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

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

Financial year:
1 October 1997 – 30 September 1998

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

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

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

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

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

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

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

- **Profit margin**
  \[
  \text{Profit margin} = \frac{\text{Operating profit}}{\text{Net turnover}} \times 100
  \]

- **Return on assets**
  \[
  \text{Return on assets} = \frac{\text{Operating profit}}{\text{Average assets}} \times 100
  \]

- **Return on capital employed**
  \[
  \text{Return on capital employed} = \frac{\text{Operating profit} + \text{financial income}}{\text{Average working capital}} \times 100
  \]

- **Return on equity**
  \[
  \text{Return on equity} = \frac{\text{Adjusted net profit}}{\text{Average equity}} \times 100
  \]

- **Net asset value**
  \[
  \text{Net asset value} = \frac{\text{Equity at year-end} \times \text{adjustment factor}}{\text{Number of shares at year-end}}
  \]

- **Adjusted for share issues**

- **Earnings per share**
  \[
  \text{Earnings per share} = \frac{\text{Adjusted net profit}}{\text{Average number of shares}} \times 100
  \]

- **Price/earnings ratio**
  \[
  \text{Price/earnings ratio} = \frac{\text{Share price}}{\text{Earnings per share}} = \frac{\text{Market price per share at year-end}}{\text{Adjusted for share issues}}
  \]

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

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

- **Adjusted net profit** is profit after tax adjusted for extraordinary items, tax on extraordinary items and minority shareholders' share of profit after tax.
## 10 years' key figures and ratios

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

Group Management

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

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

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

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

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

Board of Directors

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

Deputy Chairman
Niels Peter Louis-Hansen

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

Jytte Gliim, Project manager
Elected by the employees

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

Bjarne Nielsen, Mechanic
Elected by the employees

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

Knud Øllgård, Electrician
Elected by the employees

Torsten E. Rasmussen, Director
InWear Group A/S (C)
Best Buy Group A/S (C)
JAI A/S (DC)
Bruhn Holding Aps (DC)
ni-chains International A/S (DC)
J. Frisber & Partners A/S (DC)
A/S Det Østasiatiske Kompagni (DC)
Scandinavian Mobility International A/S (BM)
Vest-Wood A/S (BM)
Vestas Wind Systems A/S (BM)
DTF Serviceselskab A/S (BM)
Bang & Olufsen Holding A/S (BM)
VariantSystemet International A/S (BM)
TK Development A/S (BM)
The 1997/98 financial performance was satisfactory, and the expectations expressed in the interim financial statement were met, turnover and profit before tax having increased by approx 15% compared with the year before.

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

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

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

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

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

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

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

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

**Ostomy care**

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

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

**Continence care**

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

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

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

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

**Wound care**

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

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

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

**Skin care**

Skin care products are mainly sold in the USA. The flat US market and technical problems with the water supply for production, now overcome, meant that total turnover for this area did not increase. Selected products launched in 1997/98 were special bras and swimware for women after surgery.
products have been launched in Europe.

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

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

**Breast care**

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

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

**Consumer products**

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

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

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

**Investments**

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

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

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

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

Group capital reserves amounted to DKK 1.5 billion at year-end. These reserves include credit facilities with more than 12 months’
notice and are estimated to be sufficient to finance investments and potential acquisitions some years ahead.

**Constant improvements**

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

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

**Environmental affairs**
In August 1998 Coloplast published its first environmental statement, including verification by EMAS. Eco Management Audit Scheme is a voluntary EU scheme for companies which have introduced environmental management at a high level.

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

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

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

**IT and year 2000**
Like other companies, Coloplast is...
dependent on IT systems achieving millennium compliance. Conversion of software and equipment allowing for the change has proceeded smoothly both in subsidiaries and product divisions. The remaining conversion jobs will take place in early 1999.

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

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

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

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

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

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

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

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

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

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

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

Annual General Meeting
The Board of Directors proposes to the Annual General Meeting:

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

Employee commitment and welfare are vital to Coloplast’s development. We therefore measure employee satisfaction at regular intervals.
Group turnover was DKK 2,723.9 million, an increase of 14% from DKK 2,398.5 million in 1996/97. Profit on ordinary activities increased by 16% to DKK 395.4 million from last year’s DKK 342.0 million. Profit after tax and minority interests was DKK 264.8 million compared to DKK 237.4 million last year, an increase of 12%.

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

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

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

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

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

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

**Turnover development**

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

Particularly in the European market progress has been recorded, with all subsidiaries increasing sales – most by two-digit rates. The subsidiaries in Europe achieved a turnover increase of 13%. The subsidiaries in Japan, Australia and Argentina have increased sales by a comfortable 14%, and sales through distributors grew by 17%.
Sales of skin care products were affected by the flat US market, and problems with the water supply for production temporarily halted the launch of a new product.

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

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

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

**Expenses, profit margin and human resources**

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

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

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

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

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

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

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

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

The incurred currency loss was entered under financial items. The loss, which was unrealised at the end of the financial year, was partly compensated for by forward cover transactions.

