Country by country tax report

2020/21

Ostomy Care / Continence Care / Wound & Skin Care / Interventional Urology

Coloplast

Introduction to country-by-country reporting 2020/21

Respect & responsibility is a guiding principle for Coloplast. Irrespective of country and market, Coloplast wants to be known and trusted as an entity that upholds the highest standards of ethical business practices.
Coloplast sees taxes as an important part of the business, just as respecting local tax laws and regulations is important to the company's reputation and brand.
In Coloplast, taxes are paid where business activities generate value in accordance with internationally accepted standards. Coloplast does not allow commercial needs to override compliance with applicable laws, nor base commercial activities on tax avoidance schemes.
All transactions and tax structures must therefore have a business purpose or commercial rationale as a prerequisite, and Coloplast will only engage in tax planning schemes and structures that can, in full transparency, be shared with, and accepted by the tax authorities. In case of business changes, tax structures etc. are revised accordingly.
Tax risks and controlling activities are assessed and monitored in a tax control framework which is currently under global implementation. Risks identified are mitigated on an ongoing basis. The tax control framework is governed by Coloplast's Corporate Tax department.

Please find more information about Coloplast tax policy here.

The ultimate parent undertaking is Coloplast A/S which is located in Denmark.
Coloplast applies a Principal structure in line with OECD principles. Coloplast A/S is the Principal company, owning the intellectual property and holding the headquarters, where executive management and the majority of the research and development activities reside. Subsidiaries carry out their activities based on contract and at the request and guidelines of the Principal Coloplast A/S, e.g., Coloplast A/S buys products and logistic services from the contract manufacturing companies and head office services from the distribution companies and sells products to the distribution companies. The activities are remunerated based on regional activity-based benchmarked profit margins of independent enterprises with comparable activities. Consequently, Coloplast A/S as the Principal is the main risk-taking and strategic decision-making legal entity.
The Principal structure is a centralized model with many simplification benefits. From a tax point of view, the main benefits are:

- It is generally accepted by countries applying OECD recommendations.
- It reduces transfer pricing risks and enhances transfer pricing manageability.
- It provides a common framework when in dialogue with tax authorities.
- It ensures positive taxable income in all countries, thereby reducing tax risks worldwide.

The basis for Coloplast's pricing principles is well-documented through transfer pricing documentation, regional benchmarks, policies and procedures.
This report discloses the country-by-country reporting (CbCr) data for EU member states where Coloplast has taxable presence and aggregated numbers for countries outside of the EU.
The data source is the group consolidation reporting system. This means that the data is based on the International Financial Reporting Standards (IFRS) and the currency is DKK. The numbers are translated from foreign currencies to DKK according to the accounting policies described in the Annual Report.
The reporting period is 1 October 2020 – 30 September 2021 for all countries irrespective that the fiscal year is different in a few countries outside EU.
The financial information has been prepared under Coloplast's general financial controls. The country- by-country reporting is not subject to external audit opinion.
The information is prepared based on the expected content of the EU directive which is expected to be formally approved by the European Parliament in November 2021.
In addition, below data is provided to increase the transparency and to disclose the link to the Group Annual Report.

- Deferred income tax accrued
- Income tax related to prior years and changes in tax rates
- Total income tax of the year
- Effective tax rate

Information regarding branches is reported in the relevant legal entities. This means that taxes paid in other tax jurisdictions regarding branches are reported in the country of the legal entity holding the branch.

Definitions:

Income tax

Income tax includes corporate income tax, other local taxes and tax credits classified as corporate income tax according to IFRS accounting principles.

Primary activities

The primary activities are reported per country. The primary activities can be distribution, manufacturing or service. In many countries more than one kind of activity can apply.

Employees

The number of full-time employees (FTE) is calculated as the average full-time employees during the year in line with the definition in the Annual Report.

Accumulated earnings

Accumulated earnings reflect the profits that are retained and not used for any other purpose. Accumulated earnings from investments in subsidiaries in the same country are eliminated per country to avoid double counting.

