	13.5	12.5	11.5	10.0
Pay-out ratio, %[4)]	84	77	82	77	78
Earnings per share (EPS), diluted	17.87	14.78	4.20	11.17	12.62
Free cash flow per share	8	11	14	11	13

1) Special items include costs of settlements and costs in connection with the lawsuits in the United Stated alleging injury resulting from the use of transvaginal surgical mesh products.
2) For the 2016/17, 2015/16, 2014/15 and 2013/14 financial years, this item is before special items. After special items, ROIC before tax is 74%/80%/28%/51%, and ROIC after tax is 57%/62%/21%/38%.
3) The figure shown for the 2016/17 financial year is the proposed dividend.
4) For the 2015/16, 2014/15 and 2013/14 financial years, this item is before special items. After special items, the pay-out ratio is 91%/294%/101%.
The key ratios have been calculated and applied in accordance with "Recommendations & Financial Ratios 2015" issued by the Danish Society of Financial Analysts.

Contents

The year at a glance

Coloplast delivered 7% organic growth in the 2016/17 financial year, in a market growing by 4-5%. This reflect that Coloplast continues to take market share which is satisfactory. In addition, EBIT before special items improved by 4% for an EBIT margin of 32% in DKK. EBIT margin was 33% at constant exchange rates and adjusted for a one-off adjustment of DKK 90m related to the U.S. Department of Veterans Affairs (Veterans Affairs) corresponding to an increase of 9% in EBIT. The reported financial results for the year were in line with guidance, and Coloplast remains one of the world's most profitable medtech companies. A number of events stand out in a review of the 2016/17 financial year:

- Busy year for roll-outs and product launches across the Group, with the relaunch of SenSura® Mio Convex and the roll-outs of Brava® Protective Seal, SpeediCath® Flex and Biatain® Silicone Sizes & Shapes.
- The launch of the new Clinical Performance Program, which is intended to provide clinical documentation of the performance of our future products and to strengthen the cornerstone of Coloplast's core values of delivering superior products and innovation.
- The acquisition of Comfort Medical, the US direct-to-consumer in the first quarter was part of Coloplast's overall ambition of bringing innovative products and services to the US market.
- Driven by the ambition of a unique user-focused market approach, Coloplast Care guided more than 500,000 users during the year.
- Coloplast continued to invest in new growth initiatives, including in product innovation for the purpose of developing clinically differentiated products. Other initiatives included commercial investments in sales and marketing activities in Wound Care, Continence Care in Japan, Australia and South Korea as well as Urology Care in the USA.
- In the Innovation Excellence project, which is intended, among other things, to reduce product time-to-market, Coloplast has enhanced its pilot and ramp-up skills, resulting in a reducing of the number of production staff in Denmark.
- In order to sustain growth, Coloplast also invested in its management development program during the year.
- Coloplast finished the expansion project at the Tatabánya factory and opened a new logistics and distribution centre in Hungary.
- In support of the LEAD20 strategy, Coloplast is launching a new operational plan 'Global Operations Plan IV', which will lift the EBIT margin by 150bp with full effect from the start of 2020/21.

The ostomy care business generated 7% organic growth and continued to win market shares, supported by the new SenSura® Mio product portfolio, which includes the clinically proven Sensura® Mio Convex and the Brava® range of accessories. After Coloplast expanded capacity to meet strong market demand, the SenSura® Mio Convex portfolio was relaunched in mid-year and contributed to growing revenue in the second half. The launch of the new accessory Brava® Protective Seal contributed to revenue growth, and gain of market shares during the financial year.

Driven by the SpeediCath® portfolio, the continence care business generated 7% organic growth, especially in the US market, where Coloplast continued to win market share. The SpeediCath® Flex was well received in the market and contributed to revenue growth. Coloplast expects to launch the new SpeediCath® Bacteria Barrier Technology in the 2017/18 financial year, which is a new catheter with bacteria-repellent technology.

The urology care business delivered 10% organic growth for the year, driven by an increased US market share for implant products for women.

While it had a challenging year with 4% organic growth due to pricing reforms in France and Greece, the wound and skin care business continued to execute the strategy announced last year, which includes further investments in product innovation and in sales and marketing activities in the USA, the UK, Germany and selected counties in the Emerging Markets region. In particular, the wound care business showed an improved momentum in China during the year.

The year at a glance

The European markets had a satisfactory year, with 5% organic growth which accounts for 45% of Coloplast's total organic growth for the year. Coloplast had a strong year in the USA, generating double-digit growth rates and having solved the challenges of inventory reductions that were a restraint on the chronic care business. The strong performance in the USA is driven by the ongoing upgrade to hydrophilic catheters, which now make up ~50% of Coloplast's total sales of intermittent catheters on the US market. Coloplast continues to expand the ostomy care business in the USA, winning a number of IDN (Integrated Delivery Network) contracts and a major contract with one of the largest homecare companies in the country.

The introduction of new reimbursement schemes for intermittent catheters resulted in increased growth rates for Coloplast in Australia, Japan and South Korea. The Emerging Market countries delivered 13% organic growth for the year, driven by accelerating growth rates in the wound care business in China as well as Russia, Argentina and several small markets. Sales to a number of countries, including Saudi Arabia and Brazil, remain challenged by the downward trending oil prices.

As per the end of the financial year, Coloplast had settled more than 95% of the known lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence.

The judge hearing the class action suit against Coloplast has in June 2017 issued a court order stating that plaintiffs may no longer direct claims against Coloplast in the ongoing multidistrict litigation (MDL).

Financial highlights of the year

The financial results were in line with the guidance provided in the 2015/16 Annual Report, although at a lower DKK-denominated rate of growth, which is consistent with the most recent guidance provided in company announcement no. 4/2016 of 16 August 2017. In that announcement, the financial guidance in DKK was revised due to exchange rate developments in GBP and USD, in particular, and a one-off adjustment of DKK 90m as Coloplast has identified incorrect management of contractual obligations relating to a contract from 2009 with the U.S. Department of Veterans Affairs (Veterans Affairs).

- Organic growth was 7%, and reported revenue increased by 6% to DKK 15,528m.
- Organic growth rates by business area were as follows: Ostomy Care 7%, Continence Care 7%, Urology Care 10% and Wound & Skin Care 4%.
- 2016/17 was strong in terms of product launches, and in addition to stable growth in Europe, growth was driven by accelerating momentum during the year in the Emerging Markets region. In addition, the chronic care business reported double-digit organic revenue growth in the USA.
- Organic growth in the wound and skin care business was negatively impacted by the weak momentum in China early in the year and by pricing reforms in France and Greece.
- EBIT before special items was DKK 5,024m, up by 9% at constant exchange rates (before the one-off adjustment related to Veterans Affairs) and by 4% in DKK. The EBIT margin at constant exchange rates and before the DKK 90m one-off adjustment related to Veterans Affairs was 33%.
- Net profit before special items was up by 2% to DKK 3,797m, and diluted earnings per share before special items were also up by 2% to DKK 17.87.
- The free cash flow amounted to DKK 1,632m, DKK 793m lower than last year. Adjusted for payments made in connection with lawsuits alleging injury resulting from the use of transvaginal surgical mesh products and the acquisition of Comfort Medical, the underlying free cash flow was in line with last year's cash flow.
- ROIC after tax before special items was 47% against 49% last year.
- The Board of Directors recommends that the shareholders attending the general meeting to be held on 7 December 2017 approve a year-end dividend of DKK 10.5 per share. This brings the dividend paid for the year to DKK 15.0 per share, as compared with DKK 13.5 per share last year.

Strategy

LEAD20 strategy

Coloplast's strategy, LEAD20, is a growth strategy that builds on Coloplast's core skills.

LEAD20 targets four themes:

1. A unique user-focused market approach
2. Superior products and innovation
3. Unparalleled efficiency
4. Strong leadership development

By taking a **unique user-focused market approach**, Coloplast challenges industry standards. In its ostomy care and continence care business, Coloplast will continue to build a user-oriented medtech company through direct interaction with users, including through the acquisition of Comfort Medical, the Coloplast Care programme and building stronger relations with healthcare professionals. In the wound care business, Coloplast intends to shape the standard of care in the advanced wound care industry and make wound care more intuitive for both healthcare professionals and users through the "Triangle of Wound Assessment", a wound assessment tool. In the urology care business, Coloplast intends to form partnerships with physicians to understand how to meet users' needs.

Delivering ***superior products and innovation*** is the cornerstone of Coloplast's core values in each of its business areas. In the ostomy care business, Coloplast's new product generation will reduce the burden of leakage. In the continence care business, Coloplast aims to reduce the burden of bladder management and urinary infection. In the wound care business, Coloplast intends to help users have fewer days with wounds. In the urology care business, Coloplast intends to innovate to make a real difference by broadening the product portfolio. Superior products and innovation are essential to Coloplast's mission: Making life easier for people with intimate healthcare needs.

Unparalleled efficiency is already a part of Coloplast's DNA. Coloplast aims to deliver unparalleled efficiency through ambitious global operations plans, including through "Innovation excellence" which is intended, among other things, to reduce product time-to-market. At the same time, scalable and efficient support functions will enable subsidiaries to focus on commercial priorities.

Strong leadership development is the key to supporting growth at Coloplast. To that end, Coloplast runs an extensive programme to recruit and develop the next generation of leaders across geographies and functions. The goal is to recruit most of our future leaders in-house.

Coloplast is prepared to invest up to DKK 2bn in new growth initiatives under the new strategy. The investment focus will target strategic initiatives in innovation, the wound care business and Coloplast's user-focused approach as well as geographic focus areas, including North America, the UK, Australia, Japan and selected growth markets.

New long-term financial guidance and dividend policy

Coloplast presents a new long-term guidance for the LEAD20 strategy period:

- Annual organic growth of 7-9%, and
- EBIT margin is changed from an annual improvement of 0.5-1.0% to an EBIT margin of more than 30% at constant exchange rates.

In addition, the Board of Directors intends to distribute excess liquidity to the shareholders by way of dividends and share buybacks.

Markets

Market position

Coloplast markets and sells its products and services globally. In most markets the products are eligible for reimbursement from local healthcare authorities. Products are supplied to hospitals, institutions as well as wholesalers and pharmacies. In selected markets, Coloplast is also a direct supplier to users (homecare). Coloplast has wholly owned sales subsidiaries in its principal markets and at the end of the financial year employed about 11,000 people.

Market conditions

The value of Coloplast's addressable markets increased by 4-5% in the 2016/17 financial year. Coloplast's markets are generally driven by the factors set out below.

Drivers

1	Demographics	Growing **elderly population** increases customer base for Coloplast products
2	Emerging markets	Expanding healthcare coverage for populations in emerging markets **increases addressable market**

Limiters

1	Surgical and medical trends	**Earlier detection and cure**, eventually reduces addressable market for Coloplast treatment products
2	Healthcare reforms	**Economic restraints** drive reimbursement reforms, **introduction of tenders**, and lower treatment cost

The main drivers of Coloplast's addressable markets remain the growing population of elderly people and increased access to healthcare in Emerging Markets. Despite the decrease in prices of oil and other commodities, Coloplast continues to see attractive growth rates in the Emerging Markets region.

The main limiters affecting market growth are medical progress in surgery and pharmaceuticals as well as healthcare reforms that lower the price of medical equipment such as ostomy care, continence care and wound care products.

Healthcare reforms were a slight constraint to market growth in the 2016/17 financial year, driven in particular by reforms on the wound care markets in France and Greece. On the other hand, the new reimbursement categories introduced by Japan, South Korea and Australia also made healthcare reforms a growth factor in 2016/17.

The chronic care business

The ostomy care and continence care business are referred to as Chronic Care, because the products address disorders that are often chronic. On average, people with a stoma use stoma pouches for up to 10 years and chronic users of intermittent catheters use catheters for about 30 years. Common to both segments, most product sales are not made through a hospital or clinical setting, but rather in the community after they have been discharged from hospital. As these chronic product segments command a high degree of product loyalty, the choice of product and sales through hospital or clinical setting is essential for manufacturers of these products. More than 90% of the products in Coloplast's ostomy care and continence care markets are eligible for reimbursement.

In addition to physical products, Coloplast supports users through the Coloplast Care services, providing them with the support and knowledge they need about living with incontinence as well as a stoma.

Markets

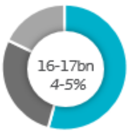
Ostomy Care

A stoma is created in an operation made necessary because of intestinal dysfunction resulting from disease, an accident or a congenital disorder. A part of the intestine is surgically redirected through an opening in the abdominal wall, enabling the patient to empty the colon (colostomy), the small intestine (ileostomy) or the urinary bladder (urostomy). Some 50-60% of stoma operations are performed because of cancer. Ostomy bags consist either of an adhesive base plate bonded together with a bag (1-piece system) or of two separate parts in which the bag is replaced more often than the base plate (2-piece system).

It is important for users to avoid leakage, so they can live as normal a life as possible. As a result, the adhesive must ensure a constant and secure seal, and it must be easy to remove without causing damage or irritation to the skin.

The global market for ostomy care products is worth DKK 16-17bn and is, among other things, influenced by the extent to which reimbursement is available for the products. Market growth is driven by the ageing Western population and the increased access to healthcare services in Emerging markets.

European markets
Other developed markets
Emerging markets

Addressable market Size in DKK *Growth in %*	
Coloplast regional market shares	40–50% 15–25% 35–45%
Coloplast total market share	35–40%
Coloplast market position	#1

The annual market growth is estimated at 4–5%, and Coloplast is the global market leader, holding a market share of 35–40%. Our largest market share is in Europe, while the smallest one is in the USA.

The definition of the market for ostomy products also includes accessory products for people with a stoma. Coloplast markets accessories such as the Brava® range products, which include the Brava® Protective Seal and Brava® Elastic Tape.

The ostomy accessories market is estimated at about DKK 2-3bn with annual market growth of 6-8%. Coloplast currently holds 25-30% of the accessories market.

Continence Care

This business area addresses two types of control issues: people unable to empty their bladder or bowel, and people suffering from urinary or faecal incontinence.

People unable to empty their bladder can use an intermittent catheter, which is inserted through the urinary tract to empty the bladder. The main group of users of intermittent catheters are people with spinal cord injury that very often is the result of an accident. Other user groups are people with multiple sclerosis and people with congenital spina bifida.

Coloplast's portfolio of intermittent catheters spans the full range from uncoated catheters to discreet, compact, coated catheters ready to use in a saline solution.

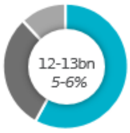
Urinary incontinence means that a person has lost the ability to hold urine resulting in uncontrolled or involuntary release, also called stress urinary incontinence. Incontinence affects older people more often than younger people, because the sphincter muscle and the pelvic muscles gradually weaken as people grow older. Coloplast has a wide range of urine bags and urisheaths for storing urine.

People suffering from bowel or sphincter muscle dysfunction can use the Peristeen® anal irrigation system for controlled emptying of the bowels. A typical Peristeen® user has a spinal cord injury and has therefore lost the ability to control bowel movements.

Markets

Coloplast is the global market leader on the continence care market, with a market share of about 40%. The market is growing by 5-6% per year and is worth about DKK 12-13bn.

European markets
Other developed markets
Emerging markets



Addressable market Size in DKK *Growth in %*	12-13bn 5-6%
Coloplast regional market shares	45–55% 20–30% 20–30%
Coloplast total market share	~40%
Coloplast market position	#1

In the fastest growing segment of the market, catheters, growth is driven by the increasing use of intermittent catheters as an alternative to permanent catheters and by a change in consumption patterns of users and professional care staff towards more advanced catheter solutions.

The urisheath and urine bag segments are growing at a slower rate than catheters. Growth is supported by increased demand resulting from the growing population of elderly people and an increase in the use of urisheaths and urine bags as an alternative to adult diapers. This is a market with many suppliers, including low-cost providers.

Urology Care

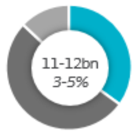
Urology Care involves diseases and symptoms of the urinary system, pelvic floor prolapse and the male reproductive system, such as urinary incontinence, kidney stones, enlarged prostate and impotence. The business area consists of a broad portfolio of products used in connection with urological and gynaecological surgery procedures and includes implants and disposable articles.

Coloplast manufactures and markets disposable products for use before, during and after surgery, such as prostate catheters and stents, some of them under the Porgès brand. The implant business manufactures vaginal slings used to restore continence and synthetic mesh products used to treat weak pelvic floor. The business also includes penile implants for men experiencing severe impotence that cannot be treated by using drugs.

The part of the urology market in which Coloplast operates is estimated to be worth about DKK 11-12bn and market growth is estimated at 3-5% per year.

Coloplast is the world's fourth-largest manufacturer of urology care products, and holds a market share of about 15% and continues to outgrow the market.

European markets
Other developed markets
Emerging markets



Addressable market Size in DKK *Growth in %*	11-12bn 3-5%
Coloplast regional market shares	10–20% 5–15% 5–10%
Coloplast total market share	~15%
Coloplast market position	#4

Market growth in Urology Care is driven by the ageing population and lifestyle diseases, as well as ongoing innovation leading to more cost-efficient surgical procedures.

As for implants market growth drivers include a growing awareness of the treatment options available for men with severe impotence and women with urological disorders.

Wound & Skin Care

In Wound Care, patients are treated for exudating or chronic wounds such as leg ulcers, which are typically caused by insufficient or impaired circulation in the veins of the leg, pressure ulcers caused by extended bed rest, or diabetic foot ulcers. A good wound dressing should provide optimum conditions for wound healing, be easy for healthcarers to change, and should ensure that patients are not inconvenienced by exudate, liquid or odours. A moist wound environment provides

Markets

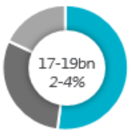
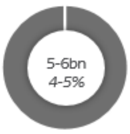
the best conditions for wound healing for optimum exudate absorption.

The Coloplast product portfolio consists of advanced foam dressings sold under the Biatain® brand and hydrocolloid dressings sold under the Comfeel® brand.

Coloplast's skin care products consist of disinfectant liquids or creams used to protect and treat the skin and to clean wounds. For treatment and prevention of skin fold problems such as fungal infections, damaged skin or odour nuisance, Coloplast produces InterDry®, a textile placed in a skin fold to absorb moisture. Coloplast mostly sells skin care products to hospitals and clinics in the US and Canadian markets.

Unlike in the chronic care business, the wound and skin care markets are addressed mainly through acute channels, meaning hospitals and clinics where patients are treated with the products and stop using the products when treatment ends.

European markets
Other developed markets
Emerging markets

	Wound Care	Skin Care
Addressable market Size in DKK *Growth in %*	 17-19bn 2-4%	 5-6bn 4-5%
Coloplast regional market shares	5–15% 0–10% 10–20%	– 7–9% –
Coloplast total market share	7–9%	7–9%
Coloplast market position	#5	#5

Wound Care

The market is estimated to be worth DKK 17-19bn. There is a large number of direct competitors as well as various alternative options, such as negative pressure wound therapy and simple wound dressings. The market is defined as advanced wound care products other than the negative pressure wound therapy segment.

Coloplast is the world's fifth-largest manufacturer of advanced wound care products, holding a market share of 7-9%.

Growth in the part of the global wound care segment in which Coloplast competes is expected to be 2-4%, driven mainly by volume growth due to the increasing life expectancy, the growing diabetics population and a growing number of patients receiving preventive treatment. Increased competition between manufacturers and pricing pressure originating from public healthcare budgets in Europe impacts market growth negatively.

Skin Care

The market for skin care products is estimated at DKK 5-6bn, with a market growth of 4-5%.

Coloplast is the fifth-largest player in Skin Care, which is mainly a US-based business, holding a market share of 7-9%.

Financial review and guidance

Sales performance

The organic growth rate was 7%. Revenue in DKK was up by 6% to DKK 15,528m. Currency developments reduced revenue by 1% as GBP, among other currencies, depreciated against DKK. Revenue from acquisitions contributed 1%, resulting from the acquisition of US distributor Comfort Medical in December 2016. Other matters reduced revenue growth by 1% due to the DKK 90m one-off revenue adjustment made for sales to the U.S. Department of Veterans Affairs (Veterans Affairs) after Coloplast had identified incorrect management of contractual obligations relating to a 2009 contract with Veterans Affairs. The amount of DKK 90m related to continence care products and was deducted directly from revenue. The matter has not affected the organic growth rate.