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

According to the company’s currency position strategy we strive to minimise currency risks by hedging any currency holdings and anticipated net currency inflows for the com-
responding to actual holdings plus 3.5 months’ net inflow of currency.

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

**Development of net financial and extraordinary items and tax**

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

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

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

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

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

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

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

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

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

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

**Investments**

Investments in assets amounted to DKK 235.4 million in 1997/98 compared with DKK 194.9 million the year before. A total of DKK 131.8 million was spent for technical plant and equipment; this represents a decrease of just over 16% compared with 1996/97. In addition,
investments in land and buildings for manufacturing facilities amounted to DKK 98.6 million. Investments in machinery, land and buildings were made in Denmark, the USA and Germany (Raubling).

**Cash flow statement**

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

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

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

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

**Development of balance and equity**

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

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

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

**Accounting policies**

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

We are aware that changes to the Danish accounting standards are underway to comply with international standards. Coloplast has decided to adapt to such changes in its accounting policies as they materialise.
Prepared for emergencies
Coloplast has established fire and environmental emergency systems in all Group facilities to ensure quick action in case of major accidents and to limit their consequences to people and the environment.

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

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

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

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

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

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

Coloplast is operating independently of third party rights. This freedom is ensured through our patent policy, through supervision and evaluation by our internal patent department of patents issued in relevant fields. Coloplast also consistently strives to secure universal rights to new developments, whenever possible, but we are not dependent on specific patents.
Owing to the complexity of our patents there is a certain risk that Coloplast becomes a party to patent infringement lawsuits. During 1997/98 there have been no lawsuits, involving substantial financial risks, against Coloplast.

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

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

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

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

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

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

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

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

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

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

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

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

**Shareholders**
The Danish Companies Act, section 28 (a) and (b), requires shareholders owning more than 5% of the share capital or voting rights of a company to be known to the public.

According to the records, Coloplast has four such shareholders. They are: Mrs J. Louis-Hansen of Randers, Mr N.P. Louis-Hansen of Vedbaek, The Memorial Foundation of Aage and Johanne Louis-Hansen of Vedbaek, and ATP (Labour Market Supplementary Pension) of Hillerød.

There have been only minor changes in ownership over the year. The number of shareholders increased from 7,335 to 7,661.

According to the company’s Articles of Association a share must be registered in the name of the shareholder to carry voting rights. 95.6% of all shares are registered in the names of their holders, and ownership by foreign shareholders is 16%.

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

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

**Trade and share price**

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

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

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**Dividends in percentage of Group net profits**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>0</th>
<th>5</th>
<th>10</th>
<th>15</th>
<th>20</th>
</tr>
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<tbody>
<tr>
<td>Year</td>
<td>93</td>
<td>94</td>
<td>95</td>
<td>96</td>
<td>97</td>
</tr>
</tbody>
</table>

**Ownership of Coloplast shares at 30 September 1998**

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

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

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

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

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

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

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

Financial calendar for 1998/99
1 Dec 98 Publication of Annual Report for 1997/98
14 Dec 98 Annual General Meeting at the Radisson SAS Falconer Center, Copenhagen
21 Dec 98 Payment of dividends for 1997/98

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Fax + 45 49 11 15 55
E-mail: dkcf@coloplast.com

Shareholders’ Secretariat, Leise Rasmussen
Tel. + 45 49 11 19 21
Fax + 45 49 11 15 55
E-mail: dkler@coloplast.com
Accounting policies

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

Group consolidated accounts

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

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

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

Newly acquired or divested companies are included in the profit and loss account for the period of ownership. Comparative figures have not been corrected for newly acquired or divested companies.

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

Profit and loss account

Net turnover

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

Other operating income and expenses

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

Research and development costs

The research and development costs are written directly to reserves.

Conversion of foreign currency

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

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

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

Financial instruments

The turnover of the parent company and the Danish subsidiaries is primarily invoiced in foreign currency. In addition, the forward exchange rate or the binding or agreed rate, respectively, is used for stating the items covered. Realised exchange gains and losses on such forward contracts and options have been included in the profit and loss account as financial items.

Extraordinary items

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

Taxes

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

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

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

Balance sheet

Non-tangible fixed assets

Non-tangible fixed assets are stated at the original cost less accumulated depreciation and write-offs. These assets are written off over their expected lifetime, the maximum being 20 years. The tax depreciation is the same as the book depreciation. Purchased goodwill, patent and trademark rights up to DKK 5 million are written off in full in the year of acquisition.

Tangible fixed assets

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

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

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

 Shares in subsidiaries and associated companies

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

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

Stocks

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

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

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

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

Costs are based on the FIFO principle of calculation.

Accounts receivable

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

Securities

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

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

Debt

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

Cash flow statement

The cash flow statement uses the indirect method, based on profit before extraordinary items and tax. The statement shows the Group’s cash flow for the year and the liquidity position at year-end. The cash flow originates from, or is applied in, three main areas: operations, investments and financing.

