Chairman's report 2016-17
Annex 1

Michael Pram Rasmussen:

1. Coloplast delivers satisfactory annual results and accelerates growth ambitions

Coloplast’s annual general meeting is always a very special event for me. Each year, I look forward to presenting the board's report for the past financial year. And let me start by saying that Coloplast is doing well.

The company is outgrowing the market, delivering solid results, and the ambition is to reach even higher. The board and executive management are committed to driving future growth and to making the best products in the industry accessible to users across the world.

When Coloplast grows, it influences all the company’s stakeholders. The customers get better products. The employees get more career opportunities. Society benefits from innovation, growth and tax revenue, and the company's shareholders get a return on their investment.

The strategy at Coloplast is to deliver profitable growth. In other words, the ambition is to outgrow the market and to deliver high earnings. That ambition was met once again in the past financial year.

Coloplast delivered 7% organic growth, in a market growing by 4-5%, and reported an EBIT margin at constant exchange rates of 33%.

In addition, Coloplast had several major product launches and introduced a new Clinical Performance Programme, which features several products that will be clinically tested in the time to come.

The purpose is to create a significantly improved customer experience and to document that these new, more advanced and more expensive products contribute to lowering the overall costs to society.

In other words, it's fair to say that this has been both a busy and a good year for Coloplast.

With the ambition for Coloplast to retain its position as market leader and create new innovative solutions for its users, the board and executive management have decided to revise the company's guidance for the LEAD20 strategy period.

The updated long-term target is for annual organic growth in the 7-9% range, and the ambition is to reach the upper end of that range. At the same time, the EBIT margin guidance was revised from an annual improvement of from 50 to 100 basis points to an EBIT margin of more than 30% at constant exchange rates.

This more growth-oriented guidance is most of all a sign of confidence, as the board and executive management believe that Coloplast can move further ahead of the competition and take market share at a faster pace during the strategy period towards 2020. Quite simply, the purpose is to create more shareholder value going forward.

The revised guidance is driven by changed market dynamics that create new opportunities to accelerate growth. In comparison with the competition, Coloplast's financial results and market position are even better than expected, and it is this opportunity that the company will seek to capitalise on.

The new guidance makes room for an even higher level of capital expenditure and opportunities to pursue non-organic growth opportunities.

In other words, acquisitions to help further strengthen Coloplast's services towards users, for example.

I will elaborate on the new growth ambitions and the opportunities within the new guidance, when I give you a status on the LEAD20 strategy.

2. One year with LEAD20

LEAD20 is about delivering unparalleled innovation, service, leadership and efficiency. Coloplast is an innovative business and to provide the perfect framework for innovation and profitable growth, the company must produce and operate as efficiently as it possibly can.

Much has happened during the first year of Coloplast's LEAD20 strategy, and I would like to spend a little time going over some of the highlights of the four themes of the strategy:

2.1 Let me start from the top with Coloplast's **product innovation**. The heart of the business.

The company meet its expectations of delivering superior products and innovation with several major products launches in the past financial year.

Coloplast relaunched SenSura® Mio Convex and launched SpeediCath® Flex, Brava® Protective Seal and Biatain® Silicone Sizes & Shapes.

The SenSura® Mio Convex was relaunched in April 2017 in response to strong demand and because of the capacity constraints occurring after the original launch late in 2015.

The SenSura® Mio Convex is the first ostomy care product with clinical evidence of a reduced risk of leakage.

SpeediCath® Flex is now available in 14 countries, and feedback on the product has been very positive.

The same goes for Biatain® Silicone Sizes & Shapes, which is now available in 21 countries.

Thanks to the launch of the Brava® Protective Seal, Coloplast is now the market leader in ostomy care accessories in one of the company’s largest markets, the UK.

All the new products contributed to organic growth during the past financial year and will continue to drive growth in the respective business areas going forward.

Aiming to offer users products that solve their difficult and in many cases intimate challenges, Coloplast has also launched a Clinical Performance Programme within ostomy and continence care which is intended to provide clinical documentation of the performance of several new products.

The programme is intended to document the quality of the products and the value they provide, both for users and for healthcare systems. Coloplast is committed to working for higher reimbursement rates by increasing clinical evidence.