Sales performance by business area

	DKK million		Growth composition				
	2016/17	2015/16	Organic growth	Acquired operations	Exchange rates	Other matters	Reported growth
Ostomy Care	6,291	5,935	7%	1%	-2%	-	6%
Continence Care	5,543	5,182	7%	2%	-2%	-	7%
Urology Care	1,641	1,497	10%	-	0%	-	10%
Wound & Skin Care	2,143	2,067	4%	-	0%	-	4%
Other matters	-90	0	0%	-	0%	-1%	-1%
Net revenue	**15,528**	**14,681**	**7%**	**1%**	**-1%**	**-1%**	**6%**

Sales performance by region

	DKK million		Growth composition				
	2016/17	2015/16	Organic growth	Acquired operations	Exchange rates	Other matters	Reported growth
European markets	9,394	9,213	5%	-	-3%	-	2%
Other developed markets	3,642	3,177	8%	6%	1%	-	15%
Emerging markets	2,582	2,291	13%	-	0%	-	13%
Other matters	-90	0	0%	-	0%	-1%	-1%
Net revenue	**15,528**	**14,681**	**7%**	**1%**	**-1%**	**-1%**	**6%**

Ostomy Care

Ostomy Care generated 7% organic sales growth, with revenue in DKK growing by 6% to DKK 6,291m. Revenue from acquisitions contributed 1% due to the acquisition of US distributor Comfort Medical. The portfolio of SenSura® products and the Brava® range of accessories were the main drivers of Ostomy Care sales growth. For the SenSura® portfolio, the UK, German and Chinese markets drove the sales performance. In Europe, the SenSura® Mio, including SenSura® Mio Convex, was the main growth driver. SenSura® Mio Convex was relaunched in April 2017 in response to strong demand and as a result of the capacity constraints occurring after the original launch late in 2015. The Brava® range of accessories produced a satisfactory sales performance in all markets, and especially in the USA, the UK, France and China. The Brava® Elastic Tape and the new Brava® Protective Seal were the main contributors with accessories. The Brava® Protective Seal is now available in 13 countries and feedback on the product remains positive. Sales of the Assura/Alterna® portfolios were satisfactory, driven mainly by the Emerging Markets region, including China and Argentina.

From a country perspective, Coloplast generated satisfactory growth in the UK, in part due to the positive performance by the Charter homecare business, and in China, driven by the satisfactory sales performance of the original Sensura® portfolio. Germany, France and Italy were also contributors to sales growth. Inventory reductions by large US distributors in the first quarter and a weaker momentum in the Dutch market had a negative impact on sales growth.

Financial review and guidance

Continence Care

Continence Care generated revenue of DKK 5,543m, an improvement of 7% organically and of 7% in DKK. Revenue from acquisitions contributed 2% due to the acquisition of US distributor Comfort Medical. Sales of SpeediCath® intermittent catheters and Peristeen® continued to drive growth in the continence care business. Sales of compact catheters in the US, French and UK markets lifted sales growth. The new SpeediCath® Flex also contributed to the Continence Care sales performance, especially in the US, UK, German and French markets. SpeediCath® Flex is now available in 14 countries, and feedback on the product is positive.

Standard catheters also generated positive sales, due in part to the sales performance in the US market. Sales of urine bags and urisheaths were up slightly, although growing competition in the Dutch, UK and US markets weighed on performance. Peristeen® sales continued to grow at a fair rate, driven by good performances in Europe and the USA.

From a country perspective, the US and French markets were positive contributors to sales growth. Japan, South Korea and Australia all maintained good momentum, the performance being driven by enhanced reimbursement schemes for intermittent catheters introduced in 2016 and 2017, respectively. The Emerging Markets region was a strong contributor to revenue growth, with Argentina, China and Russia as the main drivers. Inventory reductions by large US distributors in the first quarter and a weaker momentum in the Dutch market had a negative impact on revenue growth.

Urology Care

Urology Care products generated 10% organic sales growth, with revenue in DKK also growing by 10% to DKK 1,641m. Growth was driven primarily by the US market and by Altis® slings and Restorelle® products designed to treat stress urinary incontinence and pelvic organ prolapse. This is a market where Coloplast generated strong revenue growth during the year and took market share following a competitor's decision to withdraw from the market. Growth in sales of disposable surgical products was supported by an increase in tender activity in Saudi Arabia and an improved momentum in Europe.

From a country perspective, the US market continued to drive growth in the urology care business, with France also contributing.

Wound & Skin Care

Sales of wound and skin care products amounted to DKK 2,143m. The organic growth rate was 4%, with sales growth in DKK also at 4%. The wound care business alone also generated 4% organic growth. Biatain® foam dressings continued to drive sales growth in the wound care business, especially Biatain® Silicone and Biatain® Super. Germany, China and Brazil were positive contributors to growth in Biatain® foam dressing sales. The Biatain® Silicone Sizes & Shapes product portfolio is now available in 21 countries, and feedback on the product has been positive. The Comfeel® Plus portfolio featuring a new and improved design and user experience has now been relaunched in 15 countries. Contract production of Compeed® also contributed to growth.

From a country perspective, a healthy momentum in Europe drove growth in the wound care business, with in particular Germany contributing to growth. In addition, the momentum improved in China during the year. Pricing reforms in Greece and France detracted from growth in the wound care business. The pricing reforms introduced in Greece and France early in the year resulted not only in lower prices, but also caused a shift in the product portfolio in Greece from Biatain® Silicone to products such as Biatain® Super. The US market drove sales growth in the skin care business.

Gross Profit

Gross profit was up by 5% to DKK 10,571m from DKK 10,032m last year. The gross margin was 68%, which was in line with last year. The ongoing efficiency improvements and the relocation of SenSura® Mio and the Compeed contract produc-

Financial review and guidance

tion to Hungary contributed to lifting the gross margin. Wage inflation in Hungary, product mix and depreciation charges reduced the gross margin. In addition, Coloplast incurred restructuring costs of about DKK 20m in the reporting period in relation to the reduction of production employees in Denmark. At constant exchange rates, the gross margin was 68%, which is consistent with last year's margin. Before the one-off revenue adjustment related to Veterans Affairs, the gross margin was also 68%.

Costs

Distribution costs amounted to DKK 4,371m, a DKK 240m increase from DKK 4,131m last year. Distribution costs amounted to 28% of revenue, which was unchanged from last year. The distribution costs included sales and marketing initiatives, mainly for Wound Care, Urology Care in the USA and for Continence Care in Japan, Australia and South Korea.

Administrative expenses amounted to DKK 623m, a DKK 62m increase from DKK 561m last year. The increase was due to legal costs in respect of patent litigation and transaction costs of about DKK 7m relating to the Comfort Medical acquisition. Administrative expenses accounted for 4% of revenue, which was in line with last year.

The R&D costs were DKK 574m, a DKK 65m or 13% increase over 2015/16 that was due to a general increase in business activity. The R&D costs amounted to 4% of revenue, compared with 3% last year.

Other operating income and other operating expenses amounted to a net income of DKK 21m, against a net income of DKK 15m last year.

Operating Profit (EBIT)

EBIT before special items was DKK 5,024m, a DKK 178m or 4% increase from DKK 4,846m last year, for an EBIT margin of 32%, against 33% last year. At constant exchange rates, adjusted for the DKK 90m one-off revenue related to Veterans Affairs, EBIT was up by 9% corresponding to an EBIT margin of 33%, which was consistent with last year's margin.

Financial items and tax

Financial items were a net expense of DKK 72m, compared to a net expense of DKK 13m last year. The change was due to foreign exchange adjustments, which amounted to a net expense of DKK 48m against DKK 0m last year. The DKK 48m net expense represents a currency hedging loss on BRL and ARS that was partly offset by a significant gain on hedging of GBP.

The tax rate was 23%, which was in line with last year. The tax expense amounted to DKK 1,153m against DKK 939m last year.

Net profit

The net profit before special items was DKK 3,797m, a DKK 69m or 2% increase from DKK 3,728m last year. Before the one-off revenue adjustment related to Veterans Affairs, the net profit amounted to DKK 3,866m, while earnings per share before special items, diluted were also up by 2% to DKK 17.87.

Cash flow and investments

Cash flows from operating activities

Cash flows from operating activities was DKK 3,251m, against DKK 3,028m last year. The increase was mainly due to the higher EBIT. During the financial year, a total of DKK 1.8bn was paid in connection with the lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence, bringing total payments made to date to DKK 4.2bn.

Investments

Coloplast made investments of DKK 685m compared with DKK 649m last year. The increase was due to investment in machinery to be used for new and existing products and for factory extension purposes. CAPEX accounted for 4% of revenue. The Comfort Medical acquisition was a DKK 1.1bn investment, and net sales of securities amounted to DKK 174m, DKK 144m more than last year. Total cash flows from investing activities were a DKK 1,619m outflow.

Free cash flow

The free cash flow was an inflow of DKK 1,632m

Financial review and guidance

against an inflow of DKK 2,425m last year. The reduction was primarily due to the Comfort Medical acquisition of DKK 1,144m. The amount was only partly offset by timing differences for payments made in connection with the lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence. Adjusted for payments made related to the above-mentioned lawsuits and the acquisition of Comfort Medical, the free cash flow was an inflow of DKK 4,079m against DKK 4,023m in 2015/16.

Capital resources
At 30 September 2017, Coloplast had interest-bearing net debt including securities of DKK 826m, against net cash funds including securities of DKK 813m at 30 September 2016. Liquidity outflows due to settlements in lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products and the Comfort Medical acquisition are covered by the credit facilities established for those purposes.

Balance sheet and equity

Balance sheet
At DKK 12,050m, total assets increased by DKK 1,043m relative to 30 September 2016.

Intangible assets amounted to DKK 2,295m, which was DKK 898m more than at 30 September 2016. The increase was mainly due to the Comfort Medical acquisition. Property, plant and equipment increased by DKK 147m relative to 30 September 2016 to stand at DKK 3,072m.

Other non-current assets declined by DKK 32m from DKK 521m to DKK 489m. As a result, non-current assets increased by a total of DKK 1,013m to DKK 5,856m.

Working capital was 25% of revenue, against 24% at 30 September 2016. Inventories increased by DKK 174m to DKK 1,692m in connection with the replenishment of inventories following back orders on urostomy bags and product launch preparations. Trade receivables were up by DKK 211m to DKK 2,890m, while trade payables were down by DKK 22m, or 3%, to DKK 675m relative to 30 September 2016.

During the financial year, Coloplast reached a number of additional agreements relating to lawsuits in the USA alleging injury resulting from the use of transvaginal surgical mesh products. In that connection, amounts held in escrow increased by DKK 74m net relative to 30 September 2016 to stand at DKK 531m. It is estimated that more than 95% of the known lawsuits in the USA have now been settled.

Security holdings amounted to DKK 315m, DKK 174m less than at the beginning of the financial year, while cash and cash equivalents were reduced by DKK 232m to stand at DKK 314m. Current assets increased by DKK 30m relative to 30 September 2016 to stand at DKK 6,194m.

Equity
Equity increased by DKK 884m relative to 30 September 2016 to DKK 5,952m. Payment of dividends of DKK 2,864m and the net effect of treasury shares bought and sold of DKK 126m were offset by the comprehensive income for the year of DKK 3,772m and by share-based payments of DKK 34m and tax on equity entries of DKK 68m.

Share buy-backs
In 2015/16, Coloplast launched a DKK 1bn share buy-back programme running until the end of the 2016/17 financial year. The first part of the share buy-back programme of DKK 500m was completed in August 2016. The second part of the programme, also for DKK 500m, was completed in July 2017.

Treasury shares
At 30 September 2017, Coloplast's holding of treasury shares consisted of 3,810,266 B shares, which was 450,310 fewer than at 30 September 2016. The holding was reduced due to the exercise of options for 1,378,320 shares, which was partly offset by 928,010 shares bought back.

Other matters

New factory in Hungary
During the financial year, Coloplast decided to expand the production capacity at the Coloplast factory in Nyírbátor, Hungary. The 26,000 sq.m. expansion is scheduled for completion in the first half

Financial review and guidance

of 2017/18. The total investment will amount to about DKK 175m.

New Global Operations Plan IV (GOP4)
A new Global Operations Plan IV (GOP4) is being introduced as part of the LEAD20 strategy for "Unparalleled Efficiency". Overall, GOP4 is to deliver EBIT margin improvements of about 150bp with full effect from the start of the 2020/21 financial year.

Central America will be the target area for the next high-volume production facilities. As part of GOP4, it is Coloplast's intention to close the factory at Thisted, Denmark before the end of 2019/20.

GOP4 will require strengthening of the organisation in Hungary and Central America and restructuring costs of approximately DKK 50m distributed over the 2018/19 and 2019/20 financial years.

Acquisition of Comfort Medical
At the end of December 2016, Coloplast acquired Comfort Medical for a cash consideration of USD 160m, equal to approx. DKK 1.1bn. Comfort Medical is a US direct-to consumer Durable Medical Equipment (DME) nationwide dealer of catheters and ostomy supplies founded in Florida in 2010.

The acquisition provides one more piece in Coloplast's overall ambition of bringing innovative products and services to the US market. The integration of Comfort Medical is proceeding according to plan.

Contract with the U.S. Department of Veterans Affairs
Coloplast has identified incorrect management of contractual obligations relating to a 2009 agreement with Veterans Affairs. It is estimated that Coloplast will be required to refund the U.S. Department of Veterans Affairs DKK 90m in this matter.

Coloplast has opened a dialogue with Veterans Affairs in order to clarify the impact of the matter. In response to the situation, Coloplast has strengthened its internal controls and procedures relating to customer contracts and pricing adjustments.

The amount of DKK 90m was deducted directly from revenue. Due to the nature of this one-off amount relating to prior reporting periods, this adjustment is not reflected in the organic growth rates.

Transvaginal mesh litigation
In June 2017, Judge Joseph Goodwin issued a court order stating that plaintiffs may no longer direct claims against Coloplast in the ongoing multidistrict litigation (MDL). The court order is a further step towards closure and full resolution of the MDL.

Certification to ISO/IEC 27001
Coloplast has been certified to ISO 27001 (Information Security Management), and has now strengthened its position in terms of organising the security of information assets, such as employee details, business processes and other data and to comply with the new European Global Data Protection Regulation (GDPR).

Financial guidance for 2017/18

- We expect organic revenue growth of ~7% at constant exchange rates and of 5-6% in DKK, primarily due to the development in USD relative to DKK. The guidance includes a potential negative effect of DKK 100m due to the patent expiry of SpeediCath® standard catheters. The guidance also includes the effects of a comprehensive healthcare reform in Greece of DKK 100m, which is expected to impact all business areas, resulting in a price pressure of more than 1% in the year.
- We expect an EBIT margin of 31-32% at constant exchange rates and at ~31% in DKK. The EBIT margin guidance also includes the effects of the above factors as well as investments in commercial activities of up to 2% of revenue.
- Capital expenditure is expected to be about DKK 700m.
- The effective tax rate is expected to be about 23%.

Financial review and guidance

The financial guidance takes account of reforms with known effects. Expectations for long-term price pressures, of about 1.0% in annual price pressure, are unchanged.

Also, the financial guidance assumes sustained and stable sales growth in Coloplast's core markets and a continuation of the successful roll-out of new products.

The EBIT margin guidance assumes that Coloplast, in addition to achieving its growth target, will continue to deliver scale economies and efficiency improvements.

The capital investments will boost the production capacity for new and existing products and will provide for the completion of a new factory facility during the 2017/18 financial year.

The provision made to cover costs relating to transvaginal surgical mesh products remains subject to a high degree of estimation.

New long-term guidance and strategic update

Coloplast presents a new long-term guidance for the LEAD20 strategy period. This new guidance is driven by changing market dynamics which create opportunities to accelerate growth. Furthermore, Coloplast intends to pursue inorganic growth opportunities to further strengthen our service offering to the consumer.

To achieve accelerated organic growth Coloplast will invest up to 2% of revenue per year in new investment cases. This includes, but is not limited to Emerging markets, the US and selected countries in Europe.

Coloplast will pursue inorganic growth opportunities to strengthen the service offering directly towards consumers. Coloplast has built an industry leading consumer machine through Coloplast Care and Direct-to-consumer activities. Since acquiring Comfort Medical the appetite for moving closer to our consumers has increased and we see opportunities in several markets.

Organic revenue growth guidance is maintained at 7-9% p.a. where the ambition is to reach the upper end of the interval. Consequently, the EBIT margin guidance is changed from ½-1% point improvement p.a., to a guidance of delivering an EBIT margin of more than 30% in constant currencies.

Exchange rate exposure

Our financial guidance for the 2017/18 financial year has been prepared on the basis of the following assumptions for the company's principal currencies:

DKK	GBP	USD	HUF	EUR
Avg. exchange rate 2016/17[1)]	853	674	2.41	744
Spot rate, 31 October 2017	845	639	2.39	744
Change in spot rate compared with the average exchange rate 2016/17	-1%	-5%	-1%	0%

[1)] Avg. exchange rate from 1 Oct. 2016 to 30 Sept. 2017.

Revenue is particularly exposed to developments in USD and GBP relative to DKK. Fluctuations in HUF against DKK have an effect on the operating profit, because a substantial part of our production, and thus of our costs, are in Hungary, whereas our sales there are moderate.

In DKK millions over 12 months on a 10% initial drop in exchange rates (Average exchange rates 2016/17)	Revenue	EBIT
USD	-330	-130
GBP	-240	-160
HUF	0	75

Forward-looking statements

The forward-looking statements in this annual report, including revenue and earnings guidance, do not constitute a guarantee of future results and are subject to risk, uncertainty and assumptions, the consequences of which are difficult to predict.

The forward-looking statements are based on our current expectations, estimates and assumptions and are provided on the basis of information available to us at the present time.

Major fluctuations in the exchange rates of key currencies, significant changes in the healthcare sector or major developments in the global economy may impact our ability to achieve the defined long-term targets and meet our guidance. This may impact our company's financial results.

Risk management

Risk reporting

The managements of each of Coloplast's individual business units and staff functions are responsible for identifying and managing risk factors in their specific parts of the organisation. The most significant risks are reported quarterly to Risk Management. The reporting process and supporting interviews form the basis of the quarterly risk update submitted to the Executive Management and the Board of Directors. The Executive Management is responsible for defining Coloplast' s overall risk profile, including for setting standards for risk taking and for aligning it with the overall strategies and policies. The Executive Management is also responsible for launching and approving activities to address the most significant risks. The Board of Directors monitors the overall risk landscape and reviews, on a quarterly basis, the conclusions and recommendations submitted by the Executive Management.

Current risk landscape

In its risk reporting, Coloplast has identified a range of risks which we believe could threaten and adversely impact the Group's business model, strategy, and future performance. Those risks are categorised and described below, along with examples of action taken to mitigate them. Each risk is linked to one or more of the four major themes in Coloplast's strategy.

Pricing and reimbursement

Most of Coloplast products are sold in markets that are subsidised and eligible for reimbursement from local healthcare authorities. As a result, the prices of Coloplast's products are influenced by the economic and political developments in national markets, budgetary constraints of governments, bargaining power of large wholesalers and distributors, and Coloplast's ability to convince buyers of the economic value of its products based on clinical evidence, costs, and patient outcome.

Risk examples

- Reduced reimbursement and increasing price pressures due to healthcare and price reforms.
- Lack of or inadequate clinical evidence to support reimbursement levels.
- Global and local political and economic matters, such as interest rate or currency volatility.

Risk response

- Monitoring economic and political developments, and changes to public sector guidelines and reimbursement schemes.
- Interaction with healthcare authorities, patient associations and industry associations to try to prevent, postpone or minimise impact.

Product quality and safety

As a manufacturer of medical devices, Coloplast is committed to ensuring the quality of its products and the safety of its users, including organising the security of personal data. The products the Group develops and manufactures must comply with medical device directives and legislation imposed by local healthcare authorities, like the US FDA and the new European Medical Device Regulation.

Risk examples

- Loss of licences to sell or manufacture due to non-compliance with new laws and regulations on medical devices.
- Defects and omissions and critical product quality and safety issues in product design and manufacturing that could disrupt operations, sales, lead to product recalls, bodily injury and product liability claims.
- Non-compliance with data protection legislation, personal data leaks and non-compliance with GDPR that could lead to monetary fines and damage Coloplast's reputation.

