Chairman's report 2014-15
Annex 1

Michael Pram Rasmussen:

1. A challenging year for Coloplast

Every year, I look forward to the Annual General Meeting and to presenting the Board's report on Coloplast for the past financial year.

Coloplast is a strong and ambitious company that has gone through impressive developments in recent years. Your Board and Executive Management intend to ensure that this process continues so we can continue to create value in Coloplast.

Increased value creation is an objective for any company. It provides benefits for the company's stakeholders: customers have constant access to newer and better products; employees have better career opportunities; society benefits from innovation, growth and tax revenue; and the company's shareholders get a better return on their investment.

This is why, at Coloplast, our strategy is to achieve profitable growth. In other words, our ambition is to outgrow the market *and* improve our earnings – at the same time.

However, the 2014/2015 financial year was challenging for Coloplast. Our company had a difficult year in our two largest markets, the UK and the US.

In the UK, the transition from paper prescriptions to a new electronic prescription system posed difficulties for our local home care company, Charter Healthcare, which sells our products direct to consumers. Our staff worked very hard during the year to streamline our company's processes and procedures, and we are now back to delivering second-to-none customer service. As a result, we expect to lift our UK growth rates in the coming year.

In the United States, Coloplast recorded softer growth rates after an industry-wide investigation by the US Department of Justice reduced campaign activity in the US market. Our US subsidiary was part of the investigation into the industry, and over the summer, Coloplast entered into a settlement agreement with the Department of Justice, which fully resolves the case.

Coloplast has agreed to pay a settlement fee of DKK 21 million plus legal costs. Now, we can return our focus to strengthening our sales and marketing efforts in this important market, for example through campaigns in collaboration with major US distributors.

It is important to stress that the settlement agreement does not mean any admission of wrongdoing on behalf of Coloplast in relation to our marketing collaboration with US distributors. The company disagrees with the allegations made by the Department of Justice, however, for business reasons we have chosen to settle the matter, so we can focus on running our business in the United States.

Despite the challenges we've faced in Coloplast's two largest markets, our company delivered 7% organic growth. That's almost double the market growth. This impressive performance shows just how robust our organisation is, and it bodes well for the coming years.

At the same time, Coloplast is one of the most profitable med-tech companies when compared with our global industry peers.

We have an operating profit of 33% before special items.

Let’s take a closer look at the special items: Since 2011, Coloplast has been named in lawsuits in the United States involving product liability claims resulting from the use of transvaginal surgical mesh products designed to treat pelvic organ prolapse and stress urinary incontinence.

In the 2014/15 financial year, we had to increase provisioning for these claims by DKK 3 billion to a total of DKK 4.5 billion. This is a very unfortunate matter, but with the information available to us today, we believe that the total sum of DKK 4.5 billion will cover the costs of all the claims.

In other words, in what was a challenging year, Coloplast still delivered 7% organic growth and a 33% EBIT margin before special items.

I would like to thank all the Coloplast employees, managers and the executive team for all the hard work they put in to achieve this solid full-year result.

Before I present the financial results for the past year, let me briefly update you on Coloplast’s strategy for delivering profitable growth and tell you about the progress we're making on our growth initiatives.

2. Continued focus on increasing organic growth

Coloplast communicated a new long-term financial guidance at our Capital Markets Day in June of last year.

Our updated long-term target is for annual organic growth in the 7–10% range and an annual improvement of our EBIT margin by 0.5–1.0 percentage point. That's rather ambitious.

Achieving those targets requires us to invest in growth. To that end, Coloplast invested a further DKK 200 million in growth initiatives in the past year.

In the coming years, we aim to deliver strong growth by focusing on the following:

- Sustained growth in the core markets of Europe
- Engaging more in interacting and building relations with end users
- Increased growth in the developed markets outside Europe (the USA, Canada, Japan and Australia)
- Further expansion and growth in new markets
- Market leadership in selected new markets and relevant opportunities in the European Wound Care business
- Globalising the Urology Care business.

Coloplast invests to grow across markets and regions, and I will now review our investments in the three geographical markets where we operate.