Liquidity includes liquid funds and securities shown as current assets.

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

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

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

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

Positive amounts indicate incoming payments while negative amounts indicate outgoing payments.
## Profit and loss account

1 October – 30 September

<table>
<thead>
<tr>
<th>Note</th>
<th>Group</th>
<th>1997/98</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Net turnover</td>
<td>2,723,876</td>
<td>2,398,547</td>
</tr>
<tr>
<td>2</td>
<td>Change in stocks of finished goods and work in progress</td>
<td>24,350</td>
<td>5,579</td>
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<td>3</td>
<td>Other operating income</td>
<td>28,208</td>
<td>23,481</td>
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<td>4</td>
<td>Income from operations</td>
<td>2,776,434</td>
<td>2,427,607</td>
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<td>5</td>
<td>Costs of raw materials and consumables</td>
<td>-415,986</td>
<td>-368,658</td>
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<td>6</td>
<td>Employee costs</td>
<td>-996,635</td>
<td>-811,773</td>
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<td>7</td>
<td>Cost of raw materials and consumables</td>
<td>-139,232</td>
<td>-127,223</td>
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<tr>
<td>8</td>
<td>Operating profit</td>
<td>433,898</td>
<td>346,830</td>
</tr>
<tr>
<td>9</td>
<td>Income from participating interests</td>
<td>0</td>
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<tr>
<td>10</td>
<td>Profit, associated companies</td>
<td>3,891</td>
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<td>11</td>
<td>Financial income</td>
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<td>12</td>
<td>Financial charges</td>
<td>-88,088</td>
<td>-60,147</td>
</tr>
<tr>
<td>13</td>
<td>Profit before depreciation</td>
<td>573,130</td>
<td>474,053</td>
</tr>
<tr>
<td>14</td>
<td>Depreciation</td>
<td>-139,232</td>
<td>-127,223</td>
</tr>
<tr>
<td>15</td>
<td>Operating profit</td>
<td>433,898</td>
<td>346,830</td>
</tr>
<tr>
<td>16</td>
<td>Income from participating interests</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Profit, associated companies</td>
<td>3,891</td>
<td>-1,515</td>
</tr>
<tr>
<td>18</td>
<td>Financial income</td>
<td>46,421</td>
<td>56,823</td>
</tr>
<tr>
<td>19</td>
<td>Financial charges</td>
<td>-88,088</td>
<td>-60,147</td>
</tr>
<tr>
<td>20</td>
<td>Profit on ordinary activities</td>
<td>395,402</td>
<td>341,991</td>
</tr>
<tr>
<td>21</td>
<td>Extraordinary income</td>
<td>37</td>
<td>2,291</td>
</tr>
<tr>
<td>22</td>
<td>Extraordinary charges</td>
<td>-273</td>
<td>-3,294</td>
</tr>
<tr>
<td>23</td>
<td>Profit before tax</td>
<td>395,166</td>
<td>340,888</td>
</tr>
<tr>
<td>24</td>
<td>Company tax</td>
<td>-128,096</td>
<td>-102,096</td>
</tr>
<tr>
<td>25</td>
<td>Profit for the year</td>
<td>267,070</td>
<td>238,892</td>
</tr>
<tr>
<td>26</td>
<td>Minority interests</td>
<td>-2,280</td>
<td>-1,504</td>
</tr>
<tr>
<td>27</td>
<td>Coloplast share of the profit for the year</td>
<td>264,790</td>
<td>237,388</td>
</tr>
</tbody>
</table>

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

- **Dividend DKK 4.40 per share**: 52,800, 46,157
- **Statutory subsidiary reserves**: 52,342, 70,661
- **Free reserves**: 159,648, 120,570