Coloplast has stepped up its research and development expenditure in recent years, in part because the company intends to invest in clinically differentiated products for the benefit of users.

For example, the Clinical Performance Programme is intended to demonstrate that Coloplast’s ostomy care products reduce the risk of leakage and skin problems and that its continence care products reduce the risk of infection.

Initial studies have begun and the first products based on clinical studies are expected to be launched in 2020.

The second theme of the strategy is Coloplast's ***unique user-focused market approach***.

Coloplast remains focused on building a user-oriented medtech company. The approach is to have direct interaction with users – for instance through the Coloplast Care programme.

Coloplast Care is a service providing users with the support and knowledge they need about living with incontinence or a stoma. Today, Coloplast Care reaches out to more than 500,000 users worldwide.

In the important US market, Coloplast has invested to build a strong, user-oriented sales channel, and the company reaches out to a growing number of stoma and continence care patients when they are discharged from hospital.

As a result, one-third of all discharged stoma patients in the United States sign up for the Coloplast Care programme. This is an impressive rate considering Coloplast's 15% market share.

In line with Coloplast's overall objective of bringing innovative products and services to the US market, Coloplast acquired the US medical equipment distributor Comfort Medical in December 2016.

Coloplast has high expectations for the US market and plans to step up investments to accelerate growth in its US business. The acquisition of Comfort Medical added another component to Coloplast's overall ambition of bringing innovative products and services to the US market.

The integration of Comfort Medical is progressing according to plan, and the US chronic care business reported double-digit organic sales growth in the 2016/17 financial year.

Achieving double-digit organic growth in the US market is good, but it is not good enough, and we expect to further invest in accelerating the growth momentum in the coming years.

2.3 The third theme of the strategy is **unparalleled efficiency**.

Coloplast aims to deliver unparalleled efficiency through ambitious global operations plans, including “Innovation Excellence”.

In the Innovation Excellence project, Coloplast has built stronger and more efficient pilot and ramp-up skills, resulting in a reduction of the number of production staff in Denmark.

The company is committed to running its business efficiently, and as a global player in the healthcare industry, we must constantly improve in order to stay competitive.

As part of the LEAD20 strategy, Coloplast is launching a new Global Operations Plan (GOP4), which is expected to lift the EBIT margin by 150bp with full effect from the start of the 2020/21 financial year.

GOP4 will relocate all pilot activities to Coloplast’s innovation centre in Mørdrup, north of Copenhagen. The move entails the closure of the Thisted factory, expectedly by the end of the 2019/20 financial year.

It is very important for me to say that this has absolutely nothing to do with the quality of the work performed by the employees at Thisted. On the contrary.

The decision to close the factory was motivated exclusively by production costs, and naturally a plan has been set in motion to help the 167 employees affected by the closure to move on in their working lives.

Closing the Thisted factory after its more than 50 years in operation was a difficult decision, and it was reached exclusively to be competitive on a global scale.

That requires a constant focus on efficiency and enhancements and a decision to place the operations where it makes the most sense for the overall business.

By consolidating the Thisted and Mørdrup factories, Coloplast will move its pilot activities to a single site close to the R&D operations here in Humlebæk, and the ramp-up activities will be relocated to the facilities in Hungary.

That will make the company more efficient and give us better opportunities to invest more in innovation. In addition to the factories in Hungary, Coloplast also plans to invest in high-volume production facilities in Central America.

Coloplast is a development-driven company, and GOP4 will provide the company with a good platform from which it can create strong results towards 2020.

2.4 That leads us to the part of the strategy involving **strong leadership development**.

Coloplast is a growing company and it is in constant need of new managers. Internal management development supports the company’s growth.

E.g. by recruiting new managers and by developing the next generation of leaders across geographies and functions.

In addition, it is the ambition to fill two of every three vacant leadership positions with in-house candidates.

During the past year, Coloplast has invested in a Business Leadership Programme designed for mid-level management. The goal is to develop most of the future senior managers in-house. In the first year, 90 out of the 120 participants have completed the programme.