Europe is a core market for Coloplast. We generate 64% of our revenue in Europe, and Coloplast is clearly the market leader. We aim to retain and expand this position by launching strong new products and by engaging even more with our customers – through the Coloplast Care programme, for example, a service programme offering help and support to our customers during the difficult time after their discharge from hospital.

We generate 21% of our revenue in developed markets outside Europe. These are the USA, Canada, Japan and Australia. We intend to accelerate growth in these markets and take additional market share.

We generate the last 15% of our revenue in Emerging markets. We plan to invest in sales force expansion in these markets, for example in China, while also working with the health authorities and healthcare professionals in each of these countries to make our products more accessible.

Continuing to invest in expanding our sales force is a prerequisite for growth. So are great, new products. In the past year, we both expanded our sales force and launched new products across all of our business areas.

Before I present our financial results, I would like to show you a few examples of the innovative products that Coloplast launched in the past year.

In the first quarter of the financial year, we launched a new catheter for women, the SpeediCath® Compact Eve. It has a new design for added discretion and its new triangular shape offers improved functionality. During the year, this product became available in 13 countries.

In October, we launched a new ostomy care product, the Sensura® Mio Convex, in seven countries, thereby completing the portfolio of SenSura Mio products. The SenSura Mio provides fit to individual body shapes and also features a significantly improved filter and a new neutral colour for a more discreet user experience.

The major product launches in recent years mean that we've taken on extra staff at the Danish pilot & ramp-up sites in Mørdrup and Thisted, but with the transfer of these new products we will now begin to reduce staff numbers at our Danish sites. Earlier in the year, Coloplast launched an ambitious new plan for innovation called Innovation Excellence. Its purpose is faster and cheaper time-to-market for our new products. As we announced in the autumn, we plan to reduce staff numbers at our Danish pilot & ramp-up sites by about 300 by 2018, due to the transfer of our new products as well as the launch of the Innovation Excellence plan.

Along with investing in our sales force and in developing new, innovative products, Coloplast has increased the company's focus on interacting and building relationships with the users of our products.

Building relationships with consumers is crucial in meeting our growth ambitions. During the year, we've invested in Consumer Care activities and communication tools to help our company move closer to the users.

I will now present our financial results for the past year.

Coloplast released its full-year financial results for the 2014/15 financial year on 3 November, and the Annual Report and updated Corporate Responsibility Report were also released later that same day.

3. Consolidated financial highlights of the 2014/2015 financial year

Backed by a decent growth performance in all business areas and in all regions, Coloplast expanded its position as a global market leader in the past financial year.

Organic revenue growth was 7%. Revenue measured in Danish kroner was up by 12% to DKK 13,909 million from DKK 12,428 million last year.

The gross margin was 69%, which was in line with last year.

EBIT before special items was up by 9% to DKK 4,535 million. The EBIT margin before special items was 33%, which was in line with last year. At constant exchange rates, the EBIT margin was 32%.

EBIT was affected by an increase in provisions of DKK 3 billion to cover potential settlements and costs in connection with the lawsuits in the United Stated alleging injury resulting from the use of transvaginal surgical mesh products.

Net profit for the year before special items was DKK 3,239 million and DKK 899 million after special items.

ROIC for the year before special items and after tax was 48%, against 49% last year.

On 30 September 2015, Coloplast had 9,706 employees, of whom 8,226 worked in international locations. During the financial year, the number of employees rose by 5%. Our headcount is growing especially in sales and production, and this reflects the fact that our business is expanding and investing in growth.

As I told you previously, our overall organic growth rate was 7%.

The Ostomy Care business grew by 6%, driven mainly by the range of SenSura® ostomy care products and the Brava™ range of accessories.

Sales of ostomy care products amounted to DKK 5,567 million.

Coloplast has retained its position as the global market leader in ostomy care products, holding 35–40% of the market. Market growth is estimated to have been 4–5%.

The Continence Care business grew by 8%. Growth was mainly driven by sales of SpeediCath® intermittent catheters, especially the compact catheters. Continence Care sales increased to DKK 5,019 million.

Coloplast remains the global market leader in this field, with a market share of about 40%. Market growth is estimated to have been 5–6%.