**Total**: 264,790, 237,388
## Balance sheet

At 30 September

<table>
<thead>
<tr>
<th>DKK '000</th>
<th>Note</th>
<th>1997/98</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patents and trademarks</td>
<td>5</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>5</td>
<td>454,174</td>
<td>387,627</td>
</tr>
<tr>
<td>Technical plant and machinery</td>
<td>5</td>
<td>172,163</td>
<td>166,801</td>
</tr>
<tr>
<td>Other operating equipment</td>
<td>5</td>
<td>96,143</td>
<td>87,287</td>
</tr>
<tr>
<td>Payments on account for tangible assets and tangible assets under construction</td>
<td>5</td>
<td>107,775</td>
<td>70,318</td>
</tr>
<tr>
<td><strong>Tangible assets</strong></td>
<td></td>
<td>830,256</td>
<td>712,033</td>
</tr>
<tr>
<td>Shares in subsidiaries</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amounts due from subsidiaries</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Participating interests in associated companies</td>
<td>5</td>
<td>14,242</td>
<td>8,543</td>
</tr>
<tr>
<td>Amounts due from associated companies</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td></td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td>14,242</td>
<td>8,966</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td></td>
<td>848,497</td>
<td>720,999</td>
</tr>
<tr>
<td><strong>Stock and work in progress</strong></td>
<td></td>
<td>279,815</td>
<td>249,448</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>12</td>
<td>477,109</td>
<td>449,741</td>
</tr>
<tr>
<td>Amounts due from subsidiaries</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amounts due from associated companies</td>
<td></td>
<td>2,090</td>
<td>0</td>
</tr>
<tr>
<td>Other debtors</td>
<td>14</td>
<td>68,075</td>
<td>53,066</td>
</tr>
<tr>
<td>Accruals</td>
<td></td>
<td>18,506</td>
<td>11,038</td>
</tr>
<tr>
<td><strong>Debtors</strong></td>
<td></td>
<td>565,780</td>
<td>513,845</td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td></td>
<td>117,895</td>
<td>94,225</td>
</tr>
<tr>
<td><strong>Cash and bank balances</strong></td>
<td></td>
<td>94,735</td>
<td>270,372</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td>1,058,225</td>
<td>1,127,890</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>1,906,722</td>
<td>1,848,889</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Group</th>
<th>Parent company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>240,000</td>
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<tr>
<td>Share premium account</td>
<td>9,688</td>
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<tr>
<td>Subsidiaries' reserves</td>
<td>0</td>
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<tr>
<td>Reserves for own shares</td>
<td>6,590</td>
</tr>
<tr>
<td>Transferred profit</td>
<td>848,389</td>
</tr>
<tr>
<td><strong>Total equity capital</strong></td>
<td></td>
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<tr>
<td>Minority interests</td>
<td>4,124</td>
</tr>
<tr>
<td>Provisions for deferred taxes</td>
<td>24,192</td>
</tr>
<tr>
<td>Other provisions</td>
<td>22,568</td>
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<tr>
<td><strong>Provisions</strong></td>
<td></td>
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<tr>
<td>Mortgages</td>
<td>19</td>
</tr>
<tr>
<td>Bank loans</td>
<td>19</td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Mortgages</td>
<td>19</td>
</tr>
<tr>
<td>Bank loans</td>
<td>19</td>
</tr>
<tr>
<td>Trade creditors</td>
<td></td>
</tr>
<tr>
<td>Amounts due to subsidiaries</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total current and long-term liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td></td>
</tr>
</tbody>
</table>
# Consolidated cash flow statement

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

Liquidity includes:
- Securities | 111,304 | 94,225 |
- Liquid funds | 94,735 | 270,372 |

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

## A Adjustment for non-cash operating items

<table>
<thead>
<tr>
<th></th>
<th>1997/98</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>139,232</td>
<td>127,223</td>
</tr>
<tr>
<td>Profit share, associated companies</td>
<td>3,891</td>
<td>1,515</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>3,162</td>
<td>-12,620</td>
</tr>
<tr>
<td>Exchange rate adjustments, subsidiaries</td>
<td>1,313</td>
<td>0</td>
</tr>
<tr>
<td>Exchange rate adjustments, securities</td>
<td>2,281</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>149,879</strong></td>
<td><strong>116,118</strong></td>
</tr>
</tbody>
</table>

## B Changes in working capital

<table>
<thead>
<tr>
<th></th>
<th>1997/98</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock and work in progress</td>
<td>-30,367</td>
<td>-27,996</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>-29,458</td>
<td>-83,418</td>
</tr>
<tr>
<td>Other debtors</td>
<td>-34,867</td>
<td>65,198</td>
</tr>
<tr>
<td>Suppliers and other creditors</td>
<td>39,543</td>
<td>-44,362</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-55,149</strong></td>
<td><strong>-90,578</strong></td>
</tr>
</tbody>
</table>
Audit report and approvals

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

Humlebæk, 16 November 1998

Group Management
Sten Scheibye
Chief Executive

Board of Directors
Palle Marcus
Chairman
Niels Peter Louis-Hansen
Deputy Chairman
Helle Bechgaard

Niels O. Johannesson
Jytte Gliim
Per Magid
Bjarne Nielsen

Carsten Lønfeldt
Kurt Anker Nielsen
Torsten E. Rasmussen
Knud Øllgård

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

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

The audit did not give rise to any qualifications.

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

Hellerup, 16 November 1998

PricewaterhouseCoopers
Revisionsfirmaet Helge Bom A/S

Morten Iversen
John Schmidt
Helge Bom
State Authorized Public Accountant
State Authorized Public Accountant
State Authorized Public Accountant
## Notes