Additionally, several in-house initiatives intended to grow the number of women in management have been launched. The goal is to consistently improve on the distribution between men and women in management year by year. The long-term ambition is to achieve a reasonable balance in gender distribution at all levels of management, and that means at least a 40/60 distribution.

For a company operating and competing globally, diversity is a prerequisite for success. Internal procedures have been introduced to ensure equal opportunities for all employees regardless of gender, age, race or nationality.

Those were the highlights of the first year with LEAD20. Now I would like to spend a few minutes elaborating on Coloplast's new growth ambitions.

As mentioned earlier, Coloplast has announced a new long-term financial guidance for the LEAD20 strategy period based on an ambition to accelerate growth and win market share.

The guidance for organic growth remains at 7-9% per year, and the ambition is to reach the upper end of that range.

At the same time, the EBIT margin guidance is revised from an annual improvement of from 50 to 100 basis points to an EBIT margin of more than 30% at constant exchange rates.

The EBIT margin guidance implies that Coloplast will increase commercial investments from about 1% to up to 2% of revenue.

That will require solid investments in sales, marketing and product development across geographical regions for the single purpose of accelerating growth.

Coloplast will also pursue non-organic growth opportunities in home care and distribution in core markets and with this strengthen the company’s position and service proposition to users.

3. Consolidated financial highlights of the 2016/2017 financial year

I will now review the financial highlights for the past year.

Coloplast released its full-year financial results for the 2016/17 financial year on 2 November - alongside the Annual Report and the updated Corporate Responsibility Report.

With a positive 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%. In Danish kroner, revenue was up by 6% to DKK 15,528 million. Measured in Danish kroner, revenue growth was mainly impacted by the depreciation of GBP against DKK. Revenue from acquisitions contributed 1%, resulting from the December 2016 acquisition of Comfort Medical.

Other matters reduced revenue growth by 1% due to the DKK 90 million one-off revenue adjustment made in the third quarter 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 90 million related to continence care products and was deducted directly from Q3 revenue. The matter has not affected the organic growth rate for the reporting period, and I should also mention that Veterans Affairs has renewed the contract with Coloplast.

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

The net profit before special items was DKK 3,797 million, a DKK 69 million (2%) increase from DKK 3,728 million last year.

Earnings per share (EPS) before special items, diluted, were also up by 2% to DKK 17.87.

On 30 September 2017, Coloplast had 10,905 employees, of whom 9,513 worked in international locations. During the financial year, the number of employees increased by 6%. The headcount is growing in sales and production and this reflects the fact that the company is growing and is investing in growth.

The ostomy care business delivered 7% organic sales growth and 6% reported sales growth. Revenue from acquisitions contributed 1% due to the acquisition of Comfort Medical. The portfolio of SenSura® products and the Brava® range of accessories were the main drivers of ostomy care sales growth. Driving the sales performance were the UK, German and Chinese markets.

Ostomy care revenue was DKK 6,291 million, equalling 41% of the consolidated revenue.

Coloplast retains 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 delivered 7% organic sales growth and 7% reported growth. Revenue from acquisitions contributed 2% due to the acquisition of Comfort Medical.

Sales of SpeediCath® intermittent catheters and Peristeen® continued to drive growth in the continence care business. The performance was driven mainly driven by the US, UK, German and French markets.

Continence care revenue was DKK 5,543 million, equalling 36% of the consolidated revenue.

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

The urology care business delivered 10% organic sales growth and 10% reported growth. Growth was driven primarily by the US market and by 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.

The US market continued to drive growth in the Urology Care business, with France also contributing.

Urology care revenue was DKK 1,641 million, equalling 11% of the consolidated revenue.

Market growth is estimated at 3-5%. Coloplast holds about a 15% share of the combined global urology product market.

Since 2011, Coloplast has been part 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.

The company has paid a total of DKK 4.2 billion to date, including DKK 1.8 billion in the 2016/17 financial year.
It is estimated that more than 95% of the known cases have now been settled, and the matter is currently in its final phase.

The Wound & Skin Care business delivered 4% organic sales growth and 4% reported growth, with Biatain® foam dressings continuing to drive the performance.

