

Corporate Governance in Coloplast

At least once a year, Coloplast's Board of Directors and Executive Management review the principles of corporate governance originating from legislation, custom and recommendation. The Board of Directors and the Executive Management assess the company's business processes, the definition and implementation of the mission, the organisation, stakeholder relations, strategy, risks, business objectives and controls.

Recommendations for corporate governance in Denmark

NASDAQ OMX Copenhagen (Copenhagen Stock Exchange) has in 2005 (updated 6 February 2008) decided to include corporate governance in the duty-to-disclose list of issues to be accounted for by listed companies. The recommendations have been prepared by a committee set up by the Copenhagen Stock Exchange and implies that the companies must in future account for how they deal with the recommendations according to the "comply or explain" principle.

The recommendations emphasise that explaining a non-compliance is just as legitimate as complying with a specific recommendation.

The essential issue is to make company management structures transparent. Coloplast's Board of Directors and Executive Management share these views and began applying this practice in reporting on corporate governance at Coloplast as early as in the Annual Report 2004/05, which was prepared in accordance with the recommendation to divide reporting into main sections and subsections.

The objective of the reporting

The company will account for attitudes and activities relating to corporate governance in its annual report at investor meetings and on the corporate website. The purpose is:

- to increase the scope of information to the investors
- to increase shareholder and employee insight into the company's strategy, objectives and risks
- to increase stakeholder confidence in the company

Coloplast's organisational structure

Coloplast A/S is a Danish listed company, and the shareholders have the ultimate authority of the company by virtue of their power to make resolutions at general meetings. The management structure includes a Board of Directors and an Executive Management.

Board of Directors

The Board of Directors consists of seven members elected by the company in general meeting and three members elected by the employees as provided by Danish law.

The members elected by the company in general meeting are:

Michael Pram Rasmussen, Chairman*
Niels Peter Louis-Hansen, Deputy Chairman
Håkan Björklund*
Ingrid Wiik*
Per Magid
Torsten Erik Rasmussen*
Jørgen Tang-Jensen*

The three members elected by the employees are:

Knud Øllgård
Mads Boritz Grøn
Thomas Barfod

*) Board members who are considered to be independent.

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

Executive Management

The Executive Management is responsible for the day-to-day management of the Coloplast Group and consists of two members:

Lars Rasmussen, President & CEO
Lene Skole, CFO

The Executive Management presents to the Board of Directors proposals for the company's overall objectives, strategies and action plans as well as framework for operational, investment, financial and cash flow budgets. The Executive Management has the right and a duty to attend Board meetings unless otherwise agreed case-by-case by the Board.

In the normal course of the day-to-day management of the company, the Executive Management holds meetings with other members of senior management. An internal document describes the structure of the meetings at Coloplast attended by the Executive Management. The Executive Management participates in meetings with investors and equity analysts.

Description of corporate governance in Coloplast

1. The role of the shareholders and the interaction with the Management
2. The role of the stakeholders and the importance to the company
3. Openness and transparency
4. Duties and responsibilities of the Board of Directors
5. Composition of the Board of Directors
6. Remuneration of the Board of Directors and the Executive Management
7. Risk management
8. Audit

1. The role of the shareholders and the interaction with the Management

Ownership and communication

Coloplast communicates with its shareholders by telephone, e-mail, through annual reporting, announcements, the corporate website, at general meetings and investor meetings which may be face-to-face or be in the form of telephone conferences. We follow the technological advances on an on-going basis and have considered holding partially electronic general meetings and web casting. For the time being, however, such solutions have not been found relevant.

Capital and share structure

The Board of Directors regularly reviews the company's capital structure, and considers whether it is consistent with the interests of the company and the shareholders. It also makes plans annually for the development of the capital and share structures. The assessment of the capital structure includes the company's credit rating and the potential for allocating a positive cash flow purchasing own shares or for increasing the payout ratio to the shareholders.

The company's target going forward is to have net debt a 1½-2½ times EBITDA.

Coloplast has two share classes: 3.6m class A shares entitling the holders to ten votes per A share and 41.4 m class B shares entitling the holders to one vote per B share. Both share classes have the same unit price – DKK 5.00 per share. In 1983, Coloplast's class B shares were listed on the Copenhagen Stock Exchange while the class A shares remain

non-negotiable instruments. Any change of ownership for class A shares will require the consent of the Board of Directors. The distribution of the shareholders in the different categories is stated annually in the annual report. The Board believes that this share structure has benefited Coloplast's development and that maintaining this structure will be to the benefit of all the company's shareholders.