<table>
<thead>
<tr>
<th></th>
<th>Group</th>
<th>Parent company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>71,818</td>
<td>93,747</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>2,652,058</td>
<td>1,161,060</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,723,876</td>
<td>1,254,797</td>
</tr>
<tr>
<td>Turnover rest of the world in %</td>
<td>97%</td>
<td>93%</td>
</tr>
<tr>
<td><strong>Change in stock of finished goods and work in progress</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elimination of intra-Group profit</td>
<td>1,875</td>
<td>1,875</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,350</td>
<td>16,053</td>
</tr>
<tr>
<td><strong>Employee costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and directors’ fees</td>
<td>879,861</td>
<td>430,869</td>
</tr>
<tr>
<td>Pension scheme contribution</td>
<td>33,637</td>
<td>19,832</td>
</tr>
<tr>
<td>Other social security costs</td>
<td>79,096</td>
<td>7,421</td>
</tr>
<tr>
<td>Holiday pay adjustment</td>
<td>4,041</td>
<td>3,044</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>996,635</td>
<td>461,166</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>3,180</td>
<td>1,593</td>
</tr>
<tr>
<td>Number of employees at 30 September, full-time equivalents</td>
<td>3,269</td>
<td>1,631</td>
</tr>
<tr>
<td><strong>Total fee to auditors elected at the Annual General Meeting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total fee to PricewaterhouseCoopers</td>
<td>1,530</td>
<td>1,225</td>
</tr>
<tr>
<td>Total fee to Helge Born A/S</td>
<td>100</td>
<td>90</td>
</tr>
<tr>
<td><strong>Of this fee for audit to PricewaterhouseCoopers</strong></td>
<td>660</td>
<td>640</td>
</tr>
<tr>
<td><strong>Of this fee for audit to Helge Born A/S</strong></td>
<td>100</td>
<td>90</td>
</tr>
</tbody>
</table>
## 5. Fixed assets

### Group 1997/98

<table>
<thead>
<tr>
<th>DKK '000</th>
<th>Intangible assets</th>
<th>Tangible assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land and buildings</td>
<td>Technical plant and machinery</td>
</tr>
<tr>
<td><strong>Total purchase price at 1 October 1997</strong></td>
<td>1,971</td>
<td></td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>New equipment and improvements during the year</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td></td>
</tr>
<tr>
<td><strong>Total purchase price at 30 September 1998</strong></td>
<td>5,000</td>
<td>604,112</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>42,909</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>-4,362</td>
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<tr>
<td>New equipment and improvements during the year</td>
<td>5,000</td>
<td>55,706</td>
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<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td>-5,563</td>
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<tr>
<td><strong>Total purchase price at 30 September 1998</strong></td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Revaluations of the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total revaluations at 30 September 1998</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total revaluations at 1 October 1997</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation and write-offs during the year</td>
<td>1,000</td>
<td>149,938</td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td>-763</td>
</tr>
<tr>
<td><strong>Total depreciation and write-offs at 30.9.1998</strong></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Cash value of land and buildings in Denmark according to the latest official valuation at 1 January 1998</td>
<td>237,240</td>
<td></td>
</tr>
</tbody>
</table>

### Parent company 1997/98

<table>
<thead>
<tr>
<th>DKK '000</th>
<th>Intangible assets</th>
<th>Tangible assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land and buildings</td>
<td>Technical plant and machinery</td>
</tr>
<tr>
<td><strong>Total purchase price at 1 October 1997</strong></td>
<td>1,971</td>
<td></td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>New equipment and improvements during the year</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td></td>
</tr>
<tr>
<td><strong>Total purchase price at 30 September 1998</strong></td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>22,549</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>-774</td>
</tr>
<tr>
<td>New equipment and improvements during the year</td>
<td>5,000</td>
<td>23,680</td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td>-2,861</td>
</tr>
<tr>
<td><strong>Total purchase price at 30 September 1998</strong></td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Revaluations of the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total revaluations at 30 September 1998</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total revaluations at 1 October 1997</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transfer to/from other items</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation and write-offs during the year</td>
<td>1,000</td>
<td>387,627</td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>-1,971</td>
<td>-763</td>
</tr>
<tr>
<td><strong>Total depreciation and write-offs at 30.9.1998</strong></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Cash value of land and buildings in Denmark according to the latest official valuation at 1 January 1998</td>
<td>237,240</td>
<td></td>
</tr>
</tbody>
</table>
5. Financial assets