Risk response

- Ensuring that Coloplast continuously develops and improves its control processes and quality procedures, from the design phase to post-market surveillance.
- Monitoring legislation and market standards to ensure that any amendments or changes are incorporated into internal procedures.
- Certification of quality management systems to acceptable national and international standards and carrying out internal and external audits.
- Coloplast has invested in achievement of ISO/IEC 27001 certification.

Product innovation and development

It is essential that Coloplast maintains a competitive and innovative product pipeline that meets the needs of the users. To achieve this, Coloplast relies on its ability to interact with end-users and healthcare professionals, to protect intellectual

Risk management

property against infringement from competitors, and to understand surgical and medical trends that may impact or limit the Group's future sales.

Risk examples
- Medical and technological innovation disrupting Coloplast's core business.
- Lack of innovation increasingly resulting in a commoditisation trend, allowing the entry of low-cost competitors, potentially increasing price pressures, and diminishing clinical differentiation of the products on the market and ultimately resulting in a loss of market share.
- Infringement of intellectual property rights may reduce Coloplast's competitive advantages and negatively impact sales.

Risk response
- Invest in new innovative growth initiatives for the purpose of developing superior and clinically differentiated products, such as Coloplast's Clinical Performance Program.
- Patenting to prevent competitors from copying Coloplast's products or from producing technical equivalent alternatives.
- Monitoring surgical and medical developments that may impact the business areas.

Legal and compliance-related risks
Coloplast operates in a heavily regulated industry that is subject to various laws and regulations across geographies and business areas. The different legal environments can be unpredictable and politically motivated, and as a market leader, Coloplast could face legal risks at any given time. In addition, there is a growing public awareness of business ethics, enforcement of anti-corruption laws and protection of personal data. It is at the heart of Coloplast culture to act with respect and responsibility and to comply with laws and regulations. Despite these efforts, Coloplast recognises that mistakes may happen when people are involved and the Group takes relevant action should a situation arise.

Risk examples
- Violations of anti-corruption laws and non-compliance with our own and the industry's codes of conduct could damage Coloplast's reputation, and involve risk of monetary fines.
- Lawsuits filed by competitors or customers, or investigations by authorities into certain business practices could have a negative reputational and financial impact.

Risk response
- Ensuring that all employees receive training in Coloplast's Code of Conduct and that business partners are aware of Coloplast's ethical standards and work with Coloplast to continuously maintain and develop compliance practices.
- An independent and confidential whistleblower hotline for reporting of unethical situations, violations and misconduct.
- Cooperating with the US FDA on 522 studies to document efficacy of mesh products.

Production and business continuity
Coloplast operates facilities all over the world, but not in areas categorised as high-risk natural disaster areas. Most production takes place at central facilities and in some cases, Coloplast purchases raw materials and components used in production from sole suppliers for reasons of availability, quality assurance and cost effectiveness.

Risk examples
- A major IT breakdown due to sabotage, criminal acts or negligence, resulting in disruption of sales and shipments to customers.
- A major disruption at a manufacturing facility, due to natural disasters or other emergencies, such as fire, may disrupt Coloplast's ability to manufacture and distribute its products.
- A major disruption of the supply chain due to force majeure situations, strikes or other events beyond Coloplast's control could result in the inability to source critical raw materials or key components and disrupt shipments to customers.

Risk response
- Annual tests and audits of IT contingency plans, and insurance.
- Implemented emergency response and contingency plans, keeping critical processes and workflows physically separated, having all facilities certified to "highly protected risk" industry standards.
- Identified high-risk suppliers and prepared contingency plans, including maintaining multiple inventories, dual supplier qualification for raw materials and qualification of substitute materials where applicable.

Corporate governance

Corporate governance at Coloplast

At least once a year, Coloplast's Board of Directors and Executive Management review the principles of corporate governance originating from legislation, custom and recommendations, among other things.

The Board of Directors and the Executive Management assess the company's business processes, the definition and implementation of the mission, the organisation, stakeholder relations, strategy, risks, business objectives and controls.

The Board of Directors determines the Group's objectives, strategies and overall action plans. On behalf of the shareholders, the Board of Directors supervises the company's organisation, day-to-day management and results. The Board of Directors also sets guidelines for the Executive Management's execution of the day-to-day management of the company and for assigning tasks among the individual executives. No one person is a member of both the Coloplast Board of Directors and the Executive Management and no Board member is a former member of the Coloplast Executive Management.

Recommendations on corporate governance in Denmark

The recommendations of the committee on corporate governance were revised in May 2013 and updated in November 2014, and Nasdaq Copenhagen adopted the recommendations to take effect for financial years beginning on or after 1 January 2013. The Board of Directors reviews the rules in force on a regular basis. The Board of Directors and the Executive Management share the committee's views and generally follow the new recommendations. See the corporate website for a presentation of which recommendations Coloplast does not follow and the reasons why.

Objective of the reporting

Coloplast will account for views and activities relating to corporate governance in the Annual Report, at investor meetings and on the corporate website. The purpose is:

- To ensure that investors receive information.
- To increase investor and employee insight into the company's strategy, objectives and risks.
- To create stakeholder confidence in the company.

Coloplast's "Statutory report on corporate governance", cf. section 107b of the Danish Financial Statements Act, is available in its entirely from the corporate website:
https://www.coloplast.com/corporate-governance/

Internal controls and risk management systems in relation to the financial reporting process

A central unit of the Corporate Finance department conducts regular control inspections at Coloplast subsidiaries to ensure that corporate standards for internal controls have been implemented and operate effectively. Conclusions from these inspections and any proposals for improvement are reported to the Executive Management, the audit committee and the independent auditors.

The members of Coloplast's audit committee are the chairman of the Board of Directors (committee chairman), the deputy chairman and Board member Jørgen Tang-Jensen.

The duties of the audit committee are to monitor the following:

- The financial reporting process.
- The company's internal control systems and risk management systems, including insurance matters.
- The Group's IT security and the auditors' annual review of the company's IT security in respect of the financial reporting.
- The statutory audit of the financial statements.
- The independence of the auditors, including in particular the provision of non-audit services to the Group.

The committee held four meetings in the 2016/17 financial year.

For the statutory report on corporate governance in compliance with section 107b of the Danish Financial Statements Act, see Internal controls and

Corporate governance

risk management systems in relation to the financial reporting process at:
https://www.coloplast.com/corporate-governance/

Openness and transparency

Investor relations

Coloplast has established a policy for communicating information to shareholders and investors, under which the Executive Management and the Investor Relations team are in charge of communications pursuant to guidelines agreed with the Board of Directors. The communication of information complies with the rules laid down by Nasdaq Copenhagen, comprising:

- Full-year and interim financial statements and the annual report.
- Replies to inquiries from equity analysts, investors and shareholders.
- Site visits by investors and equity analysts.
- Presentations to Danish and foreign investors.
- Capital markets days for analysts and investors.
- Conference calls in connection with the release of financial statements.
- Dedicated investor relations section on the Coloplast corporate website.

Duties and responsibilities of the Board of Directors

Rules of procedure

A set of rules of procedure governs the work of Coloplast's Board of Directors. These procedures are reviewed annually by the Board of Directors and updated as necessary. The procedures set out guidelines for the activities of the Board of Directors including the supervision of the company's organisation, day-to-day management and results.

Six board meetings were held in the 2016/17 financial year.

Composition of the Board of Directors

Board committees

The Board of Directors has set up an audit committee consisting of the chairman and deputy chairman of the Board and an ordinary Board member.

Assessment of the work performed by the Board of Directors

At least every other year, the Board of Directors assesses its working procedures and method of approach. Based on this assessment, the organisation and efficiency of the Board of Directors' work are discussed at a Board meeting where any proposals for improvement are considered. The assessment has not given rise to any comments.

Remuneration to the Board of Directors and the Executive Management

Section 139 of the Danish Companies Act provides that shareholders adopt, at a general meeting, general guidelines for incentive pay to members of a company's board of directors and its executive management before a specific agreement to this effect can be made. Coloplast amended its guidelines for incentive pay at the annual general meeting held on 1 December 2010.

The guidelines for remuneration of the Board of Directors and the Executive Management is available on the Group website at this address:
https://www.coloplast.com/management-remuneration/

Severance schemes

As at 30 September 2017, a provision of DKK 1m has been made for a now discontinued post-service remuneration scheme for retired Board members. The scheme comprises one person. When current executives leave the company, the company will have an obligation of two years' pay.

Other matters

Corporate responsibility at Coloplast

In its Corporate Responsibility report, which is published along with the annual report, Coloplast communicates openly about social responsibility. The report has been prepared in compliance with the principles of the UN Global Compact.

For the statutory statement on corporate social responsibility in compliance with section 99a and section 99b of the Danish Financial Statements Act, see the Corporate Responsibility Report for 2016/17, which is available at:
http://www.coloplast.com/About-Coloplast/Responsibility/Policies/

Intellectual capital

Coloplast develops its products and services in close interaction between employees, users, healthcare professionals and opinion-makers. Coloplast believes that retaining employees, developing their skills and empowering them to engage in this interaction is a prerequisite for safeguarding its position as a market leader.

At Coloplast, innovation is a team effort between marketing, R&D, production and sales. Marketing prepares market research and manages relationships with users so as to build an understanding of their needs. This is then used to chart the course for innovation within the individual business areas. Next, Coloplast develops products and services consistent with that course. Concurrently with the development process, clinical tests are run and legal issues are clarified at an early stage, including prices and the potential for reimbursement.

Human resources

At 30 September 2017, Coloplast had 10,905 employees, of whom 9,513 worked in international locations. During the year, the number of employees increased by 6%.

Share classes and authorisations

Coloplast has two share classes: A and B. Both share classes have a denomination of DKK 1 per share. The 18 million class A shares entitle the holders to ten votes per A share and the 198 million class B shares entitle the holders to one vote per B share. The class A shares are non-negotiable instruments. The class B shares are negotiable instruments and were listed on the Copenhagen Stock Exchange (Nasdaq Copenhagen) in 1983. Any change of ownership or pledging of class A shares requires the consent of the Board of Directors, whereas class B shares are freely negotiable.

The Board of Directors may increase the company's share capital by a nominal value of up to DKK 15m in one or more issues of class B shares. This authorisation is valid until the annual general meeting to be held in 2021. Moreover, the Board of Directors has been authorised to acquire treasury shares for up to 10% of the company's share capital. The highest and lowest amount to be paid for the shares by the company is the price applicable at the time of purchase +/- 10%. This authorisation is valid until the annual general meeting to be held in 2017.

At general meetings, matters are decided by a simple majority of votes. Resolutions to amend the company's articles of association require that not less than half of the share capital is represented and that the resolution is adopted by not less than two-thirds of the votes cast as well as of the voting share capital represented at the general meeting. The resolution lapses if the above-mentioned share capital is not represented, or if a resolution is not adopted by two-thirds of the votes cast. If a resolution is adopted by two-thirds of the votes cast, the Board of Directors must convene a new extraordinary general meeting within two weeks. If at this meeting the resolution is adopted by not less than two-thirds of the votes cast and of the voting share capital represented, it will be passed irrespective of the amount of the share capital represented at the meeting.

In the event of a change of control in the company resulting from a change of ownership, share options may be exercised immediately. No other important agreements are in place that would be affected in the event of a change of control of the company resulting from a takeover, and no special agreements have been made between the company, its management or employees if their positions are discontinued due to a change of ownership.
There are no special provisions governing the election of members to the Board of Directors.

Other matters

Ownership and shareholdings

The company had 45,094 shareholders at the end of the financial year, which was 1,925 more than last year. Institutional investors based outside Denmark held 35% of Coloplast's shares at 30 September 2017, compared with 30% a year earlier.

Registered shareholders represented 97% of the entire share capital. Pursuant to the company's articles of association, shares must be registered in the name of the holder in order to carry voting rights. Three shareholders have reported to the company, pursuant to section 55 of the Danish Companies Act, that at the date of this annual report they held 5% or more of the share capital or voting rights.

Shareholders with ownership or voting rights of more than 5%

Name	Residence	Ownership %	Voting rights %
Niels Peter Louis-Hansen[1)]	Vedbæk	20.7%	41.1%
Aage og Johanne Louis-Hansens ApS[2)]	Nivå	11.4%	15.2%
Benedicte Find	Humlebæk	3.7%	5.4%

[1)] In addition to this Niels Peter Louis-Hansen's wholly owned company N.P. Louis-Hansen ApS, has an additional 0.5% ownership representing 0.3% of the votes.

[2)] Wholly owned by Aage og Johanne Louis-Hansens Fond.

Coloplast A/S held 3,810,266 treasury shares at 30 September 2017, equivalent to 2% of the share capital.

Coloplast's ownership

30 September 2017	A shares 1,000 units	B shares 1,000 units	Ownership %	Voting rights %
Holders of A shares and their families	18,000	81,876	46%	69%
Danish institutionals		16,167	7%	4%
Foreign institutionals		75,891	35%	20%
Coloplast A/S[3)]		3,810	2%	
Other shareholders		15,839	7%	4%
Non-registered shareholders[3)]		4,417	3%	
Total	**18,000**	**198,000**	**100%**	**97%**

[3)] No voting rights.

Shareholdings

30 September 2017	A shares 1,000 units	B shares 1,000 units	Number of insiders
Board of Directors	12,285	33,637	10
- of which independent Board members		25	5
Executive Management		240	4
Total	12,285	33,877	14

Statement of comprehensive income

1 October - 30 September

Note		2016/17	2015/16
		DKK million	
	Income statement:		
3	Revenue	15,528	14,681
4,10,11	Production costs	-4,957	-4,649
	Gross profit	**10,571**	**10,032**
4,10,11	Distribution costs	-4,371	-4,131
4,10,11	Administrative expenses	-623	-561
4,10,11	Research and development costs	-574	-509
	Other operating income	46	42
	Other operating expenses	-25	-27
	Operating profit (EBIT) before special items	**5,024**	**4,846**
5	Special items	0	-750
	Operating profit (EBIT)	**5,024**	**4,096**
	Profit/loss after tax on investments in associates	-2	-1
6	Financial income	73	66
6	Financial expenses	-145	-79
	Profit before tax	**4,950**	**4,082**
7	Tax on profit for the year	-1,153	-939
	Net profit for the year	**3,797**	**3,143**
	Other comprehensive income:		
	Items that will not be reclassified to income statement:		
17	Remeasurements of defined benefit plans	29	-83
	Tax on remeasurements of defined benefit pension plans	-8	20
		21	**-63**
	Items that may be reclassified to income statement:		
	Value adjustment of currency hedging	70	99
	Of which transferred to financial items	-52	-37
	Tax effect of hedging	-4	-14
	Currency adjustment of opening balances and other market value adjustments relating to subsidiaries	-74	-22
	Tax effect of currency adjustment, assets in foreign currency	14	-1
		-46	**25**
	Total other comprehensive income	**-25**	**-38**
	Total comprehensive income	**3,772**	**3,105**
8	Earnings per Share, DKK (EPS), (A and B shares)	17.91	14.85
8	Earnings per Share, DKK (EPS), (A and B shares), diluted	17.87	14.78

Balance sheet

At 30 September

DKK million

Note		2017	2016
	Non-current assets		
10	Intangible assets	2,295	1,397
11	Property, plant and equipment	3,072	2,925
	Investments in associates	10	11
12	Deferred tax asset	464	495
	Other receivables	15	15
	Total non-current assets	5,856	4,843
	Current assets		
13	Inventories	1,692	1,518
14	Trade receivables	2,890	2,679
	Income tax	36	37
	Other receivables	264	312
	Prepayments	152	126
15	Amounts held in escrow	531	457
	Marketable securities	315	489
23	Cash and cash equivalents	314	546
	Total current assets	6,194	6,164
	Total assets	**12,050**	**11,007**

Balance sheet

At 30 September

Note	DKK million	2017	2016
	Equity		
	Share capital	216	216
	Currency translation reserve	-86	-78
	Reserve for currency hedging	55	41
	Proposed ordinary dividend for the year	2,228	1,905
	Retained earnings	3,539	2,984
8,9,16	Total equity	5,952	5,068
	Liabilities		
	Non-current liabilities		
17	Provisions for pensions and similar liabilities	213	236
12	Provision for deferred tax	253	106
18	Other provisions	68	258
	Leasing debt	98	1
25	Prepayments	41	29
	Total non-current liabilities	673	630
	Current liabilities		
17	Provisions for pensions and similar liabilities	3	14
18	Other provisions	319	814
19	Other credit institutions	1,358	222
	Trade payables	675	697
	Income tax	626	111
18	Other payables	2,433	3,436
25	Prepayments	11	15
	Total current liabilities	5,425	5,309
	Total liabilities	**6,098**	**5,939**
	Total equity and liabilities	**12,050**	**11,007**

Statement of changes in equity

DKK million	Share capital A shares	Share capital B shares	Currency translation reserve	Reserve for currency hedging	Proposed dividend	Retained earnings	Total equity
2016/17							
Balance at 1.10.	18	198	-78	41	1,905	2,984	5,068
Comprehensive income:							
Net profit for the year					3,183	614	3,797
Other comprehensive income that will not be reclassified to income statement:							
Remeasurements of defined benefit plans						29	29
Tax on remeasurements of defined benefit pension plans						-8	-8
Other comprehensive income that may be reclassified to profit or loss:							
Value adjustment of currency hedging				70			70
Of which transferred to financial items				-52			-52
Tax effect of hedging				-4			-4
Currency adjustment of opening balances and other market value adjustments relating to subsidiaries			-8			-66	-74
Tax effect of currency adjustment, assets in foreign currency						14	14
Total other comprehensive income	0	0	-8	14	0	-31	-25
Total comprehensive income	0	0	-8	14	3,183	583	3,772
Transactions with shareholders:							
Transfers					4	-4	0
Acquisition of treasury shares						-500	-500
Sale of treasury shares						374	374
Share-based payment						34	34
Tax on share-based payment, etc.						68	68
Interim dividend paid out in respect of 2016/17					-955		-955
Dividend paid out in respect of 2015/16					-1,909		-1,909
Total transactions with shareholders	0	0	0	0	-2,860	-28	-2,888
Balance at 30.9.	**18**	**198**	**-86**	**55**	**2,228**	**3,539**	**5,952**

Statement of changes in equity

DKK million	Share capital A shares	Share capital B shares	Currency translation reserve	Reserve for currency hedging	Proposed dividend	Retained earnings	Total equity
2015/16							
Balance at 1.10.	18	202	-54	-7	1,691	2,856	4,706
Comprehensive income:							
Net profit for the year					2,859	284	3,143
Other comprehensive income that will not be reclassified to income statement:							
Remeasurements of defined benefit plans						-83	-83
Tax on remeasurements of defined benefit pension plans						20	20
Other comprehensive income that may be reclassified to profit or loss:							
Value adjustment of currency hedging				99			99
Of which transferred to financial items				-37			-37
Tax effect of hedging				-14			-14
Currency adjustment of opening balances and other market value adjustments relating to subsidiaries			-24			2	-22
Tax effect of currency adjustment, assets in foreign currency						-1	-1
Total other comprehensive income	0	0	-24	48	0	-62	-38
Total comprehensive income	*0*	*0*	*-24*	*48*	*2,859*	*222*	*3,105*
Transactions with shareholders:							
Transfers					5	-5	0
Acquisition of treasury shares						-500	-500
Sale of treasury shares						282	282
Share-based payment						27	27
Tax on share-based payment, etc.						98	98
Reduction of share capital		-4				4	0
Interim dividend paid out in respect of 2015/16					-954		-954
Dividend paid out in respect of 2014/15					-1,696		-1,696
Total transactions with shareholders	*0*	*-4*	*0*	*0*	*-2,645*	*-94*	*-2,743*
Balance at 30.9.	**18**	**198**	**-78**	**41**	**1,905**	**2,984**	**5,068**

Cash flow statement

1 October - 30 September

Note	DKK million	2016/17	2015/16
	Operating profit	5,024	4,096
	Depreciation and amortisation	611	528
21	Adjustment for other non-cash operating items	-652	-2,271
22	Changes in working capital	-1,406	1,100
	Ingoing interest payments, etc.	73	29
	Outgoing interest payments, etc.	-4	-89
	Income tax paid	-395	-365
	Cash flows from operating activities	**3,251**	**3,028**
	Investment in intangible assets	-24	-22
	Investment in land and buildings	-126	-134
	Investment in plant and machinery	-75	-176
	Investment in property, plant and equipment under construction	-460	-317
	Property, plant and equipment sold	36	16
33	Acquisition of operations	-1,144	0
	Net sales/purchase of marketable securities	174	30
	Cash flows from investing activities	**-1,619**	**-603**
	Free cash flow	**1,632**	**2,425**
	Dividend to shareholders	-2,864	-2,650
	Acquisitions of treasury shares	-500	-500
	Sale of treasury shares	374	282
	Financing from shareholders	-2,990	-2,868
	Drawdown on credit facilities	1,127	0
	Cash flows from financing activities	**-1,863**	**-2,868**
	Net cash flows	**-231**	**-443**
	Cash, cash equivalents and short-term debt with credit institutions at 1.10.	324	781
	Value adjustment of cash and bank balances	-10	-14
	Net cash flows	-231	-443
23	**Cash, cash equivalents and short-term debt with credit institutions at 30.9.**	**83**	**324**
23	Cash	314	546
24	Unutilised credit facilities	2,878	2,381
	Financial reserves at 30.9.	**3,192**	**2,927**

The statement of cash flows cannot be derived solely from the published financial information.