The general meetings

A general meeting is the ultimate authority of the company. A general meeting is convened with a minimum of eight days' and a maximum of four weeks' notice. The notice, convening a general meeting including all proposals, is published through the Copenhagen Stock Exchange. In addition, the notice is sent to all registered shareholders. Shareholders who have so requested will receive a copy of the annual report with the notice. The time, venue and agenda of the general meeting will be published in certain national newspapers.

No later than eight days before a general meeting, an agenda, complete with all proposals to be made to the general meeting and in the case of the annual general meeting, the audited annual report will be available for inspection at the company's registered office.

Any shareholder will be granted admission to the general meeting if he or she has obtained no later than three days prior to the meeting, an admission card from the company's office against documentation of her or his shareholding or reference to the registration of such shareholding.

The company considers registration of shares in the name of the holder a significant advantage, because the company will then have an opportunity to communicate directly with the shareholder.

Shareholders are entitled to vote if their shares have been registered in the register of shareholders, or if they have filed and documented their share purchase prior to the particular general meeting being convened. Voting rights may be exercised through an agent, who must present a written, dated instrument of proxy. The letter including the agenda of the general meeting includes an instrument of proxy authorising the Board of Directors to exercise the vote. Proxy may be given for each proposal separately.

At the annual general meeting the revised annual report is presented for approval. Moreover, members are elected to the Board of Directors and auditors are appointed. Shareholders may cast their votes on individual candidates for the Board of Directors, and the Board members are elected periods of one year at a time.

All shareholders may make proposals or ask questions. Proposals for discussion at the annual general meeting must be received by the company's Board of Directors no later than 1 November of each year.

The Board ensures that the notice to convene the meeting adequately presents the issues included in the agenda.

The date of the company's annual general meeting is published about 13 months in advance.

Takeover bids

Apart from the different weights of voting rights between classes A and B shares, no precautions against takeover bids have been taken by way of a ceiling on votes or limitation of the amount of shares owned. If a takeover bid is made, the company will consider the specific case. The Board has laid down adequate procedures for handling such situations.

2. The role of the stakeholders and the importance to the company Policy

The company has accepted and published a policy for the approach to its stakeholders through its Mission, Values and Vision.

The role of the stakeholder

Coloplast's products are supplied through dealers, through hospitals or together with the company's own advice directly to end users. The current trend is towards more direct contact with end users. No matter how the products are supplied, Coloplast wishes to form the closest possible ties with customers in order to enhance value creation. The needs and

expectations of our customers change over time and the company must constantly be willing to change with them. Healthcare professionals and users are involved in the development of new products and services on an on-going basis.

Each individual employee's personal and professional development is important to the continued growth of the company. The requirements to adaptability, knowledge sharing and training of new skills are growing, giving our employees greater independence and a more varying work day. Coloplast wishes to attract and retain people who thrive in an active environment and who consider their employment with us a learning process.

Coloplast takes responsibility for contributing actively to a sustainable development. The company wishes to contribute to improving the quality of life of the users of our products and services without reducing the quality of life of others. Coloplast's initiatives for social responsibility, contributions to society through taxes and duties, environmental management and partnerships with educational institutions all add to overall value creation in society.

An integral part of Coloplast's management philosophy is to achieve balanced value creation for the company's stakeholders both in the short and the long term. The management believes that such balance will also maximise value generation for the shareholders.

3. Openness and transparency

Information

Coloplast has defined a general communication policy available from the company's corporate website. The website includes a number of other policies relating to the company's stakeholders. The company complies with the rules laid down by the Copenhagen Stock Exchange regarding companies' duty to disclose information through announcements, periodical financial statements and the annual report.

The consolidated financial statements are presented on a regular basis to analysts, investors and the press. The management takes part in a number of meetings about the Group's financial statements with its stakeholders, primarily employees, shareholders and analysts. All information released to the public is available both in Danish and English on the corporate website.