Group/Parent company 1997/98

<table>
<thead>
<tr>
<th>DKK '000</th>
<th>Group</th>
<th>Parent company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity in subsidiaries</td>
<td>Equity in associated companies</td>
</tr>
<tr>
<td>Total purchase price</td>
<td>0</td>
<td>12,838</td>
</tr>
<tr>
<td>Capital investments in the financial year</td>
<td>0</td>
<td>119,204</td>
</tr>
<tr>
<td><strong>Total purchase price at 30 September 1998</strong></td>
<td>0</td>
<td>132,042</td>
</tr>
<tr>
<td>Revaluation beginning of the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adjustment of revaluation beginning of the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Profit from subsidiaries</td>
<td>0</td>
<td>6,754</td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adjustment of profit at exchange rates at balance sheet date</td>
<td>0</td>
<td>-126</td>
</tr>
<tr>
<td>Received dividend</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total revaluation</strong></td>
<td>0</td>
<td>6,628</td>
</tr>
<tr>
<td>Write-off beginning of the year</td>
<td>0</td>
<td>-4,294</td>
</tr>
<tr>
<td>Exchange-rate adjustment of reserves beginning of the year</td>
<td>0</td>
<td>-21</td>
</tr>
<tr>
<td>Adjustment of reserves beginning of the year</td>
<td>0</td>
<td>-831</td>
</tr>
<tr>
<td>Corporate goodwill written directly to reserves</td>
<td>0</td>
<td>-116,373</td>
</tr>
<tr>
<td>Deficit subsidiaries</td>
<td>0</td>
<td>-2,863</td>
</tr>
<tr>
<td>Disposals during the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adjustment at exchange rates at balance sheet date</td>
<td>0</td>
<td>796</td>
</tr>
<tr>
<td><strong>Total write-off</strong></td>
<td>0</td>
<td>-123,586</td>
</tr>
<tr>
<td>Set-offs in accounts receivable, subsidiaries</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Value of financial assets</strong></td>
<td>0</td>
<td>15,084</td>
</tr>
<tr>
<td>Intra-Group profit</td>
<td>0</td>
<td>-842</td>
</tr>
<tr>
<td><strong>Book value at 30 September 1998</strong></td>
<td>0</td>
<td>14,242</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>----------</td>
<td>---------</td>
</tr>
<tr>
<td>Profit from subsidiaries</td>
<td>149,993</td>
<td>146,926</td>
</tr>
<tr>
<td>Loss from subsidiaries</td>
<td>142,377</td>
<td>145,622</td>
</tr>
<tr>
<td>Income from participating interests</td>
<td>142,377</td>
<td>145,622</td>
</tr>
<tr>
<td>Profit, associated companies</td>
<td>3,891</td>
<td>-1,515</td>
</tr>
<tr>
<td>Dividend payable to Coloplast A/S</td>
<td>88,084</td>
<td>78,621</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Interest receivable</td>
<td>17,569</td>
<td>20,357</td>
<td>32,814</td>
<td>39,943</td>
</tr>
<tr>
<td>Value adjustment of securities</td>
<td>533</td>
<td>8,477</td>
<td>533</td>
<td>8,477</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>28,319</td>
<td>27,989</td>
<td>28,736</td>
<td>24,412</td>
</tr>
<tr>
<td>Total</td>
<td>46,421</td>
<td>56,823</td>
<td>62,083</td>
<td>72,832</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable</td>
<td>19,788</td>
<td>22,295</td>
<td>5,095</td>
<td>8,810</td>
</tr>
<tr>
<td>Exchange rate adjustments</td>
<td>40,336</td>
<td>12,370</td>
<td>34,383</td>
<td>8,272</td>
</tr>
<tr>
<td>Cash discounts</td>
<td>28,684</td>
<td>25,482</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>88,808</td>
<td>60,147</td>
<td>39,478</td>
<td>17,082</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net adjustment of provision for patent suits</td>
<td>0</td>
<td>213</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Compensations</td>
<td>37</td>
<td>2,078</td>
<td>0</td>
<td>1,400</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>2,291</td>
<td>0</td>
<td>1,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for lawsuits</td>
<td>273</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Provision for patent suits</td>
<td>0</td>
<td>3,000</td>
<td>0</td>
<td>3,000</td>
</tr>
<tr>
<td>Compensations</td>
<td>0</td>
<td>294</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>273</td>
<td>3,294</td>
<td>0</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on profit for the year</td>
<td>116,100</td>
<td>92,310</td>
<td>61,994</td>
<td>35,065</td>
</tr>
<tr>
<td>Change in deferred tax</td>
<td>11,074</td>
<td>9,597</td>
<td>11,260</td>
<td>9,650</td>
</tr>
<tr>
<td>Adjustment regarding previous years</td>
<td>127,174</td>
<td>101,907</td>
<td>73,254</td>
<td>44,715</td>
</tr>
<tr>
<td>Total</td>
<td>128,096</td>
<td>102,096</td>
<td>77,284</td>
<td>44,904</td>
</tr>
</tbody>
</table>

Tax specification:
- Tax on operating profit: 127,250 102,208 73,254 45,195
- Adjustment of previous years’ tax: 922 189 4,030 189
- Tax on extraordinary profit: -76 -301 0 -480
- Total: 128,096 102,096 77,284 44,904
Group | Parent company
--- | ---
--- | --- | --- | ---
12. Stock and work in progress
- Raw materials and consumables | 99,170 | 86,772 | 54,737 | 48,175
- Work in progress | 30,649 | 27,618 | 25,699 | 23,162
- Finished goods | 149,996 | 135,058 | 47,359 | 35,718
- **Stock and work in progress 30 September** | 279,815 | 249,448 | 127,795 | 107,055
13. Amounts due from subsidiaries | 0 | 0 | 580,778 | 458,201
- Negative equity in subsidiaries | 0 | 0 | -47,626 | -4,400
- **Total** | 0 | 0 | 533,152 | 453,801
14. Other debtors/receivables
- Share capital due | 0 | 13,012 | 0 | 13,012
- Other debtors/receivables | 68,075 | 40,054 | 5,855 | 3,679
- **Total** | 68,075 | 53,066 | 5,855 | 16,691
15. Securities | 117,895 | 94,225
- Securities at 30 September 1998 consist mainly of Danish bonds, duration 4.3.