A healthy momentum in Europe drove growth in the Wound Care business, with Germany a main contributor. In addition, the momentum improved in China during the year. Pricing reforms in Greece and France detracted from growth in the Wound Care business.

Sales of wound and skin care products amounted to DKK 2,143 million, equalling 14% of the consolidated revenue.

Market growth is estimated at 2-4%. Coloplast holds a 7-9% share of the global wound and skin care market.

The company has previously announced, as part of LEAD20, a target of growing the wound and skin care business to double its current size. The ambition remains, but the company believes that 2022 is a more realistic goal due to price reforms in France and Greece influencing 2016/17.

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

In Europe, organic growth was 5%. Revenue was DKK 9,394 million, which amounted to 60% of the consolidated revenue.

In other developed markets, organic growth was 8%. Revenue was DKK 3,642 million, which amounted to 23% of the consolidated revenue.

In Emerging Markets, organic growth was 13%. Revenue was DKK 2,582 million, which amounted to 17% of the consolidated revenue.

And now for the operating costs, which the company has well under control.

Distribution costs amounted to DKK 4,371 million, a DKK 240 million increase from DKK 4,131 million last year. 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 623 million, a DKK 62 million increase from DKK 561 million last year. The increase was due to legal costs in respect of patent litigation and transaction costs of about DKK 7 million relating to the Comfort Medical acquisition.

The R&D costs were DKK 574 million, a DKK 65 million (13%) increase over 2015/16 due to a general increase in business activity, which included the new Clinical Performance Program. R&D costs amounted to 4% of revenue, compared with 3% last year.

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

Equity increased by DKK 884 million relative to 30 September 2016 to DKK 5,952 million.

The free cash flow for the year was an inflow DKK 1,632 million against an inflow of DKK 2,425 million last year. The reduction was primarily due to the Comfort Medical acquisition of DKK 1,144 million.

Adjusted for payments made in connection with the lawsuits in the US alleging injury resulting from the use of transvaginal surgical mesh products and the acquisition of Comfort Medical, the free cash flow was an inflow of DKK 4,079 million against DKK 4,023 million last year.

Part of the free cash flow was returned to the shareholders through share buy-backs and dividends.

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

The board recommends that the shareholders approve a year-end dividend of DKK 10.5 per share at today's general meeting. This brings the dividend paid for the year to DKK 15 per share, as compared with DKK 13.5 per share last year. The total dividend pay-out for the 2016/17 financial year amounts to DKK 3,183 million and the pay-out ratio is 84%.

On the final business day of the 2015/16 financial year, Coloplast was quoted on NASDAQ Copenhagen at a price of DKK 514 per share. On the final day of the financial year under review, the share closed 0.6% lower at DKK 511.

For the period from 1 October 2016 to 30 September 2017, Coloplast shares produced a return on investment including dividends of 2.3%. By comparison, an investment in the C20 index during the same period yielded a return of 16.9%.

At lunchtime today, the share price was DKK 495. Since the closing of the financial year 2016/17 the Coloplast share has – as the market in general – decreased by approximately 3%.

And now for the financial guidance.

For 2017/18, Coloplast expects organic revenue growth of about 7% at constant exchange rates and of 5-6% in DKK due to the depreciation of USD against DKK.

The guidance includes a negative effect of DKK 100 million due to the patent expiry of SpeediCath® standard catheters.

The guidance also includes the effects of a comprehensive healthcare reform in Greece of up to DKK 100 million, which is expected to impact all business areas and to bring price pressure for the year to more than 1%.

The EBIT margin is expected to be of 31-32%, at constant exchange rates and of about 31% in DKK. The EBIT margin guidance includes the effects of the above factors plus investments in commercial initiatives of up to 2% of revenue.

Capital expenditure is expected to be about DKK 700 million, and the effective tax rate is expected to be about 23%.

This marks the end of my report today.

Let me round off by thanking employees, managers and executive management for a job very well done and to my colleagues on the board for their constructive and positive collaboration.

We've now talked a lot about the value created during the year for Coloplast and for its shareholders.

Let us now turn to the value Coloplast has created and still creates today for users around the world during the past 60 years. Congratulations on the 60th anniversary.

(Corporate anniversary video is shown)