Total net turnover

The total net turnover includes revenue to related and unrelated parties. The revenue includes sales of products, service income, other operating income and financial income.
The revenue to related parties is eliminated in the line item “Eliminations and other adjustments”.

Profit before income tax

Profit before tax is reported based on IFRS group accounting policies. Local statutory financial statements might be different as these complies with the local accounting standards.
The reported profit before income tax excludes the “profit after tax on investments in subsidiaries”.

Income tax paid

Income tax paid includes the income tax actually paid during 2020/21 on a cash basis, which is the amount of income tax paid in the relevant tax jurisdiction. Additionally, withholding taxes paid including withholding taxes regarding dividends and taxes related to branches are included in the country of the legal entity paying the taxes.

Current income tax accrued

Current income tax accrued includes the current income tax due by reason of the profits made in the current year. The income tax accrued is based on the expected profit before tax according to local accounting standards adjusted for permanent non-deductible and non-taxable items and temporary differences between local accounting policies and tax legislation. Current income tax posted on the equity, mainly related to equity settled share options, is not included.

Deferred income tax accrued

Deferred income tax accrued includes the income tax on temporary differences between profit before tax according to IFRS group accounting policies and taxable income in accordance with the tax legislation using the balance sheet liability method. An example is different tax amortization and depreciation periods compared to IFRS accounting policies.
Furthermore, deferred tax assets include the tax value of tax losses. Deferred tax assets are only recognized to the extent that it is probable that future positive taxable income will be generated against which the temporary differences and tax losses can be offset. Deferred income tax posted on the equity, mainly related to equity settled share options and defined benefit pension plans, is not included.
Deferred income tax is recognized per country when the amount is material.

Income tax related to prior years and changes in tax rates

Income tax related to prior years includes the difference between the current income tax accrued in prior years and the income tax filed in the corporate income tax return. Adjustments related to deferred tax is made as reclassifications between current deferred income tax and income tax related to prior years in the line item “Eliminations and other adjustments” as these adjustments are included in the current deferred tax information on country level.
Changes in tax rates includes effect on deferred income tax related to changes in tax rates.

Total income tax of the year

Total income tax of the year includes the sum of current and deferred tax accrued, income tax related to prior years and changes in tax rates.

Effective tax rate

The effective tax rate is the total income tax of the year divided with the profit before tax.