**Own Shares**
- Holding at 30.9.1998 was 11,500 shares with a nominal value of DKK 230,000, which is 0.1% of the total nominal share value.
- During the year, no own shares were sold while 11,500 were bought. Their nominal value was DKK 230,000.
- Average buying price was 609.9, the total price paid being DKK 7,013,750.
- Own shares were purchased for use in possible acquisition deals.

16. Equity capital

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

Deferred tax, opening balance: 
13,314
3,951
Exchange rate adjustment: 
-196
4
Change in deferred tax: 
11,074
9,359
Balance at 30 September: 
24,192
13,314

18. Other provisions

Other provisions, opening balance: 
19,406
7,802
Changes in other provisions: 
3,162
11,604
Balance at 30 September: 
22,568
19,406

19. Mortgage and bank loans

Due in
Less than 1 year: 
101,725
65,128
17,047
10,136
1 to 5 years: 
69,633
172,167
6,333
122,564
More than 5 years: 
87,833
108,712
22,075
1,871
Total: 
259,191
346,007
45,455
134,571

20. Company tax

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

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

21. Other liabilities and information

Contingent liabilities:
At year-end Coloplast had guaranteed subsidiary loans and commitments in the sum of DKK: 
109,246
110,838
102,591
110,838

Leasing liabilities:
Liabilities on leasing contracts at 30 September: 
1998 amount to DKK: 
21,088
18,512
2,219
2,773

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

Coloplast is obliged to acquire in certain circumstances the remaining shares in the associated companies. In Group Management’s opinion such acquisition will not materially influence the financial position of the Group.
Physical properties are basic to the customer’s perception of a product, but the importance of customised service is increasing. This trend provides scope for the logistics function to play a proactive role in customer relations. Pressure for savings in the national economies will continue to challenge suppliers to the healthcare sector. We will need to develop new forms of cooperation and seize emerging opportunities for meeting customer needs.

**Within 24 hours**

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

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

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

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

**Customised service**

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

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

**Logistics is a vital process in modern, customer-oriented companies. We have developed our logistics services to meet future customer needs**
What would an ostomy bag for the collection of faeces, following cancer surgery, look like, if ostomists were allowed to design it themselves? Or if all the features recommended by stoma care nurses could be included?

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

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

Influencing design

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

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

Security in social life

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

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

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

- The Assura bag definitely lives up to expectations, also in practical use. Particularly the oval shape of the adhesive and the effective filter make users feel secure in social life. I have also received positive feedback on the design. End users feel it makes the bag seem less like a hospital product.
Nurse Tove Brink-Kjær from the Wound Healing Knowledge Centre at Bispebjerg University Hospital treats patients with leg ulcers. She knows what it is like to realise that, after a few days’ treatment with a traditional alginate dressing, the wound has grown in size. Alginates are used for dressing wounds because they can absorb large amounts of wound exudate and form a protective gel. The moist environment is good for wound healing but bad for the surrounding healthy skin.

- In order to reduce maceration of the skin around the wound, I need to change the dressing quite often. This may disturb the healing process, which is best left alone, says Tove Brink-Kjær.
- The cost of frequent dressing changes puts pressure on healthcare budgets. Besides, otherwise mobile and fit elderly persons in their home would prefer the wound to look after itself and not be time-consuming.

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

Conventional alginate dressings consist of loose fibres. They absorb liquids very quickly, but the moisture spreads throughout the dressing.
- Our task was to develop an alginate dressing which did not disintegrate on removal, nor leave alginate fibres in the wound. We also wanted to be able to control its absorption, to make a dressing structure which would channel liquids upwards rather than sidewards, explains R&D manager Peter Sylvest Nielsen.

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

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

Freeze-drying technology has made it possible to prevent the spreading of wound liquids in alginate dressings. Local absorption prevents maceration of the skin around chronic ulcers with heavy exudation.
At Coloplast we use information technology as a tool for strengthening performance in sales and marketing, customer contacts, product development, manufacturing processes, logistics and management. All employees worldwide use the same standard software package with access to shared databases.

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

**Electronic overview**

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

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

**Better products**

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

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

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

**Self-managing teams**

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

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

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

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

**Wholehearted commitment**

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

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

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

The self-managing production groups in the Ostomy

Products Division rely on leaders to support and guide them rather than to give orders.
There are good reasons for a woman to choose to wear an external silicone breast form after surgery. The silicone gel provides the drape and look of a natural breast. Its texture feels like breast tissue and in the mastectomy bra it moves naturally with the body.

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

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

**Light as air**

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

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

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

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

**Moves with the body**

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

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

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

Weight is all-important
At Coloplast we wish to assess the value of “knowledge management” as a potential tool to support our objective of combining profitable growth with a high degree of customer and employee satisfaction.