Investor relations

A policy has been established for the communication of information to shareholders and investors. According to this policy, the Executive Management and the corporate communications team are responsible for the flow of information pursuant to guidelines agreed with the Board of Directors.

The communication of information complies with the rules laid down by the Copenhagen Stock Exchange, comprising:

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

Annual report

The annual report is presented in accordance with Danish legislation and Coloplast adopted IFRS effective from the financial year 2003/04 . The company does not find it relevant to consider other accounting standards, e.g. US GAAP.

The Danish-language print version represents Coloplast's annual report. In order to meet the needs of the users of financial reports, we also publish an electronic version of the annual report at Coloplast's corporate website: www.coloplast.com. Both the printed and the electronic versions of the annual report are available in English.

Quarterly reports

Coloplast prepares quarterly interim reports to the Copenhagen Stock Exchange. These reports are available at the corporate website.

4. Duties and responsibilities of the Board of Directors

Overall duties and responsibilities

The Board is responsible for organising an executive management team and must approve general guidelines for the remuneration of executives. The specific pay of each executive is determined by the Chairman and Deputy Chairman of the Board of Directors.

The Board is responsible for ensuring proper organisation of the company's business activities, for ensuring that bookkeeping and asset management are monitored in a satisfactory manner and for ensuring that the company's capital resources are always aligned with the company's operations.

The Board of Directors determines the overall objectives, strategies and action plans on the recommendation of the Executive Management and approves the overall framework for the budgets prepared by the Executive Management.

The Board follows up on budgets and reviews the Executive Management's reports on the company's financial reserves, significant transactions, overall insurance status, financing, cash flows and special risks, etc. Budgets and any deviations are assessed on the basis of a review of the interim financial statements.

The Board decides any issues which are unusual by nature or extent given the company's situation. However, the Executive Management may take action as required in such cases if it is not possible to await the Board of Director's decision without significantly jeopardising the company's business. However, the consent of the Chairman of the Board of Directors should always be obtained if at all possible.

Duties of the Chairman

The Chairman of the Board of Directors maintains an on-going dialogue with the chief executive officer about the company's operations and assesses on the basis of this dialogue the need to communicate details to the rest of the Board.

A Board member or an executive may request that a board meeting be held by contacting the Chairman, who presides over board meetings and ensures that records of the meetings are kept.

The Chairman and the Deputy Chairman of the Board of Directors make an annual evaluation of the work performed and the results achieved by the Executive Management. In addition, the Chairman consults with each individual Board member in preparation for a discussion of the structure and efficiency of the work of the Board of Directors to be held at a subsequent board meeting.

Procedures

A set of procedures governs the work of Coloplast's Board of Directors. These procedures are reviewed annually by the full Board to ensure that they match current needs. The procedures set out guidelines for the activities of the Board of Directors including the supervision of the company's organisation, day-to-day management and results.

The Board will meet right after the conclusion of the annual general meeting to elect its Chairman and Deputy Chairman. The Board assumes the duties and powers of the Chairman in his absence.

Information from the Executive Management to the Board of Directors

At each Board meeting the Executive Management will report on the company's business activities. The Executive Management will present the financial statements for each respective quarter, including income statement, balance sheet, investments, cash flows and capital resources. As well as reports for each of the main business areas.

Prior to scheduled meetings the Executive Management will brief the Board members on important issues, e.g. revenue performance.

The dialogue between the Board of Directors and key senior managers other than the Executive Management is ensured by inviting key senior managers to make presentations to the Board of Directors. If a Board member wishes to receive more information, such information will be given through the Chairman.

5. Composition of the Board of Directors

Recruitment and election

As Coloplast's supreme management body approves decisions of a strategic and fundamental nature. It is important to recruit people to the Board of Directors who possess, between them, competences enabling them to handle the interests of the shareholders and the employees in the best possible manner with due regard for the company's other stakeholders.

The CVs of the individual Board members are made available to the public. Together with the notice to convene the general meeting, the Board of Directors makes available to the public the profiles and backgrounds of the candidates for the Board of Directors – both in connection with new elections and re-elections.

A Board member whose employment changes during the period for which he is elected, should inform the Chairman about the change.

Introduction and training

When new members are recruited to the Board of Directors, each new member will review with the Chairman any needs for additional information or training in order to fulfil the duties on the Board of Directors. If necessary, the Chairman will schedule an individual information session or training programme for the relevant member.