The Urology Care business grew by 5% and revenue increased to DKK 1,359 million.

Coloplast currently holds a 10–15% share of the overall global market for urology products. Market growth is estimated to have been 3–5%.

The Wound & Skin Care business grew by 9% with revenue increasing to DKK 1,964 million.

Organic growth in the Wound Care business alone was an impressive 11%.

Our growth rate in wound care products underlines the positive performance of the wound care business following our successful turnaround.

Growth in the wound care market alone is estimated at 3–5%. Coloplast holds about a 5–10% market share, making us the world’s fifth-largest manufacturer of advanced wound care products.

And now for the trends in Coloplast's geographical markets.

In Europe, organic growth was 5%. Revenue was DKK 8,843 million, which amounted to 64% of our consolidated revenue.

In other developed markets, organic growth was 6%. Revenue was DKK 2,945 million, which amounted to 21% of our consolidated revenue.

In Emerging markets, organic growth was 21%. Revenue was DKK 2,121 million, which amounted to 15% of our consolidated revenue.

And now for our costs.

Distribution costs, which include our sales and marketing costs, amounted to DKK 3,962 million, or 28% of revenue, which was consistent with last year.

Administrative costs amounted to DKK 600 million, against DKK 498 million last year. The full-year financial statements contain provisions announced in the 9M interim report for a total of DKK 75 million made in relation to the industry-wide investigation of sales and marketing practices in the USA by the US Department of Justice and to cover the greater risk of losses on trade receivables in southern Europe. Administrative costs accounted for 4% of revenue, which was in line with last year.

Our financial results for the 2014/15 financial year triggered tax payable for the group of DKK 804 million, including DKK 586 million in Denmark.

R&D costs were DKK 442 million and accounted for 3% of revenue, which was in line with last year.

At DKK 10,817 million, total assets increased by DKK 438 million relative to last year.

Equity fell by DKK 1,577 million to DKK 4,706 million. Payment of dividends of DKK 2,535 million and share buy-backs of DKK 500 million were partly offset by the comprehensive income for the year of DKK 1,156 million and the net effect of treasury shares sold and losses on share options exercised, share-based payment and related tax charges amounting to DKK 302 million.

In the second quarter of 2013/14, Coloplast's Board of Directors resolved to complete a share buy-back programme for a total of up to DKK 1 billion running until the end of the 2014/15 financial year. The programme was completed in June 2015.

The Board of Directors recommends that the shareholders approve a year-end dividend of DKK 8 per share at today's general meeting. This brings the dividend paid for the year to DKK 12.5 per share, as compared with DKK 11.5 per share last year. The total dividend payout for 2014/15 amounted to DKK 2,644 million, for a pay-out ratio before special items of 82%.

The Board of Directors also recommends that 4,000,000 shares each with a nominal value of DKK 1 be cancelled.

On the final business day of the 2013/14 financial year, Coloplast was quoted on NASDAQ Copenhagen at a price of DKK 494 per share. On the final day of the financial year under review, our shares closed 4% lower at DKK 472.7.

Including the dividends Coloplast paid out in December 2014 and after the release of the H1 Interim report, Coloplast shares have produced a return on investment of minus 2%. This is much less than the value creation we had expected for the year. The reason is the issues in the UK and the United States that I mentioned earlier. By comparison, an investment in the C20 index during the same period yielded a return of 22%.

The Coloplast share price has risen quite significantly since the release of our full-year results on 3 November. At lunchtime today, the share price was DKK 548.50.

And now for our financial forecasts.

Coloplast maintains the long-term financial guidance of 7–10% sales growth per year and an EBIT margin improvement of 0.5–1.0 percentage point per year.

For 2015/16, we expect organic revenue growth of 7–8% at constant exchange rates and of 8–9% in DKK.

We expect an EBIT margin of 33–34%, both at constant exchange rates and in DKK.

Capital expenditure is expected to be in the neighbourhood of DKK 700 million.

The effective tax rate is expected to be about 23%.

And this marks the end of my report today.

Let me conclude by once again extending a “Thank You” to all Coloplast employees, managers and our executive team for a job well done and to my colleagues on the Board of Directors for their good and constructive collaboration. Thank you!