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

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

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

**Knowledge management and quality**

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

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

The TQM model, which is shown below, is based on the company’s ability to describe the relationship between the effort made and the desired outcome. The company’s objectives are divided into four groups. Only when strategic choices and decisions consider cus-
Customer satisfaction, employee satisfaction, the effect on society and excellent financial results, can the company be said to be operating according to TQM principles.

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

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

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

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

### Employees

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

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

**Job rotation** increases the business understanding and career opportunities of individuals.

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

An increasing number of courses is developed and held internally. This means better quality and relevance of the training offered. At the same time the cost of training per employee is slightly lower.
Employee satisfaction measurements (ESM)

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

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

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

Index 100 = 1995/96

<table>
<thead>
<tr>
<th>Status</th>
<th>95/96</th>
<th>96/97</th>
<th>97/98</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defects in delivered products (indexed figures for Coloplast A/S)</td>
<td>100</td>
<td>70</td>
<td>59</td>
</tr>
<tr>
<td>Delivery within 24 hours (Group)</td>
<td>98.9%</td>
<td>98.5%</td>
<td>95.5%</td>
</tr>
<tr>
<td>Complaints received (indexed for Group)</td>
<td>100</td>
<td>92</td>
<td>106</td>
</tr>
<tr>
<td>Turnover share generated by new products, % (Coloplast A/S and Coloplast Consumer Products A/S)</td>
<td>32.9%</td>
<td>32.8%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

**Focus areas**

| No. of internal, trained auditors | 25 | 25 | 25 |
| Internal audits (Coloplast A/S)   | 75 | 75 | 75 |
| No. of non-conformances during Lloyd's audits (Coloplast A/S) | 4 | 3 | 1 |
| Meetings with end users, nurses and doctors (indexed figures for Group) | 100 | 133 | 167 |
| Costs of clinical documentation (indexed figures for Coloplast A/S) | 100 | 129 | 159 |
| R&D expenditure (indexed figures for Coloplast A/S) | 100 | 111 | 137 |

**Results**

| Overall customer satisfaction, % (Group) | 93.7% | 90.8% | 94.6% |

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

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

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

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

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

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

Coloplast is using the same standards for measuring customer satisfaction in all subsidiaries and product divisions. Overall customer satisfaction shows that about 95% of Coloplast users are satisfied with our products and services. This is a very gratifying result and one we intend to sustain.
A wasp attracted by a freshly opened beer is swished away determinedly. There must be more wasps in the trimmed wilderness of this garden surrounded by pine, birch and beech, but only one is addicted to beer. On the wall of the painter’s studio opposite tall, tilted windows, hangs a nylon rope with gull feathers found on the beach and a sign saying: “gone fishing”. The attractions of nature are not far away.

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

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

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

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

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

Bent Holstein’s decorations can be seen eg at the Scandinavian Tobacco Company, Niels Brock’s College, Danmarks Nationalbank, Høje Taastrup Station, Hotel Scandinavia and the Ministry of Foreign Affairs. He is represented at the Århus Museum of Art, the Danish National Gallery, Copenhagen, the National Gallery of Art, Washington, the Museum of Modern Art, New York, and the Art Library, Berlin.
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Kapás u. 31-16
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Associated companies

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

Other companies

(100% owned unless otherwise stated)

Coloplast Ejendomsaktieselskab, Denmark
Co-Inject ApS, Denmark

Amoena GmbH subsidiaries:

Amoena Medizin-Orthopädie-Technik Verwaltungs GmbH, Germany
Amoena (UK) Ltd., Great Britain
Amoena France S.A., France
Amoena Scandinavia AB, Sweden
Amoena Medizin-Orthopädie-Technik Verwaltungs GmbH & Co., Germany
Biomagnetics Medizintechnik GmbH, Germany
Amoena Niederlandische Antillen, Antilles
Amaoena Polska Sp. z o.o., Poland
Amaoena apoI s.r.o., The Czech Republic
(50% owned)
Amaoena Kft., Hungary
(50% owned)
Amaoena Portugal Ltda., Portugal
(50% owned)
# Executives in the parent company

at 1 December 1998

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

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

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

## Executives in subsidiaries

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

### USA & Canada
- **David W. Heffner** President, Breast Care Division
- **Donald C. Looney** President, Medical Sales Division
- **Lou F. Malice, Jr.** Executive Vice President, Breast Care Division
- **Mogens Pedersen** President, Skin Care Division

### Overseas
- **Maureen McKenzie** Australia, General Manager
- **Vagn Heiberg** Japan and China, General Manager

### Latin America
- **Santiago Caratini** Argentina, Country Manager
- **Jan L. Serensen** Latin America, Regional Manager

### Consumer Products A/S
- **Jan Waage** General Manager
Throughout the world we wish to be perceived as dependable providers of consumable products and services. Our customers are health care professionals and users. Our primary concern is to improve the quality of life of individuals suffering from a disabling condition.

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

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

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

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

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