Board members elected by the employees will be offered one or more courses introducing them to the work of the Board of Directors and they will also be offered a presentation of the company's operations by the Executive Management.

Coloplast prepares and publishes an overview of competences and knowledge areas which it is found desirable for the Board of Directors to cover between them. It is the responsibility of the Chairman to assess whether the Board members possess the combined knowledge relevant and necessary to manage the company. The basic competences the Coloplast Board needs to cover are: accounting and finance, manufacturing, logistics, global sales and marketing, general management, innovation, legal affairs and acquisition.

Number of Board members

Considerations are made on an on-going basis as to whether the number of Board members is adequate to match the needs of the company. The articles of association provide for at least five and no more than eight members to be elected by the general meeting. In addition, the employees elect a number of members to the Board of Directors, currently three.

Independence

The majority of the Board members elected by the general meeting are considered by the Board of Directors to be independent of company interests. One major shareholder and one consultant hold membership of the Board. The list of Board members in the section "Board of Directors" above, it is indicated whether the Board of Directors considers each individual member to be independent. The Board members elected by the employees are, by virtue of their employment with the company, not considered to be independent. At Coloplast no Board member is also a member of the Executive Management.

Board members elected by the employees

In compliance with the Danish Public Companies Act, Coloplast's Board of Directors includes, in addition to the members elected by the company in general meeting, a number of members elected by the employees corresponding to half the number of members elected by the company in general meeting.

These members have been elected by written and secret ballot in a direct election where each employee of Coloplast A/S is entitled to a number of votes corresponding to half the number of members to be elected, but only one vote per candidate. The Board members elected by the employees are elected for periods of four years.

To be eligible for election, a candidate must have been employed at Coloplast for a full year preceding the election. If a member ceases to be employed by Coloplast, he or she must resign from the Board.

Employee-elected Board members have the same rights, duties and responsibilities as the Board members elected by the general meeting and receive the same remuneration as the members elected by the general meeting.

In addition to their other tasks, members elected by the employees are responsible for ensuring efficient communication flows between the Coloplast management and the employees.

Frequency of meetings

The Board holds at least five board meetings per year, at which all issues relating to the overall development of the company are discussed. A meeting dedicated to strategy is normally held once a year.

The Executive Management in agreement with the Chairman ensures that the agenda and any written material to be considered by the Board is available well in advance of each meeting. The Chairman may decide, however, that material presented at a board meeting is only handed out during the meeting and handed back by the members at the closing of the meeting.

A Board member or an executive who disagrees with a decision taken by the Board of Directors is entitled to have his opinion entered in the records.

Number of directorships

Directorships held by members of the Board of Directors in other Danish companies are stated in the annual report. Coloplast's website provides information on other important positions held. The procedures of the Coloplast Board set no limits to the number of directorships or other positions held. According to Coloplast custom, all Board members attend all board meetings.

Retirement age

According to Coloplast articles of association, the retirement age for members of the Board of Directors is 70 years. The age and seniority on the Board of Directors are indicated for each member in the annual report.

Election period

The company's articles of association provide for election of all Board members elected by the general meeting every year. There is no upper seniority limit for Board members, but it remains a special responsibility of the Chairman to make sure the Board of Directors encompasses both renewal and continuity.

Committee of Directors

After the annual general meeting in 2009, the Coloplast Board will establish an audit committee comprising three members of the Coloplast Board to handle the responsibilities associated with internal control and the audit of the group.

Assessment of the work performed by the Board of Directors and the Executive Management

At least every other year, the Board of Directors assesses its working procedures and method of approach. The practical assessment takes the form of a questionnaire which addresses issues like the overall competences of the Board members. Based on the assessment, the organisation and efficiency of the Board of Directors' work are discussed at a board meeting where any proposals for improvement are approved.

The Chairman and Deputy Chairman make an annual assessment of the Executive Management's work and results, including the cooperation between the Board of Directors and the Executive Management. The assessment and any follow-up activities are discussed by the full Board and are subsequently presented to the Executive Management.