COUNTRY BY COUNTRY REPORTING COLOPLAST GROUP 2020/21 - DKK 1,000

Coloplast
Ostomy Care
Continence Care
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Country	Primary activities	Employees	Accumulated Earnings	Total net turnover	Profit before income tax	Income tax paid	Current income tax accrued	Deferred income tax accrued	Income tax related to prior years and changes in tax rates	Total income tax of the year	Effective tax rate
Denmark	**Principal**	**1,407**	**5,405,667**	**14,575,080**	**5,192,303**	**851,442**	**730,051**	**338,664**	**-3,549**	**1,065,166**	**20.5%**
Austria	Distribution	19	8,621	120,183	9,382	2,256	2,359	0	73	2,432	25.9%
Belgium	Distribution	38	25,994	318,773	22,049	4,972	6,315	-408	-615	5,292	24.0%
Czech Republic	Distribution	10	2,278	32,899	2,873	0	778	-145	0	633	22.0%
Finland	Distribution	30	10,891	130,449	8,569	2,007	1,755	0	71	1,826	21.3%
France	Distribution and Manufacturing	681	297,978	3,012,506	158,460	52,691	81,914	-16,123	-3,246	62,545	39.5%
Germany	Distribution and Service	639	172,291	1,911,042	131,756	32,308	43,909	-950	-16	42,943	32.6%
Hungary	Manufacturing and Service	4,250	1,039,288	3,577,849	232,769	32,941	33,174	2,508	178	35,860	15.4%
Italy	Distribution	207	105,934	971,424	69,247	27,201	21,112	-1,441	0	19,671	28.4%
Netherlands	Distribution	55	40,366	519,463	34,642	12,534	8,531	0	28	8,559	24.7%
Poland	Distribution and Service	550	43,573	271,587	20,150	4,943	4,859	-2,496	1,174	3,537	17.6%
Portugal	Distribution	21	9,596	66,912	5,127	1,588	1,261	-151	121	1,231	24.0%
Slovakia	Distribution	8	1,068	19,710	1,353	0	350	-65	0	285	21.1%
Spain	Distribution	134	55,336	767,444	44,049	16,229	9,834	-500	256	9,590	21.8%
Sweden	Distribution	51	28,967	371,702	27,032	932	5,852	-31	9	5,830	21.6%
Total EU member states excl. Denmark		**6,693**	**1,842,181**	**12,091,943**	**767,458**	**190,602**	**222,003**	**-19,802**	**-1,967**	**200,234**	**26.1%**
Total EU member states incl. Denmark		**8,100**	**7,247,848**	**26,667,023**	**5,959,761**	**1,042,044**	**952,054**	**318,862**	**-5,516**	**1,265,400**	**21.2%**
Other countries		**4,478**	2,343,499	12,695,430	1,821,453	459,149	452,263	-2,029	2,960	**453,194**	**24.9%**
Eliminations and other adjustments			-4,185,680	-19,726,151	-1,548,558	0	-203,660	-100,351	-6,497	**-310,508**	**20.1%**
Coloplast group		**12,578**	**5,405,667**	**19,636,302**	**6,232,656**	**1,501,193**	**1,200,657**	**216,482**	**-9,053**	**1,408,086**	**22.6%**

Comments to 2020/21 numbers

The effective tax rate per country is impacted by the statutory tax rate in the country, local tax legislation regarding permanent adjustments like non-deductible expenses and non-taxable income, taxes related to prior years, other local taxes, tax credits and changes in tax rates.

Nine Continents
Coloplast A/S acquired the early-stage medtech company Nine Continents Medical in November 2020. According to the Principal tax model, Coloplast has transferred the intellectual property including patents and know-how to the Principal Coloplast A/S in Denmark. The transfer value DKK 1,226 million was subject to federal and state tax in the United states of DKK 316 million. The tax was paid during 2020/21 and the related numbers are reported in the line item "Other countries".

The transfer value is deducted in the taxable income in the acquisition year according to Danish tax legislation and thereby reduces the current tax accrued in the Principal Coloplast A/S in Denmark by DKK 270 million. The deferred tax accrued is increased by the same amount, as the intellectual property is not amortized in the Annual Report until the product is approved for sale.

The transfer value numbers from Nine Continents are eliminated in the line item "Eliminations and other adjustments".

Research and Development extra deduction
In 2018 the Danish government adopted a new law according to which an extra tax deduction related to specified Research & Development (R&D) costs was made available.
The extra R&D deduction is calculated at the rate between 1,5% (2018) to 10% (2026) of the specified R&D costs.
Due to the COVID-19 pandemic the Danish government has adopted an amendment to the law according to which the general rates applicable for 2019/20, 2020/21 and 2021/22 are increased to 30% for R&D costs up to DKK 814 million (2019/20) and DKK 910 million (2020/21 and 2021/22). For specified R&D costs above these thresholds the general rate is applicable.
The tax effect of the extra tax deduction DKK 34 million (difference between 3% and 30% extra tax deduction) for 2019/20 is reported as accrued current tax in Denmark in 2020/21, as the above-mentioned amendment to law was not enacted when the Annual Report was prepared for 2019/20.
In 2020/21 the accrued current tax effect of the extra tax deduction was DKK 41 million, hence the total tax effect of the extra R&D deduction was DKK 75 million in 2020/21.

New subsidiaries
Coloplast started activities in subsidiaries in Slovakia and Czech Republic in June 2021. This means that no income tax was paid in these countries during 2020/21.