

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

This statement forms an integral part of the Management's report in the company's 2018/19 Annual Report.

The company is subject to the recommendations on corporate governance, which are available at the website of the Committee on Corporate Governance, [www.corporategovernance.dk](http://www.corporategovernance.dk)

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## Purpose

The purpose of Coloplast's internal controls and risk management systems in relation to the yearly and interim financial reporting process is to ensure that the internal and external financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Company's established internal control and risk management systems ensure that material errors or irregularities in the financial statements are identified and corrected but provides no absolute assurance that all errors are detected and corrected.

The internal control and risk management systems comprise the following areas:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

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## Control environment

The Board of Directors has set up an audit committee that will assist the Board of Directors in, among other things, supervising the yearly and interim financial reporting process and the efficiency of the company's internal control and risk management systems. The audit committee works on assessing the internal control systems and acts as preliminary in relation to the Board of Directors. The audit committee was set up following the Annual General Meeting held in December 2009.

The Executive Management is responsible for maintaining efficient controls and risk management system. The Executive Management has implemented the controls necessary to address the risks identified in relation to financial reporting.

The composition of the Board of Directors and the Executive Management ensures the relevant competencies with respect to internal controls and risk management in relation to the financial reporting process.

Powers and responsibilities are defined in the Board of Directors' instructions to the Executive Management. The Board of Directors approves the communications policy, the treasury, finance and tax policy, risk management, the code of conduct as well as Coloplast's mission, corporate values and vision. The Executive Management approves all other policies and regularly briefs the Board of Directors on such policies. The relevant functions at Coloplast issue guidelines and monitor the application of all policies and procedures. Coloplast's accounting policies are set out in the Coloplast financial reporting manual, which is available to all employees. The organisational structure and the internal guidelines combined with laws and other regulations to make up the control environment.

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## Risk assessment

On a quarterly basis, the Board of Directors and the Executive Management assess risks that Coloplast is exposed to, including risks related to the yearly and interim financial reporting.

For more information on risk management at Coloplast, go to Corporate Governance on the Coloplast [website](#).

The audit committee reviews certain high-risk areas at least once a year, including the following:

- Significant accounting estimates
- Material changes to the accounting policies

At least once a year, the audit committee reviews the current internal controls to consider whether they are effective in relation to the risks identified in the financial reporting process.

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### Control activities

The global corporate finance skills are reviewed on an ongoing basis in order to ensure an appropriate and satisfactory control environment.

A clearly defined organisational structure has been set up, in which all-regional finance and IT functions report to the company's CFO. Central controlling functions of the Corporate Finance department, reporting to the company's CFO, are responsible for controlling the financial reporting from the parent company and the subsidiaries.

Coloplast has introduced standards for the internal controls relating to the yearly and interim financial reporting. These standards are intended to ensure a certain minimum level of internal controls in Coloplast companies, thus making the control environment more efficient. The internal control standards are focused on segregation of duties and on detective and preventive controls. Coloplast's companies are subject to ongoing controls from a central unit of the Corporate Finance department in order to ensure an appropriate control environment.

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### Information and communication

Coloplast's financial reporting manual and other reporting instructions, including account-entry instructions as well as policies for credit-granting and capital expenditure, are updated on a regular basis and are available at the Coloplast intranet, where they can be accessed by all employees.

Any major changes to the above are reported in writing to all financial reporting managers.

A global committee has been set up with all finance functions represented. This committee keeps its members informed about all developments in relation to finance at Coloplast. The committee holds about three meetings per year.

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### Monitoring

Reporting from companies is controlled on an ongoing basis and procedures have been established for control and testing of such reporting. Procedures have also been set up to ensure that any errors are communicated to and corrected by the reporting companies.

The internal controls are subject to ongoing reviews, including in connection with the regular control inspections at subsidiaries conducted by a central unit of the Corporate Finance department. Conclusions from these reviews are submitted to the Executive Management, the audit committee and the independent auditors.

Coloplast's internal yearly and interim financial reporting ensures an effective process to monitor the company's financial results, making it possible to identify and correct any errors or omissions. The monthly financial reporting from the respective companies is analysed and monitored by the Corporate Finance department in order to identify any weaknesses in the internal controls, failures to comply with procedures and the financial reporting manual, etc. Each company's General Manager and Financial Reporting Manager declare on a quarterly basis that their financial reporting complies with the current rules at Coloplast.

The audit committee follows up to ensure that any internal control weaknesses are eliminated and that any errors or omissions in the financial statements identified and reported by the auditors are corrected, including that controls or procedures are implemented to prevent such errors or omissions.

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