6. Remuneration of the Board of Directors and the Executive Management

General guidelines for the company's remuneration of members of the Board of Directors and the Executive Management

Board of Directors

Members of the Board of Directors receive a fixed annual fee. The Chairman and Deputy Chairman of the Board of Directors receive a supplement to this fee. The amounts of fees and supplements are approved by the shareholders and disclosed in the annual report. Fees are fixed based on a comparison with fees paid by other companies.

Members of the Board of Directors receive no incentive pay.

Executive Management

The Chairman and Deputy Chairman of the Board of Directors perform an annual review of the remuneration paid to members of the Executive Management.

The remuneration paid to members of the Executive Management consists of a fixed and a variable part. The fixed pay consists of a net salary, pension contribution and other benefits. The value of each of those components is disclosed in the annual report for each member of the Executive Management.

As an element of the variable pay, members of the Executive Management may receive an annual bonus, subject to achievement of certain benchmarks. The bonus proportion varies among the members of the Executive Management, but is subject to a maximum of around 40% of the annual net salary. The actual bonus paid to each member of the Executive Management is disclosed in the annual report. At the date of adoption of these guidelines, the bonus benchmarks are based on value creation and profitability, but they may be changed by the Board of Directors. Any such change will be communicated in a stock exchange announcement.

Another element of the variable pay is made up of options and is intended to ensure that the Executive Management's incentive correlates with the long-term creation of shareholder value. For that same reason, the option plan is revolving and not subject to achievement of defined benchmarks.

Members of the Executive Management are awarded a number of options each year with a value equal to four months' net pay. The value is calculated in accordance with the Black Scholes formula. Options are awarded with a strike price which is 15% higher than the market price at the award date calculated as the average price of all trades on the last trading day of the calendar year. The members of the Executive Management pay 5% of the Black Scholes value to the Company as consideration for the options. The options have a term of five years and are exercisable after three years. The number of options awarded to each member of the Executive Management and their value is disclosed in the Company's annual report. Options in the Executive Management share option plan are covered by the Company's holding of treasury shares.

The Executive Management is entitled to exchange a bonus corresponding to one month's net pay for a corresponding number of options on terms corresponding to those of the other options, see above. The Executive Management's choice to exchange the bonus shall be made upon the annual review of the Executive Management's remuneration and shall concern the award of options in the subsequent year.

In addition, the Chairman and Deputy Chairman of the Board of Directors perform an annual review of the remuneration paid to members of the Executive Management relative to the managements of other Danish companies.

Severance schemes

As at 30 September 2009, a provision of DKK 5m was made for a now discontinued post-service remuneration scheme for retired Board members. The scheme comprises 3 persons.

When current executives leave the company, there will be no obligations apart from two years' pay.

7. Risk management

The management in each of Coloplast's individual business units and staff functions is responsible for identifying and managing risk factors in their part of the organisation. The most significant risks are reported quarterly to Corporate Risk Management. This reporting process together with organisational risk interviews leads to a quarterly risk update for Executive Management and the Board of Directors.

The Executive Management is responsible for the company's overall approach to risk taking and for aligning this approach with Coloplast's overall strategies and policies. Executive Management is also responsible for validating risk responses to the most significant risks.

Quarterly the Board of Directors reviews and approves the conclusions and recommendations of the Executive Management.

Insurance

Transfer of risk to a third party is typically done through insurance, and Coloplast has therefore integrated this task as part of Risk Management. Together with the quarterly risk update Executive Management and the Board of Directors will receive updates on relevant insurance related issues.

Yearly the Board of Directors will receive an overview of the overall insurance program for approval. Coloplast's insurance programme includes lines such as property, business interruption, liability, transport as well as a number of employee related lines.

Examples of the current risk landscape (the risk factors are not listed in any order of priority)

Attracting and recruiting employees

To support Coloplast's objective to achieve profitable growth it is imperative that we continue to attract, retain and develop competent employees globally. At Coloplast, we have therefore had a number of global focus areas in 2008/09. Among the key initiatives are the attraction of specific target groups, selection of future employees during recruitment, follow-up on annual employee- and leader surveys with a global focus on strengthening the cooperation across the organisation, fortify on-the-job training and the establishment of a global talent scheme.

Prices and regulation

Most of Coloplast's products are sold at prices subsidised by the authorities. Changes in the national economies of individual markets may cause reimbursement rates to be reduced. Therefore we carefully monitor the development of reimbursement rates in various countries and maintain a close dialogue with the relevant authorities and industry organisations. We prepare for changes in market conditions by strengthening our clinical and health-economic documentation, by increasing the pace of development of new and even more cost-efficient products and by maintaining a competitive cost level.