List of notes

Note		Contains accounting policies	Contains significant estimates and judgments
Note 1	Key accounting policies	x	
Note 2	Significant estimates and judgments		
Note 3	Segment information	x	
Note 4	Staff costs	x	
Note 5	Special items	x	
Note 6	Financial income and expenses	x	
Note 7	Tax on profit for the year	x	
Note 8	Outstanding shares and earnings per share (EPS)	x	
Note 9	Dividend per share	x	
Note 10	Intangible assets	x	x
Note 11	Property, plant and equipment	x	
Note 12	Deferred tax	x	x
Note 13	Inventories	x	
Note 14	Trade receivables	x	x
Note 15	Amounts held in escrow	x	
Note 16	Treasury shares and share options	x	
Note 17	Provisions for pensions and similar obligations	x	
Note 18	Other provisions	x	x
Note 19	Credit institutions	x	
Note 20	Financial instruments	x	
Note 21	Adjustment for other non-cash operating items		
Note 22	Changes in working capital		
Note 23	Cash, cash equivalents and current debt with credit institutions	x	
Note 24	Unutilised credit facilities		
Note 25	Public grants	x	
Note 26	Other liabilities		
Note 27	Contingent liabilities and guarantees		
Note 28	The Executive Management's and the Directors' remuneration, share options and shareholdings		
Note 29	Related party transactions		
Note 30	Fees to appointed auditors		
Note 31	Events occurring after the balance sheet date		
Note 32	Overview of Group companies		
Note 33	Acquisition of operations		
Note 34	Definitions of key ratios		

Notes

Note

1. Key accounting policies

This section provides a summary of significant accounting policies, new IFRS requirements and other general accounting policies. A detailed description of the accounting policies applied and the estimates made relative to each individual item is provided in relevant notes, such that all information about a specific accounting item can be found there.

Basis of preparation

The consolidated financial statements for 2016/2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements applying to listed companies.

General information

The annual report is prepared on the basis of the historical cost principle, modified in that certain financial assets and liabilities are measured at fair value. Subsequent to initial recognition, assets and liabilities are measured as described below in respect of each individual item or in the relevant note.

Accounting policy changes

Effective from the 2016/17 financial year, the Coloplast group has implemented all new, updated or amended international financial reporting standards and interpretations (IFRSs) as issued by the IASB and IFRSs adopted by the EU that are effective for the 2016/17 financial year. The implementation did not affect the financial statements.

New financial reporting standards adopted

Other relevant standards or interpretations adopted by the IASB but not adopted by the EU have not been applied in this annual report. New and amended standards are implemented when taking effect.

IFRS 9 “Financial Instruments” will apply from the 2018/19 financial year. The standard contains amendments to the classification and measurement of financial instruments. Coloplast is currently analysing the effects of implementing IFRS 9, but implementation is not expected to have a material effect on the consolidated financial statements.

IFRS 15 “Revenue from contracts with customers” will apply from the 2018/19 financial year. The standard contains a revised model for the recognition of revenue and a number of additional disclosure requirements. Coloplast is currently analysing the effects of implementing IFRS 15, but implementation is not expected to have a material effect on the consolidated financial statements.

IFRS 16 “Leases” has still not been adopted by the EU and is expected to apply from the 2019/20 financial year. This standard will require the Group to capitalise most of its leases, and its implementation is expected to increase total assets by approximately 4%. In addition, implementation of IFRS 16 will reclassify lease payments, which will be divided into a depreciation, which is recognised under EBIT, and interest expenses, which are recognised under financial items. Coloplast is currently analysing the effects of implementing IFRS 16, but implementation is not expected to have a material effect on the consolidated profit before tax.

Notes

Note

1. Key accounting policies, continued

Foreign currency

The financial statement items of individual Group entities are measured in the currency used in the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the parent company. Other currencies are considered foreign currencies.

Foreign currency translation

Transactions denominated in foreign currencies are translated into an entity's functional currency at the exchange rate prevailing at the transaction date.

Monetary items denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Exchange adjustments arising as the difference between exchange rates at the balance sheet date and exchange rates at the transaction date of monetary items are recognised in the income statement as financial income or expenses.

On translation of entities with a functional currency other than DKK, balance sheet items are translated at the exchange rates at the balance sheet date and income statement items are translated at the exchange rates at the transaction date. The resulting exchange adjustments are taken directly to other comprehensive income.

Consolidation, business combinations and associates

The consolidated financial statements comprise the financial statements of Coloplast A/S (the parent company) and enterprises (subsidiaries) controlled by the parent company. The parent company is considered to exercise control when it has power over the relevant activities of the enterprise, is exposed or has rights to a variable return from the investment and has the ability to affect those returns through its power.

The consolidated financial statements are prepared by aggregating the financial statements of the parent company and the individual subsidiaries, all of which are prepared in accordance with the Group's accounting policies. Intra-group transactions, balances, dividends and unrealised gains and losses on transactions between group enterprises are eliminated.

Enterprises, which are not subsidiaries but in which the Group holds at least 20% of the voting rights or otherwise exerts a significant influence, are regarded as associates. The Group's proportionate share of unrealised gains and losses on transactions between the Coloplast Group and associates is eliminated.

Enterprises recently acquired or divested are included in the consolidation in the period in which the Coloplast Group has control of the enterprise.

Comparative figures are not adjusted to reflect acquisitions. Divested activities are shown separately as discontinued operations.

Acquisitions are accounted for using the purchase method, according to which the assets and liabilities and contingent liabilities of enterprises acquired are measured at fair value at the date of acquisition.

Notes

Note

1. Key accounting policies, continued

Goodwill on acquisition of subsidiaries or associates is calculated as the difference between the fair value of the consideration and the fair value of the group companies' proportionate share of identifiable assets less liabilities and contingent liabilities at the date of acquisition.

The consideration for an enterprise consists of the fair value of the agreed consideration for the acquired enterprise. If part of the consideration is contingent on future events, such part is recognised at its fair value at the date of acquisition. Costs directly attributable to business combinations are recognised directly in the income statement as administrative expenses when incurred.

In cases where the fair value of acquired identifiable assets, liabilities or contingent liabilities subsequently turns out to differ from the values calculated at the date of acquisition, the calculation, including goodwill is adjusted until up to 12 months after the date of acquisition. Subsequently, goodwill is not adjusted. Changes to estimates of contingent consideration are generally recognised in the income statement.

Goodwill arising in connection with the acquisition of subsidiaries is recognised in the balance sheet under intangible assets in the consolidated financial statements and tested annually for impairment.

Revenue

Revenue comprises income from the sale of goods after deduction of any price reductions, quantity discounts or cash discounts. Sales are recognised in the income statement when the risk related to the goods passes to the customer, and the amounts can be reliably measured and are expected to be received.

Sales agreements are drawn up and negotiated with due consideration to territorial healthcare reforms, varying legislation, growing competition, growth strategies and requirements defined in various tenders. Coloplast generates most of its sales through distributors who operate under various conditions and who for that reason require varying sales agreements. Coloplast's distributor agreements contain volume and product-specific rebates, which require data management and monitoring of sales to individual distributors at product level. In addition, the sales agreements contain various right-of-product-return requirements.

Marketable securities

Marketable securities are designated at fair value through profit or loss under the fair value option, as the marketable securities are part of a portfolio which is managed and measured on a fair value basis.

Bonds forming part of repo transactions, i.e. the sale of bonds that are bought back at a later date remain classified as financial assets in the balance sheet, while amounts received from repo transactions are recognised as repo debt. Returns on such bonds are recognised under financials.

Cash flow statement

The consolidated cash flow statement, which is presented according to the indirect method, shows the Group's cash flow from operating, investing and financing activities as well as the Group's cash and cash equivalents and short-term debt to credit institutions at the beginning and end of the year. Cash and cash equivalents comprise cash and debt to credit institutions recognised under current assets and current liabilities, respectively. Marketable securities include bonds with maturities of more than three months and are recognised under investing activities.

Notes

Note

2. Significant estimates and judgments

In connection with the practical use of the accounting policies described, it may be necessary for Management to make estimates in respect of the accounting items. The estimates and assumptions applied are based on historical experience and other factors that Management considers reasonable under the circumstances, but which are inherently uncertain and unpredictable. Such assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. In addition, the company is subject to risks and uncertainties that may cause actual outcomes to deviate from these estimates.

It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to new information or subsequent events.

Management has made significant estimates in respect of the following items: Intangible assets, Trade receivables, Deferred tax, Uncertain tax positions and Other provisions. A further description of the principal accounting estimates and judgments is provided in notes 10, 12, 14 and 18.

3. Segment information

Operating segments

The operating segments are defined on the basis of the monthly reporting to the Executive Management, which is considered the Senior Operational Management, and the management structure. Reporting to Management is based on three operating segments: Chronic Care, Urology Care and Wound & Skin Care.

The operating segment Chronic Care covers the sale of ostomy care products and continence care products.
The operating segment Urology Care covers the sale of urological products, including disposable products.
The operating segment Wound & Skin Care covers the sale of wound and skin care products.

The reporting segments are also Chronic Care, Urology Care and Wound & Skin Care. The segmentation reflects the structure of reporting to the Executive Management.

Shared/non-allocated comprises support functions (Production units, R&D and Staff) and eliminations, as these functions do not generate revenue. Financial items and income tax are not allocated to the operating segments.

Management reviews each operating segment separately, applying their market contributions to earnings and allocating resources on that basis. The market contribution is defined as external revenue less the sum of direct production costs as well as distribution and marketing costs and administrative expenses. Costs are allocated directly to segments. Certain immaterial indirect costs are allocated systematically to the Shared/Non-allocated segment and the reporting segments.

Management does not receive reporting on asset and liabilities by the reporting segments. Accordingly, the reporting segments are not measured in this respect, nor do we allocate resources on this background. No single customer accounts for more than 10% of revenue.

Notes

Note

3. Segment information, continued

Coloplast A/S' registered office is situated in Denmark. Revenue from external customers in Denmark amounted to DKK 318m (2015/16: DKK 317m), while revenue from external customers in other countries amounted to DKK 15,210m (2015/16: DKK 14,364m). Total non-current assets except for financial instruments and deferred tax assets (there are no pension assets or rights pursuant to insurance contracts) placed in Denmark amounted to DKK 3,144m (2015/16: DKK 2,478m), while total non-current assets placed in other countries amounted to DKK 2,249m (2015/16: DKK 1,870m).

In addition, revenue from three countries each accounted for more than 10% of our consolidated revenue. These countries were: the USA with revenue of DKK 2,677m (2015/16: DKK 2,348m), the UK with revenue of DKK 2,287m (2015/16: DKK 2,408m) and France with revenue of DKK 1,934m (2015/16: DKK 1,861m).

Operating segments	Chronic Care		Urology Care		Wound & Skin Care		Total	
DKK million	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Segment revenue								
Ostomy Care	6,291	5,935	0	0	0	0	6,291	5,935
Continence Care	5,453	5,182	0	0	0	0	5,453	5,182
Urology Care	0	0	1,641	1,497	0	0	1,641	1,497
Wound & Skin Care	0	0	0	0	2,143	2,067	2,143	2,067
Group external revenue as per the Statement of comprehensive income	**11,744**	**11,117**	**1,641**	**1,497**	**2,143**	**2,067**	**15,528**	**14,681**
Segment operating profit/loss	6,991	6,716	624	533	779	761	8,394	8,010
Shared/Non-allocated							-3,370	-3,164
Costs not included in segment operating profit/loss. See note 5							0	-750
Operating profit before tax (EBIT) as per the Statement of comprehensive income							**5,024**	**4,096**
Net financials							-72	-13
Tax on profit/loss for the year							-1,153	-939
Income from investments in associates							-2	-1
Profit/loss for the year as per the Statement of comprehensive income							**3,797**	**3,143**

Notes

Note

4. Staff costs

Accounting policies

Staff costs are recognised in the financial year in which the staff performed the relevant work.

DKK million	2016/17	2015/16
Salaries, wages and directors' remuneration	3,641	3,366
Pension costs - defined contribution plans (note 17)	260	239
Pension costs - defined benefit plans (note 17)	13	12
Other social security costs	381	386
Total	**4,295**	**4,003**
Production costs	1,120	1,038
Distribution costs	2,544	2,406
Administrative expenses	352	311
Research and development costs	279	248
Total	**4,295**	**4,003**
Average number of employees, FTEs	10,420	9,817
Number of employees at 30.9, FTEs	10,741	10,099
Number of employees at 30.9	10,905	10,275

See note 28 for information on the Executive Management's and the Directors' remuneration.

5. Special items

Accounting policies

Special items comprise material amounts of a non-recurring nature, such as costs relating to divestment, closure or restructuring, provisions for lawsuits, etc. These items are presented separately to facilitate the comparability of the income statement and to provide a better picture of the operating results.

The separation of special items requires the making of accounting estimates when stating special items in the income statement. Management reviews transactions presented as special items and considers whether such items are part of ordinary operations.

Special items contain expenses to cover potential claims, settlements and other costs arising in connection with legal assistance relating to litigation about transvaginal surgical mesh products.
See note 18 to the financial statements for more information about mesh litigation.

DKK million	2016/17	2015/16
Provisions for litigation about transvaginal surgical mesh products	0	750

Notes

Note

6. Financial income and expenses

Accounting policies

Financial income and expenses include interest, financing costs of finance leases, realised and unrealised foreign exchange adjustments, fair value adjustment of forward contracts transferred from Other comprehensive income, fair value adjustments of cash settled share options, fees, market value adjustments of securities and dividend received on shares recognised under securities.

DKK million	2016/17	2015/16
Financial income		
Interest income	20	29
Fair value adjustments of forward contracts transferred from Other comprehensive income	52	37
Other financial income	1	0
Total	**73**	**66**
Financial expenses		
Interest expense	12	9
Fair value adjustments of cash-based share options	0	1
Net exchange adjustments	100	37
Other financial expenses and fees	33	32
Total	**145**	**79**

7. Tax on profit for the year

Accounting policies

Coloplast A/S is jointly taxed with wholly owned Danish subsidiaries. The jointly taxed Danish enterprises are covered by the Danish on-account tax scheme.

Additions, deductions and allowances relating to the on-account tax scheme are included in financial items. Current tax on the net profit or loss for the year is recognised as an expense in the income statement together with any change in the provision for deferred tax. Tax on changes in equity is taken directly to equity.

DKK million	2016/17	2015/16
Current tax on profit for the year	984	505
Change in deferred tax on profit for the year	135	423
Tax on profit from ordinary activities	1,119	928
Adjustment of tax relating to prior years	-4	9
Change due to change in tax rate	38	2
Total	**1,153**	**939**

Notes

Note

7. Tax on profit for the year, continued

Reconciliation of tax rate differences:	2016/17	2015/16
Danish tax rate, %	22.0	22.0
Effect of reduction of tax rates, %	0.8	0.0
Deviation in foreign subsidiaries' tax percentage, %	0.4	0.2
Non-taxable income and non-deductible expenses, %	0.5	0.2
Other taxes and other adjustments, net, %	-0.4	0.6
Effective tax rate, %	**23.3**	**23.0**
Tax on equity and other comprehensive income entries (income)	**70**	**103**

8. Outstanding shares and earnings per share (EPS)

Accounting policies

Earnings per share reflects the ratio between profit for the year and the year's weighted average of issued, ordinary shares, excluding ordinary shares purchased by the Group and held as treasury shares (note 16). Earnings per share, diluted is calculated as the net profit for the year divided by the average number of outstanding shares adjusted for the dilutive effect of outstanding share options in the money.

DKK million	2016/17	2015/16
Net profit for the year	3,797	3,143
Net profit for the year before special items	3,797	3,728
Weighted average no. of shares (in millions of units)	212.2	211.7
Dilutive effect of outstanding options	0.3	0.8
Average number of unrestricted shares including dilutive effect of outstanding options	212.5	212.5
Earnings per share (DKK), (A and B shares)[1)]	17.91	14.85
Earnings per share (DKK), (A and B shares), diluted[1)]	17.87	14.78

	2016/17		2015/16	
Outstanding shares ('000):	A shares	B shares	A shares	B shares
Outstanding shares at 1.10	18,000	193,739	18,000	193,352
Sale of treasury shares		1,379		1,401
Acquisition of treasury shares		-928		-1,014
Outstanding shares at 30.9	**18,000**	**194,190**	**18,000**	**193,739**

Outstanding shares ('000):	A shares	B shares
Issued shares	18,000	198,000
Holding of treasury shares (note 16)		3,810
Outstanding shares	**18,000**	**194,190**

[1)] In 2015/16, Earnings per share before special items (diluted) amounted to DKK 17.61 and 17.53, respectively.

Both share classes have a face value of DKK 1 per share. Class A shares carry 10 votes each, while class B shares carry 1 vote each. The class A shares are non-negotiable instruments. Any change of ownership or pledging of class A shares requires the consent of the Board of Directors. B shares are negotiable instruments, and no restrictions apply to their negotiability. No special dividend rights attach to either share class.

Notes

Note

9. Dividend per share

Accounting policies

Dividend is recognised in the balance sheet as a liability when adopted at the annual general meeting. Proposed but not yet paid dividend for the financial year is recognised in equity until approved by the shareholders in general meeting.

The Board of Directors recommends that the shareholders attending the general meeting approve an additional dividend of DKK 10.50 per share of DKK 1 (2015/16: DKK 9.00). An interim dividend of DKK 4.50 per share was distributed in the financial year (2015/16: DKK 4.50), bringing total dividend per share for the year to DKK 15.00 per share (2015/16: DKK 13.50), for total dividends of DKK 3,183m (2015/16: DKK 2,859m). The increase in dividend per share thus amounts to 11%, and the pay-out ratio is 84% (2015/16: 91%).

10. Intangible assets

Accounting policies

Intangible assets with a finite life are measured at cost less accumulated amortisation and impairment losses. Borrowing costs are recognised as part of cost. Amortisation is made on a straight-line basis over the expected useful lives of the assets, which are:

Software	3-5 years
Acquired patents and trademarks etc.	7-15 years

Goodwill and intangible assets with indefinite lives are tested for impairment annually or whenever there is an indication of impairment, while the carrying amount of intangible assets with finite lives, property, plant and equipment and investments measured at cost or amortised cost are assessed if there is an indication of impairment. If a write-down is required, the carrying amount is written down to the higher of net selling price and value in use. For the purpose of assessing impairment, assets are grouped in the smallest group of assets that generates identifiable cash inflows (cash-generating units). The cash-generating units are defined as the smallest identifiable group of assets that generates cash inflows and which are largely independent of cash flows from other assets or groups of assets.

For other intangible assets, the amortisation period is determined on the basis of Management's best estimate of the expected economic lives of the assets. The expected economic lives are assessed at least annually, and the amortisation period is determined based on the latest assessment. For purposes of calculating amortisation, the residual value of the assets is nil, unless a third party has committed to purchasing the asset after its use or there is an active market for the asset. With the exception of goodwill, all intangible assets have a finite life.

Gains or losses on the disposal of intangible assets are stated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal and are included in the income statement under other operating income or other operating expenses, respectively.

Notes

Note

10. Intangible assets, continued

Development projects are recognised at the date when each individual project is expected to be exploited commercially. From this date, the directly associated costs will be recognised as an intangible asset in the balance sheet provided they can be measured reliably and there is sufficient certainty of the future earnings. Costs incurred earlier in the development phase are recognised under research and development costs in the income statement.

Significant estimates and judgments

Goodwill and other intangible assets

The measurement of intangible assets, including goodwill, could be materially affected by significant changes in estimates and assumptions underlying the calculation of values. Uncertainty relating to goodwill is most pronounced in Urology. Goodwill in this business area amounted to DKK 334m at 30 September 2017 (30 September 2016: DKK 349m). The carrying amount of intangible assets was DKK 2,295m as at 30 September 2017 (30 September 2016: DKK 1,397m).

Research and development

All in-house research costs are recognised in the income statement as incurred. Management believes that product development does not allow for a meaningful distinction between the development of new products and the continued development of existing products. As a result of mandatory regulatory approvals of products, completing the development of new products involves a high degree of uncertainty, for which reason the technical feasibility criteria are not considered to have been met. Against this background, it is believed that the Group's in-house research costs do not satisfy the capitalisation criteria. All in-house research and development costs are therefore recognised in the income statement as incurred. In 2016/17, DKK 574m (2015/16: DKK 509m) was expensed as research and development costs.

2016/17 DKK million	Acquired patents and trademarks etc.	Goodwill	Software	Prepayments and intangible assets in progress	Total intangible assets
Total cost at 1.10.	1,563	844	338	20	2,765
Exchange adjustment	-83	-39	-1	0	-123
Additions from acquisitions	177	919	11	0	1,107
Additions and improvements during the year	0	0	11	13	24
Transfers	0	0	10	-10	0
Total cost at 30.9.	**1,657**	**1,724**	**369**	**23**	**3,773**
Total amortisation at 1.10.	1,095	0	273	0	1,368
Exchange adjustment	-51	0	-1	0	-52
Amortisation for the year	133	0	29	0	162
Total amortisation at 30.9.	**1,177**	**0**	**301**	**0**	**1,478**
Carrying amount at 30.9.	**480**	**1,724**	**68**	**23**	**2,295**

Notes

Note

10. Intangible assets, continued

Goodwill

Goodwill relates mainly to the acquisitions of Mentor's urology and continence business in 2006, Mpathy in 2010 and Comfort Medical in 2016. Goodwill from the acquired businesses has been allocated on the individual cash-generating units according to earnings at the date of acquisition. The allocation was made to the cash-generating units Chronic Care and Urology Care.

Pursuant to IAS 36, a goodwill impairment test is performed when there is an indication of impairment, but at least once a year. In the impairment test, the carrying amount is compared with the recoverable amount (value in use) of each cash-generating unit, calculated as the discounted expected future cash flows.

Future cash flows are determined using forecasts based on realised sales growth, earnings and strategy plans, etc. These forecasts are based on specific assumptions for each cash-generating unit during the planning period with respect to sales, results of operations, working capital, capital investments and assumptions for cost of capital, inflation and the level of interest rates.

Growth rates during the terminal period correspond to the expected long-term rate of inflation.

Key assumptions applied in the impairment tests performed

The most important parameters used to calculate the recoverable amounts are:

	2016/17		2015/16	
	Chronic Care	Urology Care	Chronic Care	Urology Care
Revenue growth in terminal period	2%	2%	2%	2%
Tax percentage	23%	35%	23%	35%
Carrying amount of goodwill, DKK million	1,390	334	495	349

Discounting is based on the cash-generating unit's weighted capital costs in the impairment tests performed:

	2016/17		2015/16	
	before tax	after tax	before tax	after tax
Urology Care	13.5%	9.2%	11.9%	9.0%
Chronic Care	7.7%	6.2%	7.3%	6.0%

Special assumptions applied in impairment tests performed in Urology Care

The Urology Care business consists of the production and sale of products used in surgical procedures in urology and gynaecology, including prostate catheters, stents, vaginal slings used to restore continence, mesh products used to treat weak pelvic floor and penile implants for men experiencing severe impotence.

The impairment test performed for Urology Care was based on forecasts for the 2017/18 financial year. Assumptions for the long-term strategy of the urology business were applied for the financial years 2018/19 to 2020/21.

Notes

Note

10. Intangible assets, continued

Revenue growth rates of 5-11% were assumed for the budget period, which rates are supported by the Urology Care organic growth rates of the most recent financial years. However, the gross margin is expected to drop slightly until the terminal period due to anticipated price pressures and healthcare reforms.

It was also assumed that the Group's focus on cost management would ensure its overhead costs would rise by less than revenue, which would produce an annual margin improvement.

The tax rate applied in the impairment test for Urology Care was higher than the rate applied for the Group, because sales and production mostly take place in the United States, which imposes a corporate tax rate higher than the Group average.

Working capital invested has been projected using the same growth rate as that for revenue.

Special assumptions applied in impairment tests performed in Chronic Care

Chronic Care consists of the Ostomy Care and the Continence Care businesses. The Ostomy Care business involves the production and sale of ostomy pouches and accessories. The Continence Care business involves the production and sales of disposable catheters and various types of products designed for people suffering from urinary or faecal incontinence.

The impairment test performed for Chronic Care was based on forecasts for the 2017/18 financial year. Assumptions for Coloplast's long-term strategy were applied for the financial years 2018/19 to 2020/21.

Revenue growth rates of 6-8% were assumed for the budget period, which rates are supported by the Chronic Care organic growth rates of the most recent financial years. However, the gross margin is expected to drop slightly until the terminal period due to anticipated price pressures and healthcare reforms.

It was also assumed that the Group's focus on cost management would ensure its overhead costs would rise by less than revenue, which would produce an annual margin improvement.

The Group's general tax rate was applied in the impairment tests for Chronic Care, because these products are sold in all of the Group's markets.

Working capital invested has been projected using the same growth rate as that for revenue.

Acquired patents and trademarks etc.

Most acquired patents and trademarks are associated with the acquisition of Mentor's urology business in 2006 and the Mpathy acquisition in 2010, as specified in the table below. In connection with the acquisitions, intangible assets were identified, and their cost was allocated to net assets at fair value at the date of acquisition, calculated on the basis of factors such as expected sales and revenue trends. Each component is amortised over its estimated useful life using the straight line method.

Notes

Note

10. Intangible assets, continued

DKK million	Remaining amortisation period	Carrying amount 2016/17	2015/16
Patented technologies and unprotected technologies	1-10 years	158	233
Trademarks	5-10 years	117	149
Customer lists/loyalty	5-10 years	62	78
Total		**337**	**460**

Patented technologies and unprotected technologies
On acquiring Mentor's urology business, Coloplast acquired a large number of patented technologies (more than 300) and unprotected technologies. On acquiring Mpathy, Coloplast acquired about 50 patented technologies. Unprotected technologies include (Mentor only):

1. inventions not patentable/protectable
2. trade secrets
3. know-how
4. confidential information
5. copyrights on computer software, databases or instruction manuals and the like

Most relate to know-how regarding various materials and processes used in production. A division of the individual components into small intangible assets is not considered material or relevant.

Trademarks
In addition to patents, Coloplast acquired a large number (more than 150) of registered and unregistered trademarks, including pending applications for trademark registration, but Coloplast did not acquire the Mentor trademark. Individual acquired trademarks, each representing a limited value, are not material for Coloplast's sales, as is also the case for patented and unprotected technologies.
On acquiring Mpathy, Coloplast acquired a small number (less than 20) of trademarks.

Customer lists/loyalty
Coloplast also acquired a substantial number of customer relationships. As long-term customer contracts are rarely made in the field of urology, customer lists are valued as a whole at the date of acquisition.

DKK million	2016/17	2015/16
Amortisation breaks down as follows:		
Production costs	108	107
Distribution costs	40	18
Administrative expenses	12	10
Research and development costs	2	2
Total	**162**	**137**

Notes

Note

10. Intangible assets, continued

2015/16 DKK million	Acquired patents and trademarks etc.	Goodwill	Software	Prepayments and intangible assets in progress	Total intangible assets
Total cost at 1.10.	1,559	842	315	29	2,745
Exchange adjustment	4	2	-8	0	-2
Additions and improvements during the year	0	0	6	16	22
Transfers	0	0	25	-25	0
Total cost at 30.9.	**1,563**	**844**	**338**	**20**	**2,765**
Total amortisation at 1.10.	980	0	254	0	1,234
Exchange adjustment	3	0	-6	0	-3
Amortisation for the year	112	0	25	0	137
Total amortisation at 30.9.	**1,095**	**0**	**273**	**0**	**1,368**
Carrying amount at 30.9.	**468**	**844**	**65**	**20**	**1,397**

11. Property, plant and equipment

Accounting policies

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost comprises the cost of acquisition and expenses directly attributable to the acquisition until the asset is ready for use. In the case of assets manufactured by the company, cost comprises materials, components, sub-supplier services, direct labour and costs directly attributable to the manufactured asset. In addition, borrowing costs are recognised as part of cost.

Leases, under which substantially all risks and rewards of ownership of an asset are transferred, are classified as finance leases. Other leases are classified as operating leases. Assets held under a finance lease are measured in the balance sheet at the lower of fair value and the present value of future minimum lease payments at the date of acquisition. The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised as an expense in the income statement as incurred. Assets held under finance leases are depreciated according to the same principles as the Group's other property, plant and equipment.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are:

Land	no depreciation
Buildings	15-25 years
Building installations	5-10 years
Plant and machinery	5-15 years
Other fixtures and fittings, tools and equipment	3-7 years

Notes

Note

11. Property, plant and equipment, continued

At the balance sheet date, the residual values, remaining useful lives and depreciation pattern of the assets are assessed. Any changes are treated as changes to accounting estimates. Gains and losses on the sale or scrapping of an item of property, plant and equipment are recognised in the income statement as other operating income and other operating expenses, respectively.

2016/17 DKK million	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Prepayments and assets under construction	Total property, plant and equipment
Total cost at 1.10.	2,424	3,885	871	417	7,597
Exchange and other adjustments	-33	-23	-7	-3	-66
Additions from acquisitions	0	0	1	0	1
Transfers	17	403	72	-492	0
Additions and improvements during the year	126	42	33	460	661
Disposals during the year	-170	-112	-35	0	-317
Total cost at 30.9.	**2,364**	**4,195**	**935**	**382**	**7,876**
Total depreciation at 1.10.	1,335	2,810	527	0	4,672
Exchange and other adjustments	-15	-16	-6	0	-37
Depreciation for the year	98	233	118	0	449
Depreciation reversed on disposals during the year	-168	-77	-35	0	-280
Total depreciation at 30.9.	**1,250**	**2,950**	**604**	**0**	**4,804**
Carrying amount at 30.9.	**1,114**	**1,245**	**331**	**382**	**3,072**
Of which finance leased assets	97	0	0	0	97
Gross amounts of property, plant and equipment fully depreciated	326	1,343	560	0	2,229

The Group has signed agreements with contractors for the supply of buildings, technical plant and machinery for DKK 47m (2015/16: DKK 123m).

DKK million	2016/17	2015/16
Depreciation breaks down as follows:		
Production costs	351	296
Distribution costs	26	26
Administrative expenses	38	40
Research and development costs	34	29
Total	**449**	**391**

Notes

Note

11. Property, plant and equipment, continued

2015/16 DKK million	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Prepayments and assets under construction	Total property, plant and equipment
Total cost at 1.10.	2,268	3,615	781	382	7,046
Exchange and other adjustments	-1	0	-7	0	-8
Transfers	31	177	74	-282	0
Additions and improvements during the year	134	116	60	317	627
Disposals during the year	-8	-23	-37	0	-68
Total cost at 30.9.	**2,424**	**3,885**	**871**	**417**	**7,597**
Total depreciation at 1.10.	1,251	2,628	462	0	4,341
Exchange and other adjustments	-2	-1	-6	0	-9
Depreciation for the year	92	200	99	0	391
Depreciation reversed on disposals during the year	-6	-17	-28	0	-51
Total depreciation at 30.9.	**1,335**	**2,810**	**527**	**0**	**4,672**
Carrying amount at 30.9.	**1,089**	**1,075**	**344**	**417**	**2,925**
Gross amounts of property, plant and equipment fully depreciated	325	1,267	537	0	2,129

12. Deferred tax

Accounting policies

Full provision is made for deferred tax on the basis of all temporary differences in accordance with the balance sheet liability method. Temporary differences arise between the tax base of assets and liabilities and their carrying amounts which are offset over time.

Uncertain tax positions generally relate to transfer pricing disputes and are recognised under provision for deferred tax.

Deferred tax is measured on the basis of the tax rates applicable at the balance sheet date.
Deferred tax assets are recognised to the extent that it is probable that future positive taxable income will be generated, against which the temporary differences and tax losses can be offset. Deferred tax assets are measured at expected net realisable values.

Notes

Note

12. Deferred tax, continued

Significant estimates and judgments

The recognition of deferred tax assets, deferred tax liabilities and uncertain tax positions requires an assessment by management. Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised if management estimates that the tax assets can be utilised within a foreseeable future by offsetting against future positive taxable income. The assessment is made annually on the basis of budgets and business plans for the following years, including any scheduled business measures. As the Group conducts business globally, transfer pricing disputes may arise with tax authorities in respect of settlement prices etc. Management applies a probability-weighted assessment to determine obligations in connection with transfer pricing disputes.

DKK million	2016/17	2015/16
Deferred tax, beginning of year	-389	-807
Exchange adjustments	5	0
Adjustment due to change in tax rate	38	2
Prior-year adjustments	10	-4
Other changes in deferred tax – charged to income statement	135	423
Change in deferred tax - charged to equity	-10	-3
Total	-211	-389
Of which deferred tax asset	464	495
Provision for deferred tax	**253**	**106**

Calculation of deferred tax is based on the following items:		
Intangible assets	241	248
Property, plant and equipment	51	56
Indirect production costs	15	18
Unrealised gain from intra-group sale of goods	-231	-269
Provisions	-161	-316
Jointly taxed companies (recaptured balances)	9	10
Share options	-31	-19
Tax losses carried forward and tax credits	-59	-89
Other	-45	-28
Total	**-211**	**-389**

Taxable temporary differences regarding investments in subsidiaries, branches or associates are insignificant and no deferred tax has been provided, because the company controls the timing of the elimination of the temporary difference, and because it is probable that the temporary difference will not be eliminated in the foreseeable future.

Notes

Note

12. Deferred tax, continued

The Group's tax losses expiring after more than 5 years amount to DKK 39m (2015/16: DKK 76m). Of these tax losses, the Group has recognised a tax asset of DKK 2m on a DKK 10m tax loss (2015/16: DKK 43m).

The tax value of the Group's tax credits amount to DKK 216m (2015/16: DKK 240m). This amount includes a recognised tax asset of DKK 57m (2015/16: DKK 76m). The tax credits expire after more than 5 years.

13. Inventories

Accounting policies

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the FIFO principle. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and indirect production overheads. Production overheads comprise indirect material and labour costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process as well as costs of production administration and management. Net realisable value is the expected selling price less cost of completion and costs to sell.

Assessments

Capitalised production overheads have been calculated using a standard cost method, which is reviewed regularly to ensure relevant assumptions concerning capacity utilisation, lead times and other relevant factors in the calculation of actual production costs. Changes to the calculation method for production overheads, including levels of capacity utilisation, lead times, etc. could affect the gross margin and the overall valuation of inventories. The carrying amount of capitalised production overheads was DKK 479m as at 30 September 2017 (30 September 2016: DKK 417m).

DKK million	2016/17	2015/16
Raw materials and consumables	266	231
Work in progress	453	358
Manufactured goods	973	929
Inventories	**1,692**	**1,518**
Inventory writedowns at 1.10.	60	79
Inventory writedowns used	-43	-60
Inventory writedowns reversed	-15	-6
Inventory writedowns for the year	43	47
Inventory writedowns at 30.9.	**45**	**60**

Production costs include directly attributable production costs for goods sold in the amount of DKK 2,922m (2015/16: 2,754m).

Notes

Note

14. Trade receivables

Accounting policies

Receivables consist mainly of trade receivables. On initial recognition, receivables are measured at fair value and subsequently at amortised cost. Receivables are written down on the basis of an individual assessment.

Significant estimates and judgments

Trade receivables are recognised at amortised cost less provisions for losses. Provision is made for losses anticipated because a customer is expected to be unable to pay. If the financial position of a customer deteriorates, making it unable to make payments, it may prove necessary to make additional provisions in future accounting periods. When assessing whether the Group has made adequate provisions for bad and doubtful debts, management reviews the receivables, including previous losses on trade receivables, the customer's creditworthiness, current economic conditions and changes to customer payment terms and conditions.

DKK million	**2016/17**	2015/16
Portion of receivables falling due after more than one year after the balance sheet date		
Other long-term receivables	15	13

Most of the long-term receivables fall due within three years of the balance sheet date. Interest accruing on receivables is 0%.

Provisions for bad and doubtful debts:		
Provisions at 1.10.	130	134
Exchange adjustment	-8	0
Additions from acquisitions	66	0
Change of provisions during the year	32	21
Losses realised during the year	-60	-25
Provisions at 30.9.	**160**	**130**

The provisions are generally due to a customer's inability to pay resulting from bankruptcy or expected bankruptcy. Overdue receivables reflect not only customers' general ability to pay, but also the payment patterns in markets in which Coloplast operates.

Receivables due are specified as follows:		
Up to 30 days	282	272
Between 30 and 90 days	162	135
More than 90 days	392	337
Total receivables due	**836**	**744**

Receivables at 30 September:		
DKK	155	145
EUR	1,102	1,013
GBP	300	306
USD	540	518
Other currencies	793	697
Total carrying amount	**2,890**	**2,679**

Notes

Note

15. Amounts held in escrow

Accounting policies

Amounts held in escrow consist of cash held in escrow with third parties for litigation purposes.

Amounts paid into escrow accounts in connection with pending litigation and not yet released by the courts. See note 18 to the financial statements for more information about mesh litigation.

DKK million	2016/17	2015/16
Amounts held in escrow	531	457

16. Treasury shares and share options

Treasury shares

Accounting policies

The price paid by Coloplast for treasury shares or the selling price on exercise of equity-based share remuneration is deducted from Retained earnings.

	2016/17	2015/16	2016/17	2015/16
Treasury shares	B shares of DKK 1 in millions		% of B share capital	
Holdings of treasury shares at 1.10.	4.3	8.7	2.1%	4.3%
Acquired during the year	0.9	1.0	0.5%	0.5%
Cancelled	0.0	-4.0	0.0%	-2.0%
Sold during the year	-1.4	-1.4	-0.7%	-0.7%
Holdings of treasury shares at 30.9.	**3.8**	**4.3**	**1.9%**	**2.1%**

The Group does not hold A shares.

Share-based payment

Accounting policies

Share options are granted to the Executive Management and senior management.
For equity-settled schemes, the fair value of options is determined at the grant date. The option value is subsequently recognised over the vesting period as staff costs. For cash-settled schemes, the fair value of options granted during the period is recognised as staff costs, whereas the fair value adjustment of granted options from previous periods is recognised under financial items. The purchase and selling prices of treasury shares on exercise are deducted from or added to equity, as the case may be.

Share option programmes (B shares) have been set up for members of the Executive Management and senior managers.

Share options have affected the profit for the year as follows:	2016/17	2015/16
Staff costs - equity-settled programmes	34	27
Financial costs - fair value adjustment of cash-settled programmes	0	1
Total share option cost	**34**	**28**

Notes

Note

16. Treasury shares and share options, continued

At 30 September 2017, the accounting liability of the option programmes was DKK 1m (2015/16: DKK 2m), while the fair value of all option programmes amounted to DKK 233m (2015/16: DKK 498m).

Outstanding options	2016/17			2015/16		
	No. of options	Avg. exercise price	Avg. share price	No. of options	Avg. exercise price	Avg. share price
Outstanding at 1.10	3,982,031	439		4,604,640	333	
Options vested	752,967	498		828,388	635	
Awarded at exchange[1)]	595,521	498		0	-	
Cancelled at exchange[1)]	-901,951	603		-23,983	564	
Options expired	0	-		-16,255	111	
Options exercised	-1,384,153	269	513	-1,410,759	200	531
Outstanding at 30.9	**3,044,415**	485		**3,982,031**	439	

[1)]At 31 December 2016, Coloplast exchanged options awarded in 2014 and 2015 with new share options with a lower exercise price.

Issued in	No. of options	No. of options lapsed	Options exercised	Not exercised at 30.9.2017	Exercise price[2)3)]	Exercise period
2012	1,272,332	93,285	949,696	229,351	294.36	31/12/15 - 31/12/17
2013	1,075,874	57,576	305,497	712,801	393.19	31/12/16 - 31/12/18
2014	862,335	461,516	0	400,819	581.40	31/12/17 - 31/12/19
2014 adjusted	245,265	2,560	0	242,705	497.33	31/12/17 - 31/12/19
2014 US	81,305	0	0	81,305	501.83	31/12/17 - 31/12/19
2015	828,388	465,542	0	362,846	628.46	31/12/18 - 31/12/20
2015 adjusted	199,877	3,041	0	196,836	497.33	31/12/18 - 31/12/20
2015 US	69,074	0	0	69,074	501.83	31/12/18 - 31/12/20
2016	636,182	4,289	0	631,893	497.33	31/12/19 - 31/12/21
2016 US	116,785	0	0	116,785	501.83	31/12/19 - 31/12/21

[2)] Adjusted by DKK -6.95 due to payment of dividend. Does not include US programmes.

[3)] Average exercise price for options exercisable at the balance sheet date is DKK 369.13.

Share options are granted to members of the Executive Management and other senior management for the purpose of motivating and retaining a qualified management group and in order to align the interests of Management with those of the shareholders. Options are awarded as unconditional allocations at the date of grant, but vest over a three-year period. The value of options at the date of grant equalled an average of three months' salary for each recipient, with the exception of the Executive Management.

Coloplast's holding of treasury shares fully covers the option programmes, so options exercised under the programme will not influence the Group's cash position by forcing it to buy up shares in the market.

The value of the options was calculated using the Black-Scholes formula, in which the interest rate applied was the yield on Danish government securities. Volatility in the share is calculated as monthly movements (period-end to period-end) over five years. Options are assumed to be exercised on average one year into the exercise period.

Notes

Note

16. Treasury shares and share options, continued

The following assumptions were applied in determining the fair value of outstanding share options at the date of grant:

	2016	2015
Black-Scholes value	49.69	39.76
Average share price (DKK)	477.93	556.44
Exercise price (DKK)	501.83	639.91
Expected dividend per share	1.50%	1.50%
Expected duration	4.00	4.00
Volatility	19.90%	18.64%
Risk-free interest	-0.36%	-0.04%
Value (DKKm)	37.45	32.94

17. Provisions for pensions and similar obligations

Accounting policies

In defined contribution plans, the Group makes regular payments of fixed contributions to independent pension funds and insurance companies. The Group is under no obligation to pay additional contributions.

Costs for defined contribution plans are recognised in the income statement as Coloplast assumes an obligation to make the payment.

In defined benefit plans, the Group is under an obligation to pay a defined benefit on retirement. The actuarially calculated present value less the fair value of any plan assets is recognised in the balance sheet under provision for pension and similar obligations or in plan assets in the balance sheet. The total service costs of the year plus calculated interest based upon actuarial estimates and financial assumptions at the beginning of the year are recognised in the income statement. The difference between the forecast development in plan assets and liabilities and the realised values at the end of the year is called actuarial gains or losses and is recognised in other comprehensive income. In connection with a change in benefits regarding the employees' employment with the Group to date, there will be a change in the actuarial calculation of the net present value, which is taken directly to the income statement.

Defined contribution plans

The Group offers pension plans to certain groups of employees in Denmark and abroad. Most of the pension plans are defined contribution plans. The Group funds the plans through regular payments of premiums to independent insurance companies responsible for the pension obligations towards the beneficiaries. Once the pension contributions for defined contribution plans have been made, the Group has no further obligation towards current or former employees. Contributions to defined contribution plans are recognised in the income statement when paid. In 2016/17, DKK 260m (2015/16: DKK 239m) was recognised.

Notes

Note

17. Provisions for pensions and similar obligations, continued

Defined benefit plans

For certain groups of employees in foreign subsidiaries (France: 48%, the UK 29%, Germany: 20% and Italy: 3% of the net obligation), the Group has signed agreements to pay defined benefits, including pension payments. These liabilities are not or are only partly covered by insurance (in the UK). Uncovered liabilities are recognised in the balance sheet and in the income statement as indicated below.

Coloplast effects payments to the plans. The plans in the UK and Italy have been closed, and no further payments are made.

The figures below include liabilities regarding the post-service remuneration scheme applicable to Board members prior to the amendment to the articles of association adopted at the annual general meeting held in 2002.

The pension plans are based on the individual employee's salary and years of service with the company, and benefits are paid as a life-long pension. The active plans are not exclusive to any particular employee group.
Special funding requirements apply in the UK, while this is not the case for the other countries. In the UK, employee interests are handled by a Trustee Board. Accounts are prepared every three years and funding of any deficit is determined. Any surplus reverts to Coloplast. The plans have no requirements for risk diversification on equities or for matching strategies. The plans have a duration of an average of 17 years, and all plans generally mature after more than 5 years.

DKK million	2016/17	2015/16
The following is recognised in the consolidated income statement:		
Defined contribution plans	260	239
Defined benefit plans	13	12
Total	**273**	**251**
The costs regarding defined benefit plans are recognised in the following income statement items:		
Production costs	3	2
Distribution costs	10	10
Total	**13**	**12**
Pension costs recognised in the income statement:		
Pension costs concerning current financial year	9	7
Net interest expenses	4	5
Total amount recognised in income statement for defined benefit plans	**13**	**12**
Pension costs recognised in other comprehensive income:		
Actuarial gains/losses on pension obligations	45	-134
Actuarial gains/losses on plan assets	-16	51
Total amount recognised in other comprehensive income regarding defined benefit plans	**29**	**-83**

Notes

Note

17. Provisions for pensions and similar obligations, continued

DKK million	2016/17	2015/16
Plan assets at 1.10.	347	318
Exchange adjustments	-7	-52
Actual rate of interest	8	11
Actuarial gains/losses on plan assets	-16	51
Paid by the Coloplast Group	16	33
Benefit paid out	-24	-14
Plan assets at 30.9.	**324**	**347**
Specification of plan assets:		
Shares, listed	45	48
Bonds	273	285
Cash and similar assets	6	14
Plan assets at 30.9.	**324**	**347**
Specification of present value of defined benefit obligation:		
Obligation at 1.10.	597	518
Exchange adjustments	-9	-64
Pension costs concerning current financial year	9	7
Calculated interest on liability	12	16
Actuarial gains/losses, financial assumptions	-38	158
Actuarial gains/losses, demographic assumptions	0	-14
Actuarial gains/losses, experience	-7	-10
Benefit paid out	-24	-14
Present value of liability at 30.9.	**540**	**597**
Fair value of plan assets	-324	-347
Net liability recognised in the balance sheet	**216**	**250**
Net liability recognised in the balance sheet at 1.10.	250	200
Expenditure for the year	13	12
Actuarial gains and losses on pension obligation	-45	134
Exchange adjustments	-2	-12
Actuarial gains/losses on plan assets	16	-51
Payments received	-16	-33
Net liability recognised in the balance sheet at 30.9.	**216**	**250**

The Group expects to pay DKK 3m to the defined benefit plans in 2017/18.

Notes

Note

17. Provisions for pensions and similar obligations, continued

DKK million	2016/17	2015/16
Assumptions of actuarial calculations as at the balance sheet date are as follows (expressed as an average):		
Discount rate, %	2.0	1.3
Future rate of salary increases, %	1.9	1.8
Inflation, %	2.1	2.1

The sensibility analysis shows that a given change in the main assumptions will trigger changes in the gross liability as follows:	+1%	-1%
Discount rate	-22%	24%
Future rate of salary increases	3%	-2%
Inflation	17%	-15%

The above sensibility analysis shows the change in one of the assumptions, while other assumptions are constant. In practice, a change in one of the assumptions will in many instances be matched by a change in the other assumptions.

18. Other provisions

Accounting policies

Provisions are recognised when the Group has a legal or constructive obligation arising from a past event, and it is probable that an outflow of the Group's financial resources will be required to settle the obligation. Provisions are measured as Management's best estimate of the amount with which the liability is expected to be settled. The Group recognises a provision for the replacement of products covered by warranties at the balance sheet date.

Significant estimates and judgments

Provisions for legal obligations consists of provisions for pending litigation. Management makes assessments of provisions and contingent liabilities, including the probable outcome of pending and possible future litigation, which is inherently subject to uncertain future events. Based on information available, Management believes that adequate provisions have been made for pending litigation, but there can be no assurance that the scope of these matters will not be extended, nor that material lawsuits, claims, legal proceedings or investigations will not arise in the future.

2016/17 DKK million	Legal claims	Other	Total
Provisions at 1.10.	1,067	5	1,072
Provisions during the year	4	0	4
Unused amounts reversed during the year	-1	0	-1
Charged to the income statement	**3**	**0**	**3**
Use of provisions during the year	-688	0	-688
Provisions at 30.9.	**382**	**5**	**387**

Notes

Note

18. Other provisions, continued

2016/17 DKK million	Legal claims	Other	Total
Expected maturities:			
Current liabilities	318	1	319
Non-current liabilities	64	4	68
Provisions at 30.9.	**382**	**5**	**387**

Legal claims

The amounts are gross amounts relating to certain legal claims.

Since 2011, Coloplast, along with a number of other major manufacturers, has been named as a defendant in individual lawsuits in various federal and state courts around the United States alleging injury resulting from use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence. A multidistrict litigation (MDL) was formed in 2012 in Southern District of West Virginia to consolidate federal court cases in which Coloplast is the first named defendant.

Since the first lawsuits were filed, Coloplast has been intent on disputing the current and any future litigation, and has continually considered which strategy and other steps may serve the company's best interests.

Against this background, Coloplast has from the start reached settlements with groups of law firms. In June 2017, Judge Joseph Goodwin issued a court order stating that plaintiffs may no longer direct claims against Coloplast in the ongoing MDL. The court order is a further step towards closure and full resolution of the MDL.

The total amount recognised since the 2013/14 financial year for expected costs of litigation in the USA amounts to DKK 5.25bn including legal costs (before insurance cover of DKK 0.5bn).

The total expense is based on a number of estimates and assumptions and is therefore subject to uncertainty.

The remaining provision made for legal claims at 30 September 2017 amounted to DKK 0.4bn (30 September 2016: DKK 1.1bn) plus DKK 1.2bn recognised under other debt (30 September 2016: DKK 2.4bn). Liabilities are classified as other debt when agreements are reached with the plaintiffs' legal counsel and amounts and timing become known.

With reference to the prejudicial exemption in IAS 37, Coloplast will not disclose any further information about the assumptions for the provision, including any details about current and the expected number of lawsuits and settled claims.

The disclosure of such information is believed to be detrimental to Coloplast in connection with the ongoing confidential negotiations and could inflict financial losses on Coloplast and its shareholders.

Other

Other liabilities relate to provisions for expenses associated with the vacating of leased premises, restructuring, guarantees and other non-legal claims.

Notes

Note

19. Credit institutions

Accounting policies

Debt is recognised at fair value less expenses incurred and subsequently at amortised cost. Repo debt relates to mortgage bonds forming a part of repo transactions. Repo debt is recognised at amortised cost plus accumulated repo interest.

DKK million	2016/17	2015/16
Breakdown of debt to financial institutions stated in the balance sheet:		
Current liabilities	1,358	222
DKK	1,347	221
Other currencies	11	1
Total carrying amount	**1,358**	**222**
Current financial liabilities including interest has the following terms to maturity:		
Less than one year	2,043	919
Total	**2,043**	**919**
Net interest-bearing debt at 30.9.		
Repo debt	217	219
Other credit institutions	1,141	3
Marketable securities	-315	-489
Bank balances	-314	-546
Leasing debt	97	0
Total	**826**	**-813**

Coloplast has concluded repo transactions on mortgage bonds, according to which Coloplast has an obligation to buy back the bonds at a fixed price. Repo transactions are accounted for as lending transactions. Repo debt amounted to DKK 217m at 30 September 2017 (30 September 2016: DKK 219m) with the due date of 6 October 2017. The repo debt carries a fixed rate of interest of minus 0.1% from the transaction date (30 September 2016: minus 0.1%).

Bonds for which the ownership has been transferred to the counterpart as part of a repo transaction had a carrying amount of DKK 217m at 30 September 2017 (30 September 2016: DKK 219m). See note 20 for information on interest rate risk relating to bonds.

Notes

Note

19. Credit institutions, continued

Specification of currency split and interest structure for net interest-bearing debt

2016/17

Principal in DKK million/ Effective interest rate p.a., %		USD	Rate	GBP	Rate	EUR	Rate	DKK	Rate	Other	Rate	Total
Less than 1 year	Receivables	-49	0	-13	0	-115	-1-3	-266	-1-1	-186	0-9	-629
	Liabilities							1,347	1	11	-1-14	1,358
Total, less than 1 year		-49		-13		-115		1,081		-175		729
1 to 5 yrs	Receivables											0
	Liabilities					32	3					32
Total, 1 to 5 yrs						32						32
More than 5 years	Receivables											0
	Liabilities					65	3					65
Total, more than 5 year						65						65
Total		**-49**		**-13**		**-18**		**1,081**		**-175**		**826**

2015/16

Principal in DKK million/ Effective interest rate p.a., %		USD	Rate	GBP	Rate	EUR	Rate	DKK	Rate	Other	Rate	Total
Less than 1 year	Receivables	-51	0	-134	0	-194	0	-418	0	-238	0-8	-1,035
	Liabilities							221	0	1	13	222
Total, less than 1 year		-51		-134		-194		-197		-237		-813
Total, 1 to 5 yrs												0
Total, more than 5 year												0
Total		**-51**		**-134**		**-194**		**-197**		**-237**		**-813**

20. Financial instruments

Accounting policies

Derivative financial instruments are recognised in the balance sheet under other receivables and other payables, respectively, and are adjusted to fair value in an ongoing process.

Adjustment of derivative financial instruments used to hedge expected future transactions (effective) is recognised in the fair value reserve under equity through other comprehensive income. The reserve is recognised in the income statement on realisation of the hedged transactions. If a derivative financial instrument used to hedge expected future transactions expires, is sold or no longer qualifies for hedge accounting, any accumulated fair value reserve remains in equity until the hedged transaction is concluded. If a transaction is no longer expected to be concluded, any fair value reserve accumulated under equity is transferred to the income statement. Adjustment of derivative financial instruments used to hedge assets denominated in foreign currency is recognised at fair value at the balance sheet date. Value adjustments are recognised in the income statement together with any adjustments of the value of the hedged asset that concern the hedged risk.

The Group's risk management policy

Financial risks are managed centrally in Coloplast and, accordingly, all derivative instruments are managed and controlled by the parent company. The framework is determined by the financial policy approved annually by the Board of Directors. The financial policy comprises policies for foreign exchange, funding, liquidity and financial counterparts. The core principle is for financial risk to be managed with a view to reducing significant risk.

Notes

Note

20. Financial instruments, continued

Financial instruments by category
2016/17

Assets	Loans and receivables	Assets at fair value through profit or loss (level 1)[1]	Derivatives used for hedging (level 2)[2]	Total
Trade receivables and other receivables	3,081	0	88	3,169
Marketable securities	0	315	0	315
Cash and cash equivalents	314	0	0	314
Total	**3,395**	**315**	**88**	**3,798**

Equity and liabilities	Liabilities at fair value through profit or loss[1]	Derivatives used for hedging (level 2)[2]	Other liabilities at amortised cost	Total
Other credit institutions	0	0	1,358	1,358
Trade payables	0	0	675	675
Other payables	0	34	2,497	2,531
Total	**0**	**34**	**4,530**	**4,564**

There were no movements between levels 1 and 2 during the period.

Financial instruments by category
2015/16

Assets	Loans and receivables	Assets at fair value through profit or loss (level 1)[1]	Derivatives used for hedging (level 2)[2]	Total
Trade receivables and other receivables	2,885	0	121	3,006
Marketable securities	0	489	0	489
Cash and cash equivalents	546	0	0	546
Total	**3,431**	**489**	**121**	**4,041**

Equity and liabilities	Liabilities at fair value through profit or loss[1]	Derivatives used for hedging (level 2)[2]	Other liabilities at amortised cost	Total
Other credit institutions	0	0	222	222
Trade payables	0	0	697	697
Other payables	0	55	3,382	3,437
Total	**0**	**55**	**4,301**	**4,356**

[1] The securities portfolio consists of mortgage bonds and corporate bonds. The bond portfolio carried an effective rate of interest of 1-6% (2015/16: 0-5%).

[2] Financial instruments measured at fair value are broken down according to the following measuring hierarchy:
Level 1: Observable market prices of identical instruments.
Level 2: Valuation models primarily based on observable prices or traded prices of comparable instruments.
Level 3: Valuation models primarily based on non-observable prices.

Notes

Note

20. Financial instruments, continued

The fair value of forward exchange contracts and other derivative financial instruments are considered a level 2 fair value measurement as the fair value is determined directly based on the published exchange rates and quoted forward exchange rates at balance sheet date. The fair value of derivative financial instruments is calculated on the basis of current market data.

Foreign exchange risk

The objective of the foreign exchange policy is to neutralise and delay the effect of exchange rate fluctuations in the income statement and thereby enhance the predictability of the financial results. Foreign exchange risk is calculated applying the principles of a cash-flow-at-risk model, with the Board of Directors determining the level of risk as a percentage of EBIT. This is done by hedging significant balance sheet items denominated in foreign currency and a part of the expected rolling 12-month cash flows. Currency hedging is achieved by means of forward contracts and options. As at 30 September 2017, an average of 75% of the following 12 months of expected net cash flows was hedged (2015/16: 83% of the following twelve months of cash flows). The Group does not hedge amounts in euro.

Holdings of derivative financial instruments

2016/17

DKK million	Contract amount[1]	Loss/gain when stated at market value	Amount incl. in income statement for 2016/17	Transferred to currency hedging reserve	Expiry period
Forward exchange contracts and options outstanding at 30.9. to hedge future cash flows					
USD	637	43	0	43	Oct. 17 - Jul. 18
GBP	727	-2	0	-2	Oct. 17 - Apr. 18
GBP-denominated options	397	5	0	5	Oct. 17 - Jan. 18
JPY	166	13	0	13	Oct. 17 - Aug. 18
HUF	-306	0	0	0	Oct. 17 - Aug. 18
Other currencies	886	12	0	12	Oct. 17 - Aug. 18
Total	**2,507**	**71**	**0**	**71**	
Other forward exchange contracts including fair value hedges at 30.9.					
USD	-415	-15	-15	0	Oct. 17 - Dec. 17
HUF	359	-1	-1	0	Oct. 17 - Dec. 17
Total	**-56**	**-16**	**-16**	**0**	

[1] + indicates sale of currency in question; - indicates purchase of currency in question.

The Group had no material foreign exchange risks relating to debt in foreign currency as at 30 September 2017. The Group's receivables and payables are to some extent affected by exchange rate fluctuations, and, accordingly, the Group's balance sheet is impacted to some extent by changes in exchange rates prevailing at 30 September 2017.

Notes

Note

20. Financial instruments, continued

The tables below show the effect of derivative financial instruments on the income statement and other comprehensive income from a change of +/- 5% in all currencies against Danish kroner[2)] and the effect on all major currencies:

DKK million	2016/17	USD	GBP	HUF	2015/16	USD	GBP	HUF
Income statement	+/-97	+/-8	+/-0	-/+3	+/-10	+/-12	+/-4	-/+6
Other comprehensive income	-116/+110	-30/+30	-34/+29	+15/-15	-128/+146	-25/+22	-42/+64	+15/-15

[2)] The increase/decrease resulting from a 5% change is the same in the income statement because the financial instruments are all forward contracts.

Interest rate risk

As the Group's interest-bearing debt is insignificant, the interest rate risk is also considered insignificant.
The Group's cash reserve is placed in money market deposits and bonds with selected counterparties. Cash reserves are placed at an average duration not exceeding four years. As a result, the interest rate risk is considered to be limited.

Liquidity risk

The funding policy is intended to ensure that the Group maintains a minimum cash reserve that will cover the Group's liquidity requirements from time to time. The cash policy stipulates that the Group must obtain a competitive return and high liquidity when investing its excess cash. Cash pools are one of the means of achieving effective management of the Group's cash.

The Group's cash reserve comprises cash and cash equivalents and securities.

Credit risk

Pursuant to the counterparty policy, credit risk is managed and mitigated by making money market deposits only with selected financial institutions holding a satisfactory credit rating. In addition, maximum credit limits have been defined for each financial counterparty. There is only a limited credit risk involved in bonds as investments are made in selected liquid bonds with a high credit rating.

The Group's credit risks relate partly to receivables and cash holdings, partly to derivative financial instruments with a positive fair value. The maximum credit risk related to financial assets equals the values recognised in the balance sheet. The Group's credit risk relating to trade receivables is diversified over a large number of customers and is therefore not material. The Group's policy for undertaking credit risks involves an ongoing credit assessment of major customers and other key business partners.

Capital management

The capital management objective of the Group is to raise new debt only for acquisition purposes or for other special purposes.

The Board of Directors generally intends to distribute excess cash to the shareholders by way of dividends and share buybacks. It is expected that dividends will be paid twice a year; after the annual general meeting and after the release of the half-year interim report. However, share buybacks and distribution of dividend will always be made with due consideration for the Group's liquidity requirements and plans.

Notes

Note

20. Financial instruments, continued

The Group assesses the capital on the basis of the solvency ratio, which is calculated in accordance with the guidelines issued by the Danish Society of Financial Analysts.

Holdings of derivative financial instruments

2015/16 DKK million	Contract amount[1)]	Loss/gain when stated at market value	Amount incl. in income statement for 2015/16	Transferred to currency hedging reserve	Expiry period
Forward exchange contracts and options outstanding at 30.9. to hedge future cash flows					
USD	297	-1	0	-1	Oct. 16 - Mar. 17
USD-denominated options	317	1	0	1	Oct. 16 - Mar. 17
GBP	749	35	0	35	Oct. 16 - Mar. 17
GBP-denominated options	577	43	0	43	Oct. 16 - Mar. 17
JPY	175	-14	0	-14	Oct. 16 - Sep. 17
HUF	-320	5	0	5	Oct. 16 - Sep. 17
Other currencies	1,005	-16	0	-16	Oct. 16 - Sep. 17
Total	**2,800**	**53**	**0**	**53**	
Other forward exchange contracts including fair value hedges at 30.9.					
USD	-1,380	9	9	0	Oct. 16 - Jan. 17
GBP	178	7	7	0	July 17
JPY	243	-1	-1	0	Oct. 16
HUF	0	0	0	0	Feb. 17
Other currencies	954	-2	-2	0	Oct. 16
Total	**-5**	**13**	**13**	**0**	

1) + indicates sale of currency in question; - indicates purchase of currency in question.

21. Adjustment for other non-cash operating items

DKK million	2016/17	2015/16
Net gain/loss on divestment of non-current assets	1	2
Change in other provisions	-688	-2,299
Other non-cash operating items	35	26
Total	**-652**	**-2,271**

Notes

Note

22. Changes in working capital

DKK million	2016/17	2015/16
Inventories	-193	-37
Trade receivables	-243	-247
Other receivables, including amounts held in escrow	-59	-539
Trade and other payables etc.	-911	1,923
Total	**-1,406**	**1,100**

23. Cash, cash equivalents and current debt with credit institutions

Accounting policies

Cash and cash equivalents, recognised under current assets, comprise bank deposits and cash at hand and are measured at fair value.

DKK million	2016/17	2015/16
Cash	1	1
Short term bank balances	313	545
Cash and bank balances	314	546
Short-term debt	-231	-222
Total	**83**	**324**

24. Unutilised credit facilities

DKK million	2016/17	2015/16
Unutilised credit facilities	2,878	2,381

25. Public grants

Accounting policies

Public grants comprise grants for research, development and other investments. Grants for investments are recognised as deferred income, which is recognised systematically in the income statement under production costs from the date when the conditions attaching to them are deemed to be complied with until the date on which the deadline for retaining such conditions expires. Other grants are recognised as income on a systematic basis, so that they are matched with the related costs for which they compensate.

In the financial year, the Group received DKK 1m in public grants for research and development purposes (2015/16: DKK 0m). The Group received DKK 22m (2015/16: DKK 2m) in public grants for investments. Production costs of DKK 14m relating to investment grants have been recognised in the income statement (2015/16: DKK 16m).

Notes

Note

26. Other liabilities

DKK million	2016/17	2015/16
Operating leases fall due in:		
Less than one year	261	180
Within 1 to 5 years	370	508
After more than 5 years	30	12
Total	**661**	**700**

Operating lease payments recognised in the income statement amount to DKK 102m (2015/16: DKK 93m).

Operating leases represent primarily leasing of cars. There are no purchasing rights attaching to assets held under operating leases. Liabilities concerning rent and other operating leases are limited to the minimum lease payments.

27. Contingent liabilities and guarantees

Other than as set out in Note 18 Other provisions, the Coloplast Group is a party to a few minor legal proceedings, which are not expected to influence the Group's future earnings.

Bonds in repo transactions have been provided as collateral for repo debt. Bonds provided as collateral were valued at DKK 217m at 30 September 2017 (30 September 2016: DKK 219m). See note 20 for information on interest rate risk relating to bonds.

28. The Executive Management's and the Directors' remuneration, share options and shareholdings

The current policy for remuneration of the Board of Directors and the Executive Management was adopted in 2010 and sets out the general guidelines for remuneration of the Group's management. The guidelines for remuneration of the Board of Directors are available on the Group website at this address:
https://www.coloplast.com/management-remuneration/

Board of Directors

General guidelines for the remuneration of the Board of Directors

Members of the Board of Directors receive a fixed annual fee. Fees are fixed on the basis of fees paid by other, similar companies and must be given final approval by the shareholders in the General Meeting. Members of the Board of Directors receive no incentive pay.

Composition of board fees

Board members receive a basic fee of DKK 450,000 each. The Chairman receives the basic fee plus 200%, while the Deputy Chairman receives the basic fee plus 75%. In addition, ordinary members of the Audit Committee also receive DKK 225,000 each and the chairman of the Audit Committee receives DKK 337,500.

Notes

Note

28. The Executive Management's and the Directors' remuneration, share options and shares, continued

Fees to Board members in respect of the current financial year

Fees to Board members make up DKK 6.6m (2015/16: DKK 6.0m) of the total staff costs (see note 4) and are specified as follows:

	Ordinary Board member fee		Audit Committee		Total	
DKK million	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Michael Pram Rasmussen, (Chairman of the Board)	1.4	1.2	0.3	0.3	1.7	1.5
Niels Peter Louis-Hansen, (Deputy Chairman)	0.8	0.7	0.2	0.2	1.0	0.9
Other Board members	3.7	3.4	0.2	0.2	3.9	3.6
Total	**5.9**	**5.3**	**0.7**	**0.7**	**6.6**	**6.0**

Executive Management

General guidelines for the remuneration of the Executive Board

Remuneration to the Executive Management consists of a fixed and a variable part. The fixed part consists of a net salary, pension contribution and other benefits. The Chairman and Deputy Chairman perform an annual review of the remuneration to Executive Management relative to the management of other Danish companies.

Composition of remuneration to members of the Executive Board

The fixed remuneration consists of a fixed net salary, pension contribution and other benefits. The variable remuneration consists of a cash bonus subject to a maximum of 25% of the annual net salary and of a share option plan the fair value of which is subject to a maximum of 40% of the Executive Management's remuneration. The purpose of the cash bonus is to incentivise management to achieving certain short-term financial targets. The purpose of the share option plan is to align the Executive Management's incentive with the creation of long-term shareholder value.

The amount of the cash bonus is based on a weighted average of financial growth and profitability targets. The actual bonus cannot exceed 100% of the bonus potential, even if the targets are exceeded. If the targets are not reached, bonus will not be paid.

The value of the share option plan is calculated in accordance with the Black-Scholes formula. Options are awarded at a strike price which is 5% higher than the market price at the award date. Options are awarded as unconditional at the grant date, but vest over a 3-year period. The options vest after 5 years and are exercisable after 3 years.

If a member of the Executive Management is given notice of termination by the company and such termination is not due to breach on the part of the member of the Executive Management, such member is entitled to compensation corresponding to a maximum of two years' salary and pension contribution.

Fees to members of the Executive Board in respect of the current financial year

Breakdown of remuneration of members of the Executive Board included in staff costs (see note 4):

DKK million 2016/17	Net salaries	Pension	Other benefits	Cash bonus	Total	Share options[1)]
Lars Rasmussen	10.9	1.6	0.3	2.0	14.8	5.0
Anders Lonning-Skovgaard	4.5	0.7	0.2	0.9	6.3	1.4
Allan Rasmussen	4.5	0.7	0.2	0.9	6.3	2.0
Kristian Villumsen	5.7	0.8	0.2	1.1	7.8	2.6
Total	**25.6**	**3.8**	**0.9**	**4.9**	**35.2**	**11.0**

Notes

Note

28. The Executive Management's and the Directors' remuneration, share options and shares, continued

DKK million 2015/16	Net salaries	Pension	Other benefits	Cash bonus	Total	Share options[1)]
Lars Rasmussen	10.5	1.6	0.4	1.6	14.1	4.7
Anders Lonning-Skovgaard	4.0	0.6	0.2	0.6	5.4	1.0
Allan Rasmussen	4.4	0.7	0.2	0.7	6.0	1.9
Kristian Villumsen	5.5	0.8	0.2	0.9	7.4	2.4
Total	**24.4**	**3.7**	**1.0**	**3.8**	**32.9**	**10.0**

[1)] The amount shows the annual accounting cost of share options awarded in the current and in prior years in accordance with the accounting policies that apply and does not show the fair value of share options awarded in the current financial year.

Share options

Share options held by members of the Executive Management:

2016/17	Options held at beginning of year	Exercised during the year	Granted during the year	Options held at end of year	Market value[2)] DKK million
Lars Rasmussen	822,548	343,600	105,656	584,604	44
Anders Lonning-Skovgaard	128,631	19,580	40,250	149,301	11
Allan Rasmussen	172,719	62,209	44,275	154,785	6
Kristian Villumsen	363,753	143,905	55,344	275,192	16
Total	**1,487,651**	**569,294**	**245,525**	**1,163,882**	**77**

[2)] Market value of Executive Board members' holdings of share options calculated as the fair value of outstanding options at the balance sheet date using the Black-Scholes formula.

Shareholdings

Coloplast's in-house rules permit members of the Executive Management and the Board of Directors to trade in Coloplast A/S shares during the four-week periods following the announcement of interim financial statements and during the six-week periods following the announcement of full-year financial statements. Number of shares in Coloplast A/S held by members of the Board of Directors and the Executive Management:

2016/17	Beginning of year	Bought during the year	Sold during the year	Increase/ decrease during year[3)]	Holdings at end of the year	Market value[4)] DKK million
Lars Rasmussen	130,235	343,600	325,000	-	148,835	76
Anders Lonning-Skovgaard	0	19,580	19,580	-	0	0
Allan Rasmussen	1,135	62,209	62,209	-	1,135	1
Kristian Villumsen	30,685	143,905	84,070	-	90,520	46
Executive Management total	162,055	569,294	490,859	-	240,490	123
Board of Directors, A shares	12,285,000	0	0	-	12,285,000	6,278
Board of Directors, B shares	33,587,162	55,000	285	-5,075	33,636,802	17,188
Total	**46,034,217**	**624,294**	**491,144**	**-5,075**	**46,162,292**	**23,589**

[3)] Increase/decrease relates to Board members joining or resigning from the Board of Directors.

[4)] The end-of-year market values are based on the official share prices prevailing at 30 September. Members of the Executive Management hold only B shares in Coloplast A/S.

Notes

Note

29. Related party transactions

Related parties to the Coloplast Group include members of the Board of Directors and the Executive Management and main shareholders of the parent company, Coloplast A/S. There were no transactions with related parties. Information about remuneration of the Management is set out in note 28.

30. Fees to appointed auditors

DKK million	2016/17	2015/16
Overall fees to PricewaterhouseCoopers	17	14
Of which:		
Statutory audit	8	8
Tax advice	1	1
Other services	8	5

Certain of the Group's subsidiaries are not subject to an audit by PricewaterhouseCoopers.

31. Events occurring after the balance sheet date

No events have occurred after the balance sheet date which are deemed to have a material impact on the financial results or equity at 30 September 2017.

Notes

Note

32. Overview of Group companies

	Country	Ownership (%)
Parent company		
Coloplast A/S	Denmark	
Sales and/or manufacturing subsidiaries		
Coloplast de Argentina S.A.	Argentina	100
Coloplast Pty. Ltd.	Australia	100
Coloplast Belgium S.A.	Belgium	100
Coloplast do Brasil Ltda.	Brazil	100
Coloplast Canada Corporation	Canada	100
Coloplast Danmark A/S	Denmark	100
Coloplast Oy	Finland	100
Laboratoires Coloplast S.A.S.	France	100
Coloplast Manufacturing France S.A.S	France	100
Coloplast B.V.	Netherlands	100
Coloplast (India) Private Limited	India	100
Coloplast Israel Ltd.	Israel	100
Coloplast S.p.A.	Italy	100
Coloplast K.K.	Japan	100
Coloplast (China) Ltd.	China	100
Coloplast (China) Medical Devices Ltd.	China	100
Coloplast (Hong Kong) Ltd.	China	100
Coloplast Korea Limited	Korea	100
Coloplast Norge AS	Norway	100
Coloplast Sp. zo.o.	Poland	100
Coloplast Portugal Lda.	Portugal	100
Coloplast OOO	Rusia	100
Coloplast AG	Switzerland	100
Coloplast Slovakia s.r.o.	Slovakia	100
Coloplast Productos Médicos S.A.	Spain	100
Coloplast Limited	Great Britain	100
Coloplast Medical Limited	Great Britain	100
Charter Healthcare Limited	Great Britain	100
Porgès UK Limited	Great Britain	100
Coloplast AB	Sweden	100
Coloplast Taiwan Co., Ltd.	Taiwan	100
Coloplast Turkey AS	Turkey	100
Coloplast GmbH	Germany	100
Coloplast Distribution GmbH	Germany	100
Coloplast Hungary Kft.	Hungary	100
Coloplast Corp.	USA	100
Coloplast Manufacturing US, LLC	USA	100
Comfort Medical, LLC	USA	100
Coloplast Ges.m.b.H.	Austria	100
Other companies		
Coloplast Ejendomme A/S	Denmark	100
Ejendomsselskabet Bronzevej og Højvangen A/S	Denmark	100
Ejendomsselskabet Kromosevej A/S	Denmark	100
Coloplast Business Centre Sp. zo.o.	Poland	100
Acarix AB	Sweden	7
IctalCare A/S	Denmark	9

Representative offices and branches

Algeria	Singapore
Dubai	Slovakia
Egypt	Slovenia
Croatia	South Africa
New Zealand	Czech Republic
Mexico	Ukraine
Saudi Arabia	Hungary

Notes

Note

33. Acquisition of operations

On 20 December 2016, Coloplast agreed to acquire all membership interest and voting rights of Comfort Medical, LLC. Comfort Medical is a US direct-to-consumer Durable Medical Equipment (DME) nationwide dealer of catheters and ostomy supplies. The acquisition is expected to expand Coloplast's footprint in the US market and enable the company to offer innovative products and services to a broader part of the US market, including the CARE program. The acquisition also represents an opportunity for Coloplast to build closer relationships with end-users and to attract new users through Comfort Medical's business model of Direct Response advertising and physician referrals.

Comfort Medical is recognised in the consolidated income statement at a revenue of DKK 176m and a net profit after tax of DKK 8m for the period. The pro forma effect on revenue for 2016/17, as if the company had been acquired on 1 October 2016, amounted to approximately DKK 229m. The pro forma effect on net profit after tax for 2016/17, as if the company had been acquired on 1 October 2016, amounted to approximately DKK 10m.

	Fair value at date of acquisition (20.12.16), DKK million
Intangible assets	188
Property, plant and equipment	1
Other non-current assets	2
Receivables	46
Trade payables	-9
Other payables	-3
Net assets acquired	**225**
Goodwill	919
Cash consideration	**1,144**

Intangible assets consist of customer lists (DKK 143m), trademarks (DKK 34m) and software (DKK11m).
Customer lists consist of access to Comfort Medical's existing customer base.
Trademarks represent the Comfort Medical brand and name, both associated with sales of catheters and ostomy supplies.
Receivables represent a gross amount of DKK 112m, implying that a DKK 66m writedown has been recognised.

After recognition at fair value of identifiable assets and liabilities, goodwill related to the acquisition amounts to DKK 919m, which amount is deductible for tax purposes. Goodwill expresses the synergies expected to be achieved from the broader geographical coverage of the US market, access to providing innovative products and services and the opportunity to attract new users through Comfort Medical's business model of Direct Response advertising and physician referrals.

Coloplast incurred transaction costs relating to the acquisition of approximately DKK 7m in the 2016/17 financial year, which amount was recognised in administrative expenses in the statement of comprehensive income.

The agreed consideration for the shares amounted to USD 160m, which fell due for payment on the date of acquisition.

Definitions of key ratios

Note

34. Definitions of key ratios

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Invested capital	Assets less cash, less marketable securities plus accumulated goodwill amortised before 1 October 2002 less non-interest bearing debt including provisions
EBIT margin (%)	$\frac{\text{EBIT x 100}}{\text{Revenue}}$
Return on average invested capital (ROIC), %	$\frac{\text{EBIT x 100}}{\text{Average invested capital}}$
Return on equity, %	$\frac{\text{Profit for the year attributable to Coloplast x 100}}{\text{Average equity before minority interests}}$
Equity ratio, %	$\frac{\text{Total equity x 100}}{\text{Assets}}$
Net asset value per share, DKK	$\frac{\text{Equity excluding minority interests}}{\text{Number of outstanding shares}}$
Market price/net asset value per share	$\frac{\text{Market price per share}}{\text{Net asset value per share}}$
PE, price/earnings ratio	$\frac{\text{Market price per share}}{\text{Earnings per share (EPS)}}$
Pay-out ratio, %	$\frac{\text{Dividend declared x 100}}{\text{Profit for the year attributable to Coloplast}}$
Earnings per share (EPS)	$\frac{\text{Profit for the year attributable to Coloplast}}{\text{Number of outstanding shares (average of four quarters)}}$
Free cash flow per share	$\frac{\text{Free cash flow}}{\text{Number of outstanding shares (average of four quarters)}}$

The ratios are calculated and applied in accordance with "Recommendations & Financial Ratios 2015" issued by the Danish Society of Financial Analysts. Key ratios are shown on page 2.

Other executive functions

Board of Directors

Chairman
Michael Pram Rasmussen (62)
12 years on the Board

Henning Larsen Architects A/S (C)
Semler Holding (C) and C of 1 of its wholly owned subsidiaries
Arp-Hansen Hotel Group A/S (BM)
Louisiana Museum of Modern Art (BM)
Museumsfonden af 7. december 1966 (BM)

Birgitte Nielsen (54)
2 years on the Board

Arkil Holding A/S (DC)
The Danish Rheumatism Association (BM)
Matas A/S (BM)
De Forenede Ejendomsselskaber A/S (BM) and BM of 8 companies under the same group of owners
Kirk Kapital A/S (BM)

Jørgen Tang-Jensen (61)
10 years on the Board

Velux A/S, CEO and C of 8 and DC of 1 of its wholly owned subsidiaries
Altaterra Kft. (C)
Danish Green Investment Fund (C)
Geberit AG (BM)
Rockwool International A/S (BM)

Deputy Chairman
Niels Peter Louis-Hansen (70)*
49 years on the Board

N. P. Louis-Hansen ApS, Director and Director of 1 of its wholly owned subsidiaries
Aage og Johanne Louis-Hansen ApS, Director
Aage og Johanne Louis-Hansens Fond (C)
Civiløkonom Niels Peter Louis-Hansen, Agriculture and forestry

Jette Nygaard-Andersen (49)
2 years on the Board

Modern Times Group Central European and African Operations, CEO
Modern Times Group AB, Executive Vice President
Modern Times Group MTG A/S (BM) and BM of 5 of its wholly owned subsidiaries
MTG TV A/S (BM)
Nova Broadcasting Group (BM)
Turtle Entertainment GmbH (BM)
Engage Sports Media Limited (BM)
Zoomin B.V. (C)

Thomas Barfod (47)*
11 years on the Board

Senior Controller
Elected by the employees

Per Magid (74)*
32 years on the Board

Aage og Johanne Louis-Hansen ApS, Director
Munksgaards Fondet (C)
Vemmetofte Kloster (C)
Ernst og Vibeke Husmans Fond (DC)
The Arctic Institute (BM)
Aage og Johanne Louis-Hansens Fond (BM)

Brian Petersen (55)
7 years on the Board

BP Consulting, Director
Board Mentors ApS (BM) and Director
Puori ApS (C)
Epinion P/S (BM)
Epinion Partners ApS (BM)

Martin Giørtz Müller (54)*
3 years on the Board

Senior Project Manager
Elected by the employees

Torben Rasmussen (57)*
7 years on the Board

Electrician
Elected by the employees

Executive Management

Chief Executive Officer
Lars Rasmussen (58)
H. Lundbeck A/S (C)
William Demant Holding A/S (BM)
ADO Holding af 26.02.2004 ApS, Director and Director of 1 of its 100% wholly owned subsidiaries
Germination af 2008 ApS, Director

Executive Vice President
Anders Lonning-Skovgaard (45)

Executive Vice President
Allan Rasmussen (50)

Executive Vice President
Kristian Villumsen (47)
Chr. Hansen Holding A/S (BM)

Listed on this page are the board memberships of the members of the Board of Directors and the Executive Management of Coloplast A/S as reported by them on 2 November 2017.
CVs and other information about the individual board members and executives are available from the About Coloplast section on the Coloplast website.

(C) Chairman - (DC) Deputy Chairman - (BM) Board Member

* These board members are not considered to be independent under the definition in "Recommendations on Corporate Governance".

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today considered and approved the Annual Report of Coloplast A/S for the financial year 1 October 2016 – 30 September 2017.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional requirements set out in the Danish Financial Statements Act. The parent company financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 30 September 2017 and of the results of the Group's and the parent company's operations and the cash flows for the Group for the financial year 1 October 2016 – 30 September 2017.

In our opinion, the Management's report includes a fair account of the development and performance of the Group and the parent company, the results for the year and of the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Humlebæk, 2 November 2017

Executive Management:

Lars Rasmussen
President, CEO

Anders Lonning-Skovgaard
Executive Vice President

Allan Rasmussen
Executive Vice President

Kristian Villumsen
Executive Vice President

Board of Directors:

Michael Pram Rasmussen
Chairman

Niels Peter Louis-Hansen
Deputy Chairman

Per Magid

Brian Petersen

Birgitte Nielsen

Jette Nygaard-Andersen

Jørgen Tang-Jensen

Thomas Barfod
Elected by the employees

Martin Giørtz Müller
Elected by the employees

Torben Rasmussen
Elected by the employees

Independent auditors' report

To the shareholders of Coloplast A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 30 September 2017 and of the results of the Group's operations and cash flows for the financial year 1 October 2016 to 30 September 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 30 September 2017 and of the results of the Parent Company's operations for the financial year 1 October 2016 to 30 September 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

Coloplast's Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 October 2016 to 30 September 2017 comprise income statement, balance sheet, statement of changes in equity and notes to the Financial Statements, including summary of significant accounting policies for the Group as well as for the Parent Company and statement of comprehensive income and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the Financial Statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services provided to the Group and the Parent Company are in accordance with the applicable laws and regulations in Denmark and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

Appointment

We were appointed as auditors of Coloplast A/S for the first time on 12 June 1998. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 20 years.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for 2016/17. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Effect of pending and potential transvaginal mesh cases Since 2011, Coloplast has been a party to individual lawsuits in different federal- and state courts in the USA where claims of product liability have been registered relating to the use of transvaginal mesh for the treatment of pelvic organ prolapse and stress urinary incontinence. We focused on the assessment of the liability relating to the transvaginal mesh cases as the valuation is subject to significant judgment, including expected settlement amounts and legal costs per case as well as the number of cases.	We discussed the principles for the assessment of the liability relating to the transvaginal mesh cases with Management. We tested the principles for identification and assessment of potential and on-going transvaginal mesh cases, and we discussed and obtained statements from internal and external legal counsel on the likely economic consequences of the transvaginal mesh cases, including the expected number of cases and expected settlement amounts. Based on the historical development of the overall proceedings of the transvaginal mesh cases, we assessed

We refer to note 18 in the Consolidated Financial Statements for detailed information on the transvaginal mesh cases.	the reasonableness of Management's expectations of the settlement amount per case with respect to cases not yet settled and expectations for any additional registration of claims. We also assessed the note disclosures relating to the cases.
Recognition of revenue The drafting and negotiation of sales agreements take place in view of territorial healthcare reforms, different legislation, increased competition, growth strategies and different supply demands. The main part of Coloplast's sales takes place through distributors operating under different conditions and, consequently, requiring different sales agreements. Coloplast's agreements with distributors include quantity and product dependent discounts, which requires data management and monitoring of sales at product level to the individual distributors. Moreover, the sales agreements include different right of return requirements. We focused on the recognition of revenue as the accounting rules are complex and involve assessments of the timing and amount of the revenue to be recognised. We refer to note 1 in the Consolidated Financial Statements.	We discussed the recognition principles applied to distributor agreements and related sales transactions with Management. We reviewed and assessed procedures and internal controls relating to revenue and tested relevant controls with special focus on controls relating to finalisation of agreements and collection of relevant data. We applied data analysis to revenue transactions and hereby gained an understanding of the Group's transaction flow. In this connection, we tested a risk-based sample of revenue transactions. Moreover, we tested a sample of revenue transactions against sales agreements, tested provisions against discounts and returned goods as well as tested the timing of the recognition of sales transactions.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 2 November 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab, CVR No 33 77 12 31

Mogens Nørgaard Mogensen	Kim Tromholt
State Authorised Public Accountant	State Authorised Public Accountant

Shareholder information

Announcements 2016/17

2016

10/2016 Announcement of full-year financial results 2016/17
11/2016 Annual report 2015/16
12/2016 Notice of Annual General Meeting 2016
13/2016 Coloplast acquires Comfort Medical, LLC
14/2016 Annual General Meeting of Coloplast A/S
15/2016 Articles of Association of Coloplast A/S
16/2016 The Board of Directors of Coloplast A/S elected its own Chairman and Deputy Chairman
17/2016 Coloplast completes acquisition of Comfort Medical, LLC

2017

1/2017 Interim financial report, Q1 2016/17
2/2017 Coloplast initiates the second part of the DKK 1bn share buy-back programme
3/2017 Interim financial report, H1 2016/17
4/2017 Interim financial report, 9M 2016/17
5/2017 Coloplast's Meet the Management Event in London
6/2017 Financial calendar 2017/18

Financial calendar 2017/18

2017

6.10. Closing period until 2 November
25.10. Notice of submission of agenda points for the Annual General Meeting
2.11. Financial Statements for the full year 2016/17 and Annual Report 2016/17
7.12. Annual General Meeting
12.12. Dividends for 2016/17 at the disposal of shareholders

2018

2.01. Closing period until 1 February
1.02. Interim Financial Statements for Q1 2017/18
3.04. Closing period until 3 May
3.05. Interim Financial Statements for H1 2017/18
2.07. Closing period until 8 August
8.08. Interim Financial Statements for 9M 2017/18
1.10. Closing period until 1 November
23.10. Notice of submission of ageda points for the Annual General Meeting
1.11. Financial Statements for the full year 2017/18
5.12. Annual General Meeting
10.12. Dividends for 2017/18 at the disposal of shareholders

Banks and stockbroking companies following Coloplast

ABG Sundal Collier
Alm. Brand Markets
AlphaValue
Berenberg
Bernstein
BoA Merrill Lynch
Carnegie Investment Bank
CFRA
Citi
Commerzbank AG
Credit Suisse AG
Danske Bank Markets
Deutsche Bank
DnB Markets
Exane BNP Paribas
Goldman Sachs International
Handelsbanken Capital Markets
HSBC
J.P. Morgan
Jefferies International Ltd.
Jyske Bank Markets
Kepler Cheuvreux
Morgan Stanley
Morningstar Inc.
Nordea Markets
Nykredit
Redburn
SEB
Sydbank
UBS Investment Bank

IR contacts

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Senior Manager, Investor Relations

Shareholder Inquiries

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Coloplast A/S

Parent company

Financial statement

for 2016/17

Income statement

1 October - 30 September

Note		2016/17	2015/16
		DKK million	
2	Revenue	11,494	10,828
3	Production costs	-5,769	-5,381
	Gross profit	**5,725**	**5,447**
3,5	Distribution costs	-855	-1,602
3,4	Administrative expenses	-364	-303
3	Research and development costs	-625	-520
	Other operating income	43	56
	Other operating expenses	-10	-12
	Operating profit (EBIT)	**3,914**	**3,066**
11	Profit after tax on investment in subsidiaries	532	696
11	Loss after tax on investment in associates	-1	-1
6	Financial income	85	86
7	Financial expenses	-117	-37
	Profit before tax	**4,413**	**3,810**
8	Tax on profit for the year	-830	-694
	Net profit for the year	**3,583**	**3,116**

Profit distribution		
Retained earnings	400	257
Dividend paid during the year	955	954
Proposed dividend for the year	2,228	1,905
Total	**3,583**	**3,116**

Balance sheet

At 30 September

Note		DKK million 2017	2016
	Assets		
9	Intangible assets	1,287	507
10	Property, plant and equipment	908	1,016
11	Financial assets	3,492	2,817
	Non-current assets	**5,687**	**4,340**
12	**Inventories**	**866**	**826**
	Trade receivables	561	464
	Receivables from Group enterprises	2,590	2,441
16	Deferred tax asset	0	57
	Other receivables	177	223
	Prepayments	56	47
13	Amounts held in escrow	531	457
	Receivables	**3,915**	**3,689**
	Marketable securities	**315**	**489**
	Cash and bank balances	**66**	**299**
	Current assets	**5,162**	**5,303**
	Assets	**10,849**	**9,643**
	Equity and liabilities		
	Share capital	216	216
	Reserve for currency hedging	55	41
	Proposed dividend for the year	2,228	1,905
	Retained earnings	2,732	2,399
14	**Total equity**	**5,231**	**4,561**
15	Provisions for pensions and similar obligations	1	1
16	Provision for deferred tax	90	0
15	Other provisions	63	253
	Provisions	**154**	**254**
15	Other provisions	309	806
	Credit institutions	1,355	221
	Trade payables	231	263
	Payables to Group enterprises	1,602	926
	Income tax	534	39
	Other payables	1,433	2,573
	Current liabilities	**5,464**	**4,828**
	Liabilities other than provisions	**5,464**	**4,828**
	Equity and liabilities	**10,849**	**9,643**

17 Contingent items and other financial liabilities

Notes

Note

1. Accounting policies

Basis of preparation

The parent company financial statements are presented in accordance with the Danish Financial Statements Act (reporting class D enterprises) and additional Danish disclosure requirements for listed companies.
The accounting policies of the parent company are the same as those of the Group, however, with the addition of the policies described below. The Group's accounting policies are set out in note 1 to the financial statements on page 30.

Other than as set out above, there have been no changes to the accounting policies relative to last year.

Cash flow statement

No separate cash flow statement has been prepared for the parent company as per the exemption clause of section 86(4) of the Danish Financial Statements Act. The consolidated cash flow statement is set out on page 28.

Intangible assets

Goodwill is measured at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected useful life, estimated at 10 years. This estimate was made on the basis of estimated useful lives of the other assets acquired in the transaction.

Financial assets

In the parent company's financial statements, investments in subsidiaries and associates are recognised according to the equity method. The share of the results of subsidiaries less unrealised intra-group gains is recognised in the parent company's income statement. Net revaluation of investments in subsidiaries and associates exceeding the dividend declared by such enterprises is recognised in equity as reserve for net revaluation according to the equity method.

Tax

The parent company is taxed jointly with its domestic subsidiaries. The jointly taxed Danish enterprises are covered by the Danish on-account tax scheme. Current tax for jointly taxed companies is recognised in each individual company.

2. Revenue

DKK million	2016/17	2015/16
Business area		
Intimate healthcare	11,494	10,828
Total	**11,494**	**10,828**
Geographical markets		
Europe	8,165	7,761
The Americas	2,123	2,036
Rest of the world	1,206	1,031
Total	**11,494**	**10,828**

Notes

Note

3. Staff costs

DKK million	2016/17	2015/16
Salaries, wages and directors' remuneration	1,016	969
Pensions	83	78
Other social security costs	15	15
Total	**1,114**	**1,062**
Average number of employees, FTEs	1,492	1,538

See note 28 to the consolidated financial statements for information on the Executive Management's and the Directors' remuneration.

4. Fees to appointed auditors

DKK million	2016/17	2015/16
Overall fees to PricewaterhouseCoopers	8	6
Of which:		
Statutory audit	4	4
Tax advice	1	1
Other services	3	1

Of the fee to appointed auditors, the main part of Other services is related to Due Diligence in the acquisition of Comfort Medical, LLC.

5. Distribution costs

Distribution costs include expected costs relating to pending litigation. See note 18 to the consolidated financial statements for more information about mesh litigation.

DKK million	2016/17	2015/16
Costs related to pending litigation	0	750

6. Financial income

DKK million	2016/17	2015/16
Interest income, etc.	12	22
Interest income from Group enterprises	21	27
Fair value adjustments, forward contracts	52	37
Total	**85**	**86**

Notes

Note

7. Financial expenses

DKK million	2016/17	2015/16
Interest expense, etc.	19	10
Interest expense to Group enterprises	2	1
Net exchange adjustments	96	26
Total	**117**	**37**

8. Tax on profit for the year

DKK million	2016/17	2015/16
Current tax on profit for the year	712	172
Change in deferred tax on profit for the year	117	525
Prior-year adjustments	1	-3
Total	**830**	**694**
Tax on equity entries (income)	**67**	**52**

9. Intangible assets

DKK million	Goodwill	Acquired patents and trademarks	Software	Prepayments and intangible assets in progress	2016/17 Total	2015/16 Total
Total cost at 1.10.	587	1,427	281	20	2,315	2,294
Transfers	0	0	10	-10	0	0
Additions and improvements during the year	919	34	17	13	983	21
Total cost at 30.9.	**1,506**	**1,461**	**308**	**23**	**3,298**	**2,315**
Total amortisation at 1.10.	559	1,025	224	0	1,808	1,642
Amortisation for the year	75	103	25	0	203	166
Total amortisation at 30.9.	**634**	**1,128**	**249**	**0**	**2,011**	**1,808**
Carrying amount at 30.9.	**872**	**333**	**59**	**23**	**1,287**	**507**

Notes

Note

10. Property, plant and equipment

DKK million	Plant and machinery	Other fixtures and fittings, tools and equipment	Prepayments and assets under construction	2016/17 Total	2015/16 Total
Total cost at 1.10.	936	640	262	1,838	1,926
Transfers	143	51	-194	0	0
Additions and improvements during the year	38	29	160	227	305
Disposals during the year	-247	-20	-19	-286	-393
Total cost at 30.9.	**870**	**700**	**209**	**1,779**	**1,838**
Total depreciation at 1.10.	492	330	0	822	831
Depreciation for the year	82	100	0	182	160
Depreciation reversed on disposals during the year	-113	-20	0	-133	-169
Total depreciation at 30.9.	**461**	**410**	**0**	**871**	**822**
Carrying amount at 30.9.	**409**	**290**	**209**	**908**	**1,016**

11. Financial assets

DKK million	Investment in Group enterprises	Receivables from Group enterprises	Other securities and investments	2016/17 Total	2015/16 Total
Total cost at 1.10.	3,162	211	11	3,384	3,263
Capital investments during the year	13	1,023	0	1,036	124
Divestments during the year	0	-89	0	-89	-3
Total cost at 30.9.	**3,175**	**1,145**	**11**	**4,331**	**3,384**
Value adjustment at 1.10.	-566	0	-1	-567	-65
Profit/loss after tax	532	0	-1	531	695
Dividend received	-739	0	0	-739	-1,003
Exchange adjustments	-82	0	0	-82	-31
Other adjustments	18	0	0	18	-163
Value adjustment at 30.9.	**-837**	**0**	**-2**	**-839**	**-567**
Carrying amount at 30.9.	**2,338**	**1,145**	**9**	**3,492**	**2,817**

An overview of subsidiaries is provided in note 32 to the consolidated financial statements.

Notes

Note

12. Inventories

DKK million	2016/17	2015/16
Raw materials and consumables	64	49
Work in progress	241	169
Manufactured goods	561	608
Inventories	**866**	**826**

The company has not provided inventories as security for debt obligations.

13. Amounts held in escrow

Amounts paid into escrow accounts in connection with pending litigation and not yet released by the courts. See note 18 to the consolidated financial statements for more information about mesh litigation.

DKK million	2016/17	2015/16
Amounts held in escrow	531	457

14. Statement of changes in equity

DKK million	Share capital A shares	Share capital B shares	Reserve for currency hedging	Proposed dividend	Retained earnings	2016/17 Total	2015/16 Total
Equity at 1.10.	18	198	41	1,905	2,399	4,561	4,228
Transfers				4	-4	0	0
Value adjustment for the year			70			70	99
Transferred to financial items			-52			-52	-37
Tax effect of hedging			-4			-4	-14
Tax on equity entries					70	70	66
Dividend paid out in respect of 2015/16				-1,909		-1,909	-1,696
Interim dividend paid out in respect of 2016/17				-955		-955	-954
Currency adjustment of opening balances and other adjustments relating to subsidiaries					-77	-77	-194
Acquisition of treasury shares					-500	-500	-500
Sale of treasury shares					420	420	428
Share-based payment					24	24	19
Net profit for the year					3,583	3,583	3,116
Proposed dividends				3,183	-3,183	0	0
Equity at 30.9.	**18**	**198**	**55**	**2,228**	**2,732**	**5,231**	**4,561**

Notes

Note

15. Provisions

DKK million	Legal claims	Pension	2016/17 Total	2015/16 Total
Provisions at 1.10.	1,059	1	1,060	3,336
Provisions during the year	0	0	0	750
Charged to the income statement	0	0	0	750
Use of provisions during the year	-674	0	-674	-3,052
Exchange adjustments	-13	0	-13	26
Provisions at 30.9.	**372**	**1**	**373**	**1,060**
Expected maturities:				
Current liabilities	309	0	309	806
Non-current liabilities	63	1	64	254
Provisions at 30.9.	**372**	**1**	**373**	**1,060**

See note 18 to the consolidated financial statements.

16. Deferred tax

DKK million	2016/17	2015/16
Calculation of deferred tax is based on the following items:		
Intangible assets	85	91
Property, plant and equipment	61	64
Production overheads	15	15
Provisions	-79	-235
Jointly taxed companies (recaptured balances)	9	9
Other	-1	-1
Total	**90**	**-57**

Notes

Note

17. Contingent items and other financial liabilities

DKK million	2016/17			2015/16		
Falling due in:	Other operating leases	Rent	Total	Other operating leases	Rent	Total
Less than one year	17	3	20	16	2	18
Within 1 to 5 years	21	2	23	33	5	38
After more than 5 years	0	0	0	0	0	0
Total	**38**	**5**	**43**	**49**	**7**	**56**

At 30 September 2017, the parent company had provided guarantees for loans raised by Group enterprises amounting to DKK 509m (2015/16: DKK 515m).
The parent company has issued a letter of subordination to the benefit of other creditors of subsidiaries.
The parent company is involved in minor lawsuits, which, other than as described in note 18 to the consolidated financial statements, are not expected to influence the parent company's future earnings.
The parent company is jointly and severally liable for tax on the Group's jointly taxed Danish income, etc.
Bonds in repo transactions have been provided as collateral for repo debt. Bonds provided as collateral were valued at DKK 217m at 30/09/2017 (30/09/2016: DKK 219m).

The Coloplast story begins back in 1954. Elise Sørensen is a nurse. Her sister Thora has just had an ostomy operation and is afraid to go out in public, fearing that her stoma might leak. Listening to her sister's problems, Elise conceives the idea of the world's first adhesive ostomy bag.

Based on Elise's idea, Aage Louis-Hansen, a civil engineer and plastics manufacturer, and his wife Johanne Louis-Hansen, a trained nurse, created the ostomy bag. A bag that does not leak, giving Thora – and thousands of people like her – the chance to live the life they want.

A simple solution that makes a difference.

Today, our business includes Ostomy Care, Continence Care, Wound & Skin Care and Urology Care. We operate globally and employ about 11,000 employees.

Ostomy Care / Continence Care / Wound & Skin Care / Urology Care

Coloplast

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