Production facilities

Damage to factories or business interruption constitute a significant risk. At Coloplast, we have devised plans to ensure quick intervention in case of major accidents and to limit the consequences for people, machinery and environment at our factories. We make a targeted effort to minimise the risk of accidents, and we are continuously being assessed by our leading international insurer in terms of risk improvement initiatives and maintenance. We apply the results of these assessments in our constant efforts to improve the performance of our factories.

Coloplast's commitment to maintaining safe and modern production facilities is also reflected at our most recent factories. The new factories in China and Hungary are considered to meet the highest operational protection standards.

Suppliers

The quality of the raw materials and products we procure must meet the high Coloplast standards. We ensure this through a comprehensive quality control system. We endeavour to minimise our dependence on individual suppliers. In areas where only few suppliers are available, we have signed procurement agreements running for several years. In

addition, we regularly check up on the resilience of the relevant suppliers' production and delivery chains with regard to accidents and hazardous incidents.

Competition

Coloplast's products are marketed globally in a niche market, which is characterized by intense competition. Management and the different business units are therefore closely monitoring the development in market shares, product launches from competitors and the activity level in general by our competitors.

Changes in the competitive landscape, parallel import and new distribution channels are all factors that can lead to diminishing profit margins for Coloplast. Therefore Coloplast are committed to closely follow the developments in the market.

Substitution

Treatment methods and product technologies are subject to constant development. Over time this may result in changes in the need for and design of Coloplast's products. We monitor these developments and work with leading specialists in treatment and product areas. Today, there are no medical solutions that eliminate or reduce the need for Coloplast's most important products.

Innovation

In Coloplast the ability to innovate is ensured and continuously developed through close relationships with customers. Customer relationships have been integrated in our systematic processes aiming at identifying customer needs and developing products and services. Our innovative efforts are further enhanced by external partnerships and by acquiring patents / "know how" not generated internally.

Quality

Malfunctioning of our products or bad service lowers customer loyalty and trust, which in turn can negatively impact our reputation or market shares. Ongoing quality problems related to products or processes can lead to loss of different authority approvals or certifications, which will limit Coloplast from access to markets. Therefore we continuously develop and improve the quality management system in Coloplast and closely follow any changes in legislation or market standards. We conduct both internal and external audits and our employees receive quality management training and education. This encompasses monitoring the quality standards of our suppliers.

Environment

Coloplast has the ambition that all production occurs at sites holding the environmental standard certification ISO 14001. Today, this is the case for more than 90% of the production. This year, our site in Nyirbator, Hungary got the certification.

Each year all production sites are reviewed in regard to environmental issues. These reviews include registration of use of raw materials and other production materials, waste generation, energy consumption, climate gas emissions and air pollution. Additionally plans to avoid environmentally damaging spills are also reviewed. All key environmental issues including regulatory requirements and ISO14001 requirements are monitored and corrective actions are initiated in case of any deviations

Corruption and bribery

As a global enterprise we are regularly faced with dilemmas originating in legal, ethical or cultural differences between the countries in which we conduct business. We need our employees to be able to navigate without compromising our values and principles. Therefore, and because of our firm conviction that good ethics support our reputation, we give high priority to the fight against corruption in our industry.

Coloplast's business ethical standards are defined in our Code of Conduct, which outlaws bribery and set clear guidelines for our interaction with health care professionals as well as rules for gifts and entertainment. We are also committed to the Eucomed Code of Business Practice which establishes similar rules on an European level. Finally, we have obliged ourselves to the fight against corruption by signing up to the UN's Global Compact, including the ten principles of anti-corruption.

Acquisitions

On an ongoing basis Coloplast considers potential merger, acquisition and divestment opportunities. In cases of this nature the company faces risks in regard to valuation, integration and/or separation of business units. Such risks can be of a magnitude that Coloplast will rely on both internal and external resources according to the specific requirements.

8. Audit

Nomination of the Board of Directors

In consultation with the Executive Management, the Board of Directors makes an annual, specific and critical assessment of the independence and competences of the auditors, which forms the basis of the Board's nomination of an auditor for approval by the company in general meeting.

Agreement with auditors

An agreement is signed by the Board of Directors and the auditor, specifying the auditing tasks and the fee payable. The agreement implies that the basis for planning and implementing the audit tasks is the auditors' thorough knowledge about the Company's activities, the special conditions of the industry, the company's organisation, administrative systems, controls and other relevant aspects.

In the first calendar quarter of each year, a meeting of the auditor, the Chairman and Deputy Chairman of the Board of Directors is held with a view to ensuring direct communication and assessing the independence of the auditors. Minutes from this meeting are taken by the Chairman who reports on the meeting at the next board meeting. The audit committee to be established will continue this work.

Non-audit services

The Board lays down annually the overall, general scope of the auditor's provision of non-audit services. According to the Company's current articles of association, non-audit services expected to exceed the total annual audit fees, in total or DKK 1.5m per single assignment, must be presented to the Chairman and Deputy Chairman of the Board of Directors for approval before an agreement is signed with respect to such services.

Accounting policies

Each year in early November the Chairman and Deputy Chairman of the Board of Directors meet with the auditors to discuss accounting matters; The Executive Management also attends this meeting, at which preparations are made for the Board of Directors' to discuss the annual accounts meeting later that month. The preparations include clarification of important issues relating to the accounts and important issues relating to the audit. Minutes from the meeting are submitted to the Board of Directors. The audit committee to be established will continue this work.

The proposed annual report is audited by auditors appointed by the general meeting.

The Board reviews the proposed annual report and ensures that it has been prepared in compliance with legal requirements and the provisions of the articles of association and moreover complies with good business conduct and accounting standards. The review comprises to accounting policies, significant financial estimates, assessment of the balance sheet items as well as accounting specifications, statement and description of the items included.

Result of the audit

The discussion of the annual report includes the letter of findings submitted by the auditors appointed by the general meeting, which confirms that the annual report has been audited in compliance with good auditing standards, including a critical review of the company's and the Group's accounting records. In the auditors' records, the auditor accounts in detail for the audit made, including an opinion regarding the adequacy of the provisions for bad debts and other special risks proposed by the Executive Management.

Auditors are present at the Board meeting discussing the annual report, and they are required at that meeting, among other things, to comment on whether, in their opinion, the annual report includes the information required to judge the financial position of the Company and the Group. Moreover, the auditors' letter of findings should indicate whether the annual report has been presented in compliance with legal requirements, with the provisions of the articles of association and with good accounting standards. The auditors' letter of findings also includes an assessment of the balance sheet

items, of the level of specification of the accounts, and the presentation and specification of items stated. Finally, the auditor's letter of findings includes comments on whether statutory provisions for reserves and the provisions specified in the articles of association have been made and whether the annual report includes the information required by law.

When the annual report has been approved by the Board of Directors, it is endorsed by the auditor appointed by the general meeting. It is subsequently published and presented for adoption by the general meeting.

The Company's long-form audit report is presented at each board meeting if any additions have been made since the last meeting. The auditors must include in the report any observations of relevance to the Board of Directors, and the Board of Directors must review the auditors' remarks before signing the report. The auditors send their report directly to the Board members.

The Board and the Executive Management are responsible for providing the auditors with any information deemed by them to be required for the completion of the audit task.

Internal control systems

At least once a year, the Board considers whether the internal control systems are adequate. The Board has assessed that the size and complexity of the company for the time being do not necessitate the establishment of an internal audit function.

The Chairman of the Board of Directors is entitled to request the attendance of the auditors at board meetings.

The Board performs its duty of supervision towards the subsidiaries by ensuring, through the Executive Management, an adequate level of reporting with respect to the financial position of subsidiaries and, if relevant, major associates. Moreover, the Board of Directors receives from the Executive Management, at least once every quarter, a briefing about issues of the subsidiaries.

The auditor appointed by the general meeting will audit the accounts of the Group and the underlying Danish subsidiaries. In addition, subsidiaries, associates and representative offices are encouraged to use the global auditing services of the same auditing firm.

The audit committee

See the paragraph on Committee of Directors. For further information on this subject please go to www.coloplast.com/about/investorrelations/annualreports/pages/internalcontrolandrisksystems